Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004

TOWN OF HILLSBOROUGH, CALIFORNIA
Comprehensive Annual Financial Report
For the fiscal year ended
June 30, 2004

Prepared by:

Finance Department

Town of Hillsborough
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004

TABLE OF CONTENTS

INTRODUCTORY SECTION
- Letter of Transmittal ---- 1
- GFOA Certificate of Achievement ---- 5
- CSFMO Certificate of Award ---- 6
- Organizational Chart and Principal Officials ---- 7

FINANCIAL SECTION
- Independent Auditors' Report ---- 9
- Management's Discussion and Analysis ---- 11
- Basic Financial Statements:
  - Government-wide Financial Statements:
    - Statement of Net Assets ---- 21
    - Statement of Activities ---- 22
  - Fund Financial Statements:
    - Balance-Sheet Governmental Funds ---- 23
    - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds ---- 24
    - Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities ---- 25
    - Statement of Net Assets – Proprietary Funds ---- 26
    - Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds ---- 27
    - Statement of Cash Flows – Proprietary Funds ---- 28
  - Notes to the Financial Statements ---- 29
- Required Supplementary Information:
  - Schedule of Funding Progress – Employees Retirement System ---- 43
  - Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund ---- 44
  - Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Police and Fire Special Tax Fund ---- 45
  - Note to Required Supplementary Information ---- 46
- Combining Statements and Individual Fund Schedules:
  - Nonmajor Governmental Funds:
  - Combining Balance Sheet – Nonmajor Governmental Funds ---- 47
  - Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds ---- 48
  - Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
    - Gas Tax Fund ---- 49
    - Measure "A" Fund ---- 50
    - Police Grants Fund ---- 51
  - Capital Assets Used in the Operation of Governmental Funds:
    - Comparative Schedules by Source ---- 53
    - Schedule by Function and Activity ---- 54
    - Schedule of Changes by Function and Activity ---- 55

STATISTICAL SECTION

Government-wide Information:

- Government-wide Expenses by Function ---------- 57
- Government-wide Revenues ---------- 58

Fund Information:

- General Governmental Expenditures by Function ---------- 59
- General Governmental Revenues by Source ---------- 60
- General Governmental Tax Revenues by Source ---------- 61
- Property Tax Levies and Collections ---------- 62
- Assessed Values of Taxable Property ---------- 63
- Assessed Values of Taxable Property – Use Category ---------- 64
- Computation of Legal Debt Margin ---------- 65
- Computation of Direct and Overlapping Debt ---------- 66
- Table of Construction Activity ---------- 67
- Property Tax Rates ---------- 68
- 10 Top Taxpayers ---------- 69
- Water Sales, Meter Charges and Sewer Service Charges ---------- 70
- Water and Sewer Rates ---------- 71
- Ten Largest Water Accounts ---------- 72
- Seven Largest Sewer Accounts ---------- 73
- Schedule of Enterprise Funds Bond Coverage ---------- 74
- Schedule of Insurance in Force ---------- 75
- Miscellaneous Statistics ---------- 76

INTRODUCTORY SECTION

TOWN OF HILLSBOROUGH

1600 FLORIBUNDA AVENUE
HILLSBOROUGH
CALIFORNIA
94010-6418

October 18, 2004

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, 2004.

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, 2004, 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, 2004, 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 10,850. 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 44 and 45 as part of the required supplementary information. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report starting on page 49.

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. Towards the end of the fiscal year, the Town saw some improvements to the local economy 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 two years, the Town has 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. Meanwhile, it has deferred scheduled funding of the replacement reserves, various capital improvement projects and has left vacancies unfilled. The surge in economy experienced towards the end of the 2003-2004 fiscal year will fill the current year's gap between revenues and expenditures.

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 $30 million in fiscal year 2003-2004. Although, the Town's investment policy allowed investing in a variety of investment vehicles, most of the funds were invested with the State of California Local Agency Investment Fund (LAIF). Investment earnings totaled $363,504 for the fiscal year ended June 30, 2004 earning an average return of approximately 1.2%.

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 78 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 12 and 13 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, 2003. This was the second 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 Three-Year Operating and Capital Budget for fiscal years 2002-2004. 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, 2003. This is the third 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

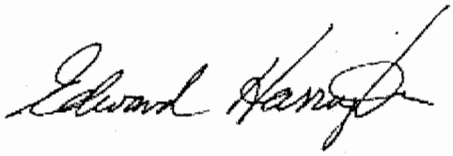
Certificate of Achievement for Excellence in Financial Reporting

Presented to

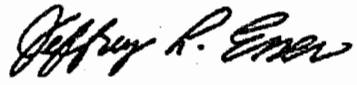
Town of Hillsborough, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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

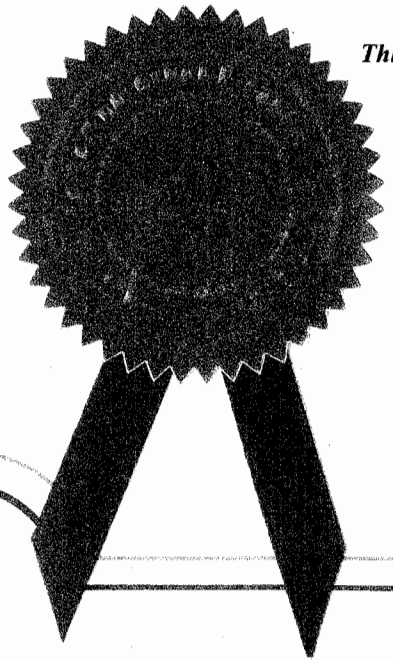
California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2002-2003

Presented to the

City of Hillsborough



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

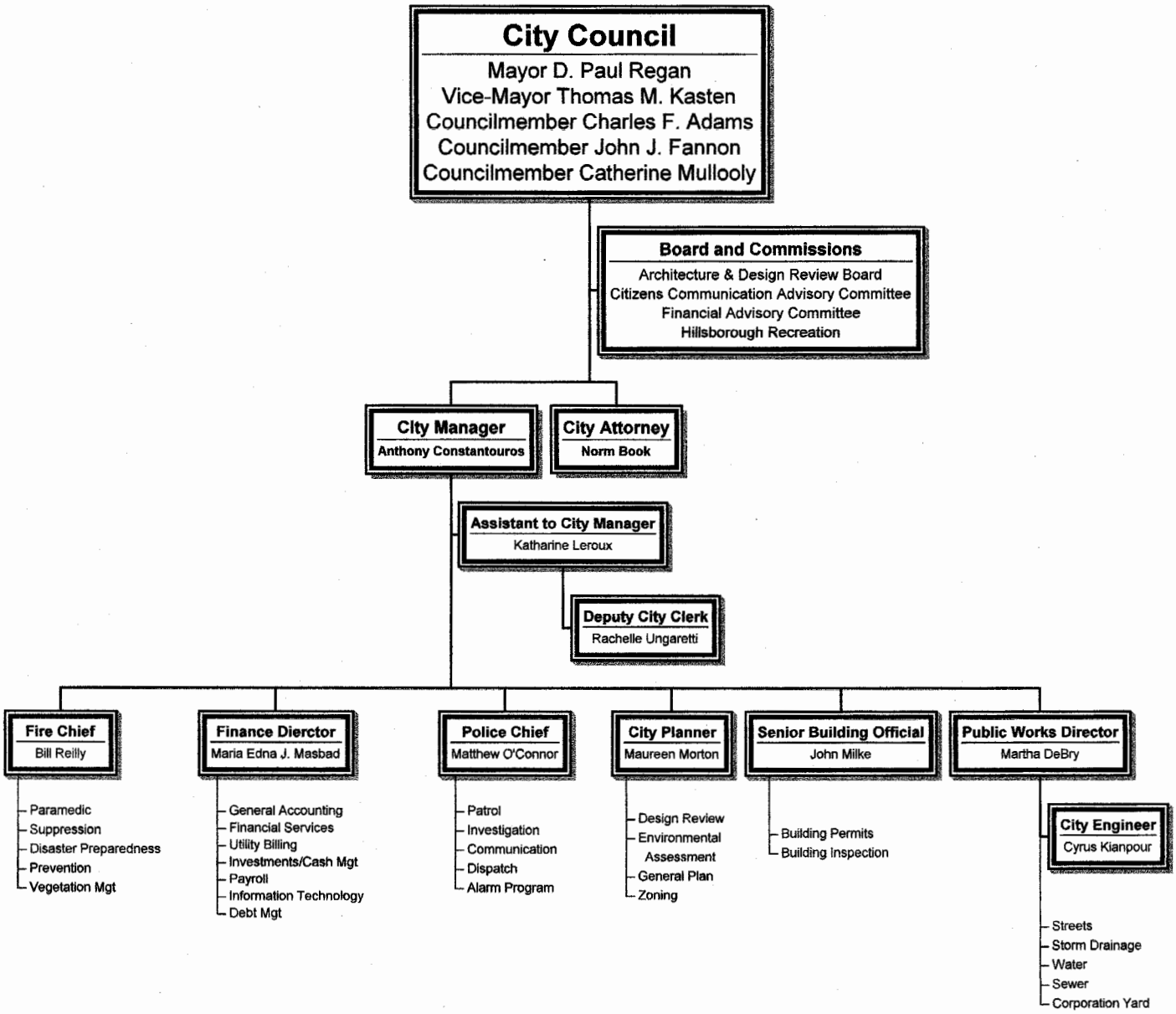
March 1, 2004

Bret M Plumlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

Town of Hillsborough
Organizational Chart and Principal Officials



This page is intentionally left blank.

FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsborough, California, (Town) as of and for the year ended June 30, 2004, 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, 2004, 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 October 18, 2004 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 Governmental Accounting Standards Board. This Required Supplementary Information is the responsibility of the management of the Town. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and accordingly, we do not express an opinion on it.

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

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

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
October 18, 2004

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, 2004. 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 2003-2004 fiscal year by $49,592,391 *(net assets)*. Of this amount, $21,732,163 *(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 $2,795,205, $1,101,276 of which were contributed sewer and storm drain lines from other governments pursuant to a reimbursement agreement. Net assets increased by approximately $1.7 million from regular operations resulting from the implementation of new user fees, better than expected revenues and cost-cutting measures employed by the Town that included the merging of fire operations with the City of Burlingame and not filling vacant positions.
- As of June 30, 2004, the Town's governmental funds reported combined ending fund balances of $9,351,803, a 14% increases over the prior year. 98% of this total, $9,147,215, is *available for spending* at the Town's discretion (*unreserved fund balance).*
- The Town's general fund reported a $1 million increase in fund balance. At the end of the current fiscal year, unreserved fund balance for the general fund was $7,525,440 up from $6,666,273 in 2002-2003. The fund balance reserve is approximately 55 percent of total general fund expenditures.
- In line with the city goal to participate in providing efficient inter-jurisdictional operations, on April 20, 2004, the Town approved a Joint Powers Agreement (JPA) with the City of Burlingame for fire combined services that provides both economic and service delivery benefits. Project negotiations that started three years ago culminated with the approval of the JPA by both councils in April 2004. The Town's estimated cost savings from this activity are in excess of $700,000 annually. Contract implementation starts on July 2004; however, a coverage area study evaluation was started on October 2003 resulting to expenditures savings in the Fire Department for the 2003-2004 fiscal year.
- On August 2003, the Town issued $15 million of variable rate certificates of participation 2003 Series A to finance various water and wastewater projects consistent with the enterprise's ten year capital improvement plan. Bond proceeds will fund two-thirds of the total projects planned for the next five years totaling $23.2 million.
  To take advantage of the lower long-term rates and to minimize exposure to variable rate fluctuations, the Town entered into a floating to fixed rate knockout at 7% swap agreements for the $9.7 million COPs 2000 Series B and the $15 million COPs 2003 Series A.
- A 12% increase in water consumption together with the 15% and 30% increases for the year in the water and sewer rates respectively, more than covered operations and the 1.2 rate debt service coverage required by the covenant for the debt issues. The healthy trend of the past years' operations allowed the Town not to increase the water fees and authorized a slight increase (5%) in the sewer rates for the following year.

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 29-42 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 43-46 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 47-55 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 $49,592,391 at June 30, 2004.

TOWN OF HILLSBOROUGH'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	$13,185,317	$11,876,512	$26,659,377	$10,246,145	$39,844,694	$22,122,657
Capital assets	9,490,931	9,470,935	34,615,793	34,084,058	44,106,724	43,554,993
Total assets	22,676,248	21,347,447	61,275,170	44,330,203	83,951,418	65,677,650
Long-term liabilities	1,419,446	1,488,014	28,791,100	14,470,949	30,210,546	15,958,963
Other liabilities	1,754,487	1,779,254	2,393,994	1,142,247	4,148,481	2,921,501
Total liabilities	3,173,933	3,267,268	31,185,094	15,613,196	34,359,027	18,880,464
Net assets:						
Invested in capital assets, Net of related debt	8,894,074	8,689,913	18,261,566	19,484,058	27,155,640	28,173,971
Restricted	204,588	188,633	500,000	500,000	704,588	688,633
Unrestricted	10,403,653	9,201,633	11,328,510	8,732,949	21,732,163	17,934,582
Total net assets	$19,502,315	$18,080,179	$30,090,076	$28,717,007	$49,592,391	$46,797,186

By far the largest portion of the Town's net assets (55 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Town of Hillsborough uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Hillsborough's net assets (1.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($21,732,163) may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2004, 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 $2,795,205, $1,101,276 of which, were contributed sewer and storm drain lines from other governments pursuant to a reimbursement agreement. Net assets increased by approximately $1.7 million from regular operations resulting from the implementation of new user fees, better than expected revenues and cost-cutting measures employed by the Town that included the merging of fire operations with the City of Burlingame and not filling vacant positions.

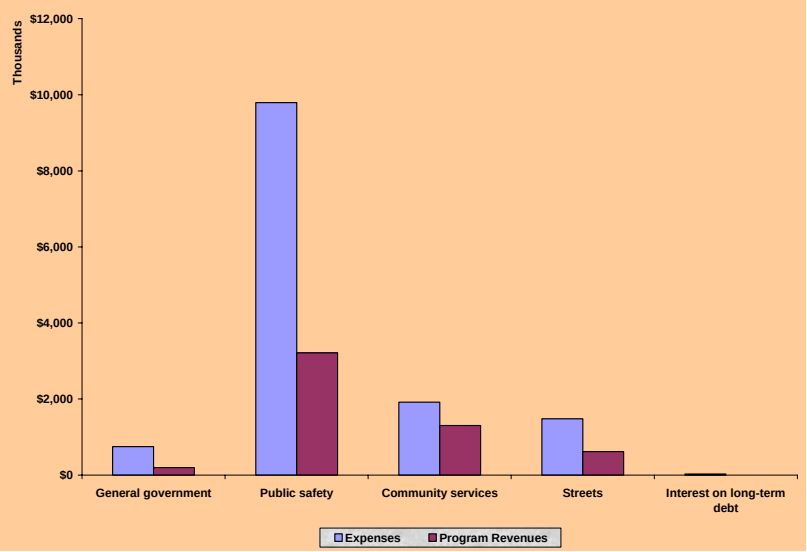
Governmental activities. Governmental activities increased the Town of Hillsborough's net assets by $1,422,136 accounting for 51 percent of the total growth in the net assets of the Town.

TOWN OF HILLSBOROUGH'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
REVENUES						
Program revenues:						
Charges for services	$ 2,133,222	$ 1,686,492	$11,923,663	$ 9,402,007	$14,056,885	$11,088,499
Operating grants and Functional taxes	3,198,961	2,889,847			3,198,961	2,889,847
Capital grants and Contributions		363,600	1,101,276	628,200	1,101,276	991,800
General revenues:						
Property taxes	7,321,906	6,863,862			7,321,906	6,863,862
Other taxes	2,054,383	1,613,970			2,054,383	1,613,970
Investment earnings	107,018	216,459	249,343	192,093	356,361	408,552
All others	580,603	199,682			580,603	199,682
Total revenues	15,396,093	13,833,912	13,274,282	10,222,300	28,670,375	24,056,212
EXPENSES						
General government	748,034	861,208			748,034	861,208
Public safety	9,795,994	9,332,715			9,795,994	9,332,715
Community services	1,917,420	1,757,876			1,917,420	1,757,876
Streets	1,482,061	1,057,967			1,482,061	1,057,967
Interest on long-term debt	30,448	35,070			30,448	35,070
Water			6,502,981	5,486,503	6,502,981	5,486,503
Sewer			5,398,232	4,660,778	5,398,232	4,660,778
Total expenses	13,973,957	13,044,836	11,901,213	10,147,281	25,875,170	23,192,117
Increase in net assets before transfer	1,422,136	789,076	1,373,069	75,019	2,795,205	864,095
Transfers						
Increase in net assets	1,422,136	789,076	1,373,069	75,019	2,795,205	864,095
Net assets–July 1, 2003	18,080,179	17,291,103	28,717,007	28,196,338	46,797,186	45,487,441
Prior period adjustment				445,650		445,650
Net assets–June 30, 2004	$19,502,315	$18,080,179	$30,090,076	$28,717,007	$49,592,391	$46,797,186

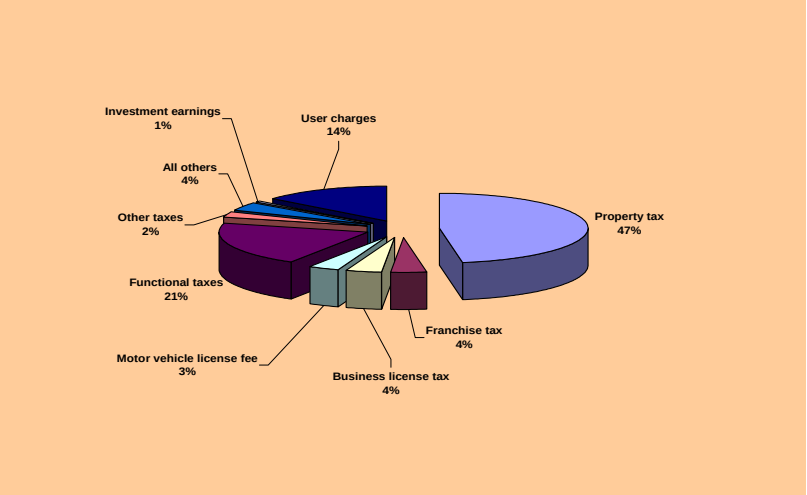
The graph below breaks down expenses by function and compares them to corresponding program revenues for governmental activities.

Expenses and Program Revenues – Governmental Activities



The following breaks down revenues by source.

Revenues by Source – Governmental Activities



The majority of the $1.1 million change in the governmental funds' net assets resulted from the General Fund's operations where revenues increased by $1.5 million – a 12% increase over the previous year. Meanwhile, expenditures increased by 7% or approximately $930,000; a $1.3

million increase in various line items as reflected further in this report, was tempered by cuts and savings on some controllable costs

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

REVENUES	03/04	02/03	Increase	%
Property taxes	$ 7,321,906	$ 6,794,180	$ 527,726	8%
ERAF refund	300,000		300,000	100%
Business license	596,959	421,194	175,765	42%
Construction permits	812,423	592,012	220,411	37%
Franchise fees	597,022	271,332	325,690	120%
Service charges	959,659	735,901	223,758	30%
Total	$10,587,969	$ 8,814,619	$1,773,350	20%

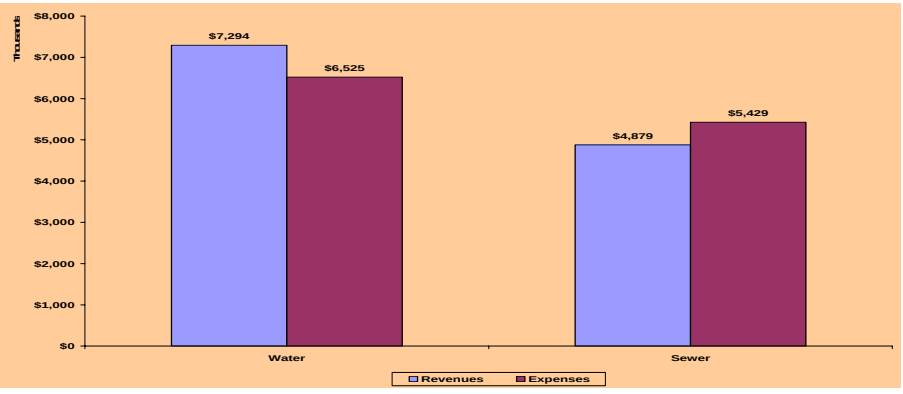
The 8% increase in property taxes resulted from a more robust turnover of properties in the Town. The $300,000 ERAF refund processed by the County Controller was one-time revenue that resulted from the local tax base increasing at a rate faster than the increase in funding limits for schools and community colleges. The increase in construction permits was due to increased activity in remodels and a few new houses. The franchise fees resulted from the imposition of a 2% fee on water and sewer utilities and the increase of the refuse franchise fee from 5% to 10%. Lastly, in addition to some smaller fees, the 30% increase in service charges resulted largely from the implementation of the alarm monitoring fee.

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

Salaries	$ 290,000
Retirement costs	500,000
Health insurance costs (active & retirees)	250,000
Workers compensation	150,000
Library services	86,000
Total	$1,276,000

Business-type activities. There is a $1,373,069 increase in net assets in the business-type activities of the Town. Highlights of the activities are as follows:

- Water usage increased by 12 percent and coupled with the 15% rate increase in water fees brought in $769,212 increase in the water operations' net assets despite the 34% increase in water purchases, utilities and pumping costs.
- Although the 30% increase in sewer rates resulted in approximately $1 million more in sewer service charges designed to cover the additional debt service for the new bond issue, a 58% ($702,300) increase in disposal costs mostly covering capital components charged by the cities with which the Town contracts for disposal services, prevented the Town to fully fund depreciation for the Sewer Fund.



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, 2004, the Town's governmental funds reported combined ending fund balances of $9,351,803, up $1,116,334 from the previous year. $7,525,440 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.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 55 per cent of total general fund expenditures while total fund balance represents 57 percent of that same amount.

The Town's general fund balanced increased by $1,069,161 during the current fiscal year. From a combination of new user fees and better than expected revenues, the Town realized a $1.5 million increase in revenues. Likewise, while the expenditures were expected to greatly increase because of higher health insurance and retirement costs, they increased by only 7% over the previous year resulting from various factors fully discussed earlier in this report.

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 $9,198,742, up from $7,933,958, and those of the Sewer fund amounted to $1,883,195 up from $605,361. 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 only 2 areas where revenues did not materialize were in investment earnings and operating transfers in. However, overall revenues exceeded projections by approximately $.5 million and expenditures savings were realized for another $.5 million thereby realizing $1 million more over budget.

The chart below summarizes the budget variances:

REVENUES	BUDGET	ACTUAL	VARIANCE
Property taxes	$7,125,640	$7,321,906	$ 196,266
Property transfer tax	200,000	293,903	93,903
Construction permits	766,100	812,423	46,323
MV license fee	415,000	490,104	75,104
OES reimbursement		33,303	33,303
Rents	145,000	170,023	25,023
Encroachment fees	14,483	50,234	35,751
Total	8,666,223	9,171,896	505,673

EXPENDITURES			
Police	4,683,518	4,478,765	204,753
Fire	5,558,865	5,309,874	248,991
Total	$10,242,383	$9,788,639	453,744
GRAND TOTAL			$ 959,417

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, 2004, amounts to $27,155,640 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, roads, highways, and bridges. The modest increase in the Town's investment in capital assets for the fiscal year resulted from the 1.5% increase for business-type activities.

Major capital asset events during the year included the following:

- $1.1 million water fund projects and $2.4 million sewer improvement projects.
- Various streets projects for approximately $384,000.

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 1,456,560	$1,456,560			$ 1,456,560	$ 1,456,560
Land improvements	1,403,503	1,458,089			1,403,503	1,458,089
Buildings	773,487	840,517	$ 127,089	$ 138,771	900,576	979,288
Machinery and equipment	1,945,781	2,030,976	432,828	239,903	2,378,609	2,270,879
Infrastructure	3,911,600	3,684,793			3,911,600	3,684,793
Water and sewer lines			34,055,876	33,705,384	34,055,876	33,705,384
Total	$ 9,490,931	$ 9,470,935	$34,615,793	$34,084,058	$44,106,724	$43,554,993

Additional information on the Town of Hillsborough's capital assets can be found in Note 5 starting from page 35 of this report.

Long-term debt. On August 2003, the Town issued $15 million of variable rate certificates of participation 2003 Series A to finance various water and wastewater projects consistent with the enterprise's ten year capital improvement plan. Bond proceeds will fund two-thirds of the total projects planned for the next five years totaling $23.2 million. At June 30, 2004, the Town of Hillsborough had total debt outstanding excluding compensated absences in the amount of $29,796,857.

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Certificates of participation			$29,200,000	$14,600,000	$29,200,000	$14,600,000
Capital lease obligations	$596,857	$781,022			596,857	781,022
Total	$596,857	$781,022	$29,200,000	$14,600,000	$29,796,857	$15,381,022

Total debt paid during the year was $584,165. 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 8 on pages 37-39 of this report.

Economic Factors and Next Year's Budgets and Rates

Although the Town's operations are impacted by the cost-cutting measures employed as part of the recent year's budget strategies and some vacant positions continue to be unfilled, there had been no lay-offs and any drastic reduction in services. The sudden surge in economy experienced towards the end of 2003-2004 that enabled Town to realize $.5 million more revenues than projected would allow the Town to fill the current year's gap between revenues and expenditures.

However, Town management and staff continue to be cautious of the difficult times ahead. The State continues to aggressively seize additional City revenues, at least for the time being, and even higher increases in the health insurance and employee retirements costs are projected. 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.

This page is intentionally left blank.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF HILLSBOROUGH
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments:			
Town Treasury	$ 12,915,777	$ 9,693,016	$ 22,608,793
Trustee (Restricted)		12,845,884	12,845,884
Receivables, net of estimated uncollectibles:			
Accounts	111,056	1,910,210	2,021,266
Interest	43,624	82,068	125,692
Property tax receivable from County	310,434		310,434
Internal balances	(246,573)	246,573	
Due from other governments	50,499	1,101,276	1,151,775
Prepaids	500	29,967	30,467
Supplies		129,323	129,323
Cost of bond issuance (net of accumulated amortization)		621,060	621,060
Capital assets (net of accumulated depreciation):			
Land and improvements	2,860,063		2,860,063
Buildings	773,487	127,089	900,576
Machinery and equipment	1,945,781	432,828	2,378,609
Infrastructure	3,911,600		3,911,600
Water and sewer lines		34,055,876	34,055,876
Total Assets	22,676,248	61,275,170	83,951,418
LIABILITIES			
Accounts payable and other current liabilities	441,675	1,161,698	1,603,373
Accrued payroll liabilities	528,030		528,030
Deposits	439,162	427,100	866,262
Uninsured claims	70,889	216,240	287,129
Deferred revenue (unearned)	65,273		65,273
Accrued interest payable	1,320	88,956	90,276
Current portion of long-term debt	208,138	500,000	708,138
Non-current liabilities:			
Due in more than one year	1,419,446	28,791,100	30,210,546
Total Liabilities	3,173,933	31,185,094	34,359,027
NET ASSETS			
Invested in capital assets, net of related debt	8,894,074	18,261,566	27,155,640
Restricted for:			
Debt Service		500,000	500,000
Local Leglislated Restrictions	204,588		204,588
Unrestricted	10,403,653	11,328,510	21,732,163
Total Net Assets	$ 19,502,315	$ 30,090,076	$ 49,592,391

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, 2004

Functions/Programs	Expenses	Charges for Services	Operating Grants and Functional Taxes	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities	Net (Expense) Revenues and Changes in Net Assets: Business-type Activities	Total
Governmental Activities:							
General government	$ 748,034	$ 194,931			$ (553,103)		$ (553,103)
Public safety	9,795,994	562,800	$2,653,212		(6,579,982)		(6,579,982)
Community services	1,917,420	1,304,056			(613,364)		(613,364)
Streets	1,482,061	71,435	545,749		(864,877)		(864,877)
Interest on long-term debt	30,448	-			(30,448)		(30,448)
Total governmental activities	13,973,957	2,133,222	3,198,961	-	(8,641,774)		(8,641,774)
Business-type Activities:							
Water	6,502,981	7,160,629		-		$ 657,648	657,648
Sewer	5,398,232	4,763,034		1,101,276		466,078	466,078
Total business-type activities	11,901,213	11,923,663	-	1,101,276	-	1,123,726	1,123,726
Total	$25,875,170	$14,056,885	$3,198,961	$ 1,101,276	(8,641,774)	1,123,726	(7,518,048)
General Revenues:							
Property tax					7,321,906		7,321,906
Property transfer tax					293,904		293,904
Franchise tax					597,022		597,022
Sales Tax					75,842		75,842
Motor vehicle license tax					490,656		490,656
Business license tax					596,959		596,959
All others					580,603		580,603
Unrestricted investment earnings					107,018	249,343	356,361
Total general revenues					10,063,910	249,343	10,313,253
Change in net assets					1,422,136	1,373,069	2,795,205
Net assets - beginning					18,080,179	28,717,007	46,797,186
Net assets - ending					$ 19,502,315	$ 30,090,076	$49,592,391

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, 2004

	General Fund	Police and Fire Special Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments:				
Town Treasury	$ 8,818,897	$ -	$ 1,599,196	$ 10,418,093
Receivables, net of estimated uncollectibles:				
Accounts	111,056			111,056
Interest	29,109		5,626	34,735
Property tax receivable from County	310,434			310,434
Due from other governments			50,499	50,499
Due from other funds	535		7,749	8,284
Prepaids	500			500
Total Assets	$ 9,270,531	$ -	$ 1,663,070	$ 10,933,601
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	$ 403,258	$ -	$ 38,417	$ 441,675
Accrued payroll	528,030			528,030
Due to other funds			8,284	8,284
Deposits payable	439,162			439,162
Compensated absences	28,485			28,485
Uninsured claims	70,889			70,889
Deferred revenue (unearned)	65,273			65,273
Total Liabilities	1,535,097	-	46,701	1,581,798
Fund Balances:				
Reserved for prepaids and other purposes	204,588			204,588
Unreserved - designated and reported in:				
General fund	5,406			5,406
Special revenue funds			480,599	480,599
Capital projects fund			1,135,770	1,135,770
Unreserved - undesignated	7,525,440			7,525,440
Total fund balances	7,735,434	-	1,616,369	9,351,803
Total Liabilities and Fund Balances	$ 9,270,531	$ -	$ 1,663,070	

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.	8,069,261
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.	3,117,110
Long-term liabilities, including capitalized leases, are not due and payable in the current period and therefore are not reported in the funds.	(1,035,859)
Net assets of governmental activities	$ 19,502,315

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, 2004

	General Fund	Police and Fire Special Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	$ 7,321,906	$ -	$ -	$ 7,321,906
Public safety special tax		2,137,608	-	2,137,608
Franchise taxes	597,022			597,022
Business license tax	596,959			596,959
All others	771,070			771,070
Permits	952,786			952,786
Intergovernmental	596,706		926,247	1,522,953
Service charges	959,659	136,288	-	1,095,947
Fines and forfeitures	38,843			38,843
Investment earnings	70,242		18,271	88,513
Miscellaneous	220,821		26,017	246,838
Total Revenues	12,126,014	2,273,896	970,535	15,370,445
EXPENDITURES:				
Current:				
General government	595,017		14,995	610,012
Public safety	9,750,383		72,958	9,823,341
Community services	1,830,695		39,493	1,870,188
Streets	1,288,426		4,187	1,292,613
Capital outlay	31,228		626,729	657,957
Total Expenditures	13,495,749	-	758,362	14,254,111
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,369,735)	2,273,896	212,173	1,116,334
OTHER FINANCING SOURCES (USES):				
Transfers in	2,623,896		562,622	3,186,518
Transfers out	(185,000)	(2,273,896)	(727,622)	(3,186,518)
Total Other Financing Sources (Uses)	2,438,896	(2,273,896)	(165,000)	-
NET CHANGE IN FUND BALANCES	1,069,161	-	47,173	1,116,334
BEGINNING FUND BALANCES	6,666,273		1,569,196	8,235,469
ENDING FUND BALANCES	$ 7,735,434	$ -	$ 1,616,369	$ 9,351,803

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, 2004

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)	$	1,116,334
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.		132,321
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.		12,230
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.		(110,984)
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.		(4,800)
The net revenue of certain activities of the internal service fund is reported with governmental activities.		277,035
Change in net assets of governmental activities (page 22)	$	1,422,136

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

TOWN OF HILLSBOROUGH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	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	$ 8,183,295	$ 7,153,166	$ 1,509,721	$ 752,056	$ 9,693,016	$ 2,497,684
Trustee (Restricted)	5,081,759	3,711	7,764,125	8,089	12,845,884	
Receivables, net of estimated uncollectibles:						
Accounts	1,793,078	1,361,485	117,132	105,466	1,910,210	
Interest	45,648	29,869	36,420	6,210	82,068	8,889
Due from other governments			1,101,276		1,101,276	
Prepaids	9,290	9,754	20,677	21,259	29,967	
Supplies	129,323	141,763		3,894	129,323	
Total current assets	15,242,393	8,699,748	10,549,351	896,974	25,791,744	2,506,573
Noncurrent assets:						
Cost of bond issuance (net of accumulated amortization)	208,540	143,352	412,520	312,441	621,060	
Capital assets:						
Buildings and improvements	292,176	292,176	49,161	49,161	341,337	
Machinery and equipment	455,279	206,940	444,502	431,512	899,781	2,430,710
Water and sewer lines	44,760,161	43,855,607	37,067,234	35,671,552	81,827,395	
Less accumulated depreciation	(29,741,800)	(28,661,516)	(18,710,920)	(17,761,374)	(48,452,720)	(1,009,040)
Total capital assets net of accumulated depreciation	15,765,816	15,693,207	18,849,977	18,390,851	34,615,793	1,421,670
Total noncurrent assets	15,974,356	15,836,559	19,262,497	18,703,292	35,236,853	1,421,670
Total Assets	31,216,749	24,536,307	29,811,848	19,600,266	61,028,597	3,928,243
LIABILITIES						
Current liabilities:						
Accounts payable	374,139	186,330	787,559	187,349	1,161,698	
Deposits	427,100	379,800			427,100	
Uninsured claims	26,725	39,728	189,515	135,680	216,240	
Compensated absences	-			1,560	-	
Accrued interest payable	32,148	3,711	56,808	8,089	88,956	1,043
Certificates of participation - current	178,702	62,902	321,298	137,098	500,000	
Capital leases payable - current						179,653
Total current liabilities	1,038,814	672,471	1,355,180	469,776	2,393,994	180,696
Noncurrent liabilities:						
Certificates of participation	10,568,559	5,034,462	18,131,441	9,365,538	28,700,000	
Compensated absences	60,363	49,573	30,737	21,376	91,100	
Capital leases payable						383,864
Total noncurrent liabilities	10,628,922	5,084,035	18,162,178	9,386,914	28,791,100	383,864
Total Liabilities	11,667,736	5,756,506	19,517,358	9,856,690	31,185,094	564,560
NET ASSETS						
Invested in capital assets, net of related debt	10,100,271	10,595,843	8,161,295	8,888,215	18,261,566	858,153
Restricted for:						
Debt Service	250,000	250,000	250,000	250,000	500,000	
Unrestricted	9,198,742	7,933,958	1,883,195	605,361	11,081,937	2,505,530
Total Net Assets	$ 19,549,013	$ 18,779,801	$ 10,294,490	$ 9,743,576	29,843,503	$ 3,363,683
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					246,573	
Net assets of business-type activities					$ 30,090,076	

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, 2004

	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	$ 6,701,055	$ 5,341,433			$ 6,701,055	
Water meter charges	332,247	328,702			332,247	
Sewer service charges			$ 4,660,549	$ 3,589,855	4,660,549	
Connection fees	99,526	65,598	25,524	8,509	125,050	
Other services						$ 559,630
Miscellaneous	27,801	4,560	76,961	63,350	104,762	94,500
Total Operating Revenues	7,160,629	5,740,293	4,763,034	3,661,714	11,923,663	654,130
OPERATING EXPENSES:						
Water purchases, utilities and pumping	2,523,000	1,884,527			2,523,000	
Sewage treatment services and utilities			1,929,565	1,333,854	1,929,565	
Personnel, overhead and facilities	1,734,204	1,664,398	1,184,269	1,320,426	2,918,473	
Materials, supplies and other	824,721	867,628	638,276	844,786	1,462,997	
Depreciation and amortization	1,088,884	1,041,932	966,842	911,278	2,055,726	324,152
Total Operating Expenses	6,170,809	5,458,485	4,718,952	4,410,344	10,889,761	324,152
Operating Income (loss)	989,820	281,808	44,082	(748,630)	1,033,902	329,978
NONOPERATING REVENUES (EXPENSES):						
Investment earnings	133,437	157,565	115,906	34,528	249,343	25,648
Interest expense	(354,045)	(148,475)	(710,350)	(323,607)	(1,064,395)	(30,448)
Total nonoperating revenue (expenses)	(220,608)	9,090	(594,444)	(289,079)	(815,052)	(4,800)
Income (loss) before contributions and transfers	769,212	290,898	(550,362)	(1,037,709)	218,850	325,178
Capital contributions	-	375,000	1,101,276	253,200	1,101,276	
Change in net assets	769,212	665,898	550,914	(784,509)	1,320,126	325,178
Total net assets - beginning	18,779,801	17,937,558	9,743,576	10,258,780		3,038,505
Prior period adjustment		176,345		269,305		
Restated total net assets - beginning	18,779,801	18,113,903	9,743,576	10,528,085		3,038,505
Total net assets - end	$ 19,549,013	$ 18,779,801	$ 10,294,490	$ 9,743,576		$ 3,363,683
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					52,943	
Change in net assets of business-type activities (page 22)					$ 1,373,069	

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, 2004

	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	$ 6,776,336	$5,797,512	$ 4,751,368	$3,654,153	$11,527,704	
Receipts from interfund services provided						$ 654,130
Payment to suppliers	(3,976,163)	(4,332,492)	(2,530,097)	(4,282,589)	(6,506,260)	
Payment to employees	(876,872)	(52,985)	(505,411)	(8,795)	(1,382,283)	
Payment to interfund services used	(30,390)	(136,390)	(50,280)	(88,280)	(80,670)	
Net cash provided (used) by operating activities	1,892,911	1,275,645	1,665,580	(725,511)	3,558,491	654,130
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	5,765,682		9,171,318		14,937,000	
Cost of issuance	(49,470)		(78,693)		(128,163)	
Acquisition and construction of capital assets	(1,118,552)	(467,839)	(1,388,245)	(2,060,066)	(2,506,797)	(379,849)
Principal paid on capital debt	(140,103)	(62,902)	(259,897)	(137,098)	(400,000)	
Interest paid on capital debt	(359,949)	(154,518)	(682,058)	(336,777)	(1,042,007)	(30,766)
Capital lease payment						(171,935)
Proceeds from sale of capital assets						7,000
Net cash provided (used) by capital and related financing activities	4,097,608	(685,259)	6,762,425	(2,533,941)	10,860,033	(575,550)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment earnings	117,658	160,252	85,696	64,381	203,354	26,674
Net cash provided by investing activities	117,658	160,252	85,696	64,381	203,354	26,674
Net increase (decrease) in cash and cash equivalents	6,108,177	750,638	8,513,701	(3,195,071)	14,621,878	105,254
Cash and cash equivalents - beginning	7,156,877	6,406,239	760,145	3,955,216	7,917,022	2,392,430
Cash and cash equivalents - ending (including $5,081,759 and $7,764,125 for the water and sewer funds, respectively reported in restricted accounts	$13,265,054	$7,156,877	$ 9,273,846	$ 760,145	$22,538,900	$2,497,684
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ 989,820	$ 281,808	$ 44,082	$ (748,630)	$ 1,033,902	$ 329,978
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization expense	1,088,884	1,041,932	966,842	911,278	2,055,726	324,152
(Increase) decrease in accounts receivable	(431,593)	33,419	(11,666)	(7,561)	(443,259)	
(Increase) decrease in inventories and prepaids	12,904	27,845	4,476	380	17,380	
Increase (decrease) in customer deposits	47,300	23,800	-		47,300	
Increase (decrease) in accounts payable	174,806	(182,732)	654,045	(903,914)	828,851	
Increase (decrease) in compensated absences payable	10,790	49,573	7,801	22,936	18,591	
Total adjustments	903,091	993,837	1,621,498	23,119	2,524,589	324,152
Net cash provided (used) by operating activities	$ 1,892,911	$1,275,645	$ 1,665,580	$ (725,511)	$ 3,558,491	$ 654,130
Noncash investing, capital and financing activities:						
Net fixed assets contributed from prior years		$ 176,345		$ 269,305	$ -	
Contributions of capital assets		375,000		253,200	-	
	$ -	$ 551,345	$ -	$ 522,505	$ -	

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 *general fund* as its only major governmental fund. 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 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.

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. The Town invested only in the California LAIF pool during the 2003-2004 fiscal year. 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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.

Property, plant and equipment is 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 $1,035,859 difference are as follows:

Accrued interest payable	$ 277
Capital leases payable	33,340
Compensated absences	1,002,242
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$1,035,859

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 $132,321 difference are as follows:

Capital outlay	$ 657,957
Depreciation expense	(525,636)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 132,321

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 12,230 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 $110,984 are as follows:

Compensated absences	($111,085)
Accrued interest	101
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	($110,984)

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY.

Excess of Expenditures over Appropriations

For the year ended June 30, 2004, expenditures exceeded appropriations for $9,761 and $5,234 in the Gas Tax and Measure "A" funds respectively. These over expenditures were funded by available fund balance in the Gas Tax and Measure "A" funds.

NOTE 4 – DEPOSITS 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.

Investments held by the Town during the year did not include repurchase agreements.

Other deposits and investments maintained outside the Town Treasury are invested pursuant to governing bond covenants or California Government Code provisions.

Total Town deposits and investments at fair value on June 30, 2004 are as follows:

Deposits and investments	$22,608,793
Restricted cash and investments – held by fiscal agent	12,845,884
Total	$35,454,677

The California Government Code requires California banks and savings and loan associations to secure the deposits not covered by Federal depository insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the deposits or 150% for mortgage backed collateral. The collateral must be held at the pledging bank's trust department or other bank, acting as its agent, in the Town's name.

Bank deposits are categorized as follows:

Category 1 – Insured or collateralized with securities held by the Town or by its agent in the Town's name.
Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
Category 3 – Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name.

The Town has cash and deposits at June 30, 2004 as follows:

	Carrying	Bank Balance		
	Amount	Category 1	Category 2	Total
Federally insured deposits	$717,924	$ 157,209		$ 157,209
Uninsured by collateralized deposits			$ 920,863	920,863
Total	$717,924	$ 157,209	$ 920,863	$1,078,072

Investments are categorized into these three categories of credit risk:

(1) Insured or registered, or securities held by the Town or its agent in the Town's name.
(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the town's name.
(3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Town's name.

At year-end, the government's investment balances were as follows:

	Non-categorized
Money Market Funds (US Government Securities)	$ 4,679
Local Agency Investment Fund	34,732,074
Total	$34,736,753

Interest and investment income consists of the following at June 30, 2004:

Interest earned	$453,487
Net change in fair market value	(89,983)
Total	$363,504

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 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	1,891,981	46,734		1,938,715
Buildings	2,587,158			2,587,158

Machinery and equipment	4,669,512	446,087	(852,380)	4,263,219
Infrastructure	9,160,694	383,963		9,544,657
Total capital assets being depreciated	18,309,345	876,784	(852,380)	18,333,749
Less accumulated depreciation for:				
Land improvements	(433,892)	(101,320)		(535,212)
Buildings	(1,746,641)	(67,030)		(1,813,671)
Machinery and equipment	(2,638,536)	(524,282)	(845,380)	(2,317,438)
Infrastructure	(5,475,901)	(157,156)		(5,633,057)
Total accumulated depreciation	(10,294,970)	(849,788)	(845,380)	(10,299,378)
Total capital assets, being depreciated, net	8,014,375	26,996	7,000	8,034,371
Governmental activities capital assets, net	$ 9,470,935	$ 26,996	$ 7,000	$ 9,490,931

	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	638,451	261,329		899,780
Systems & transmissions	79,527,160	2,300,236		81,827,396
Total capital assets being depreciated	80,506,948	2,561,565		83,068,513
Less accumulated depreciation for:				
Buildings	(202,566)	(11,682)		(214,248)
Machinery and equipment	(398,548)	(68,404)		(466,952)
Systems & transmissions	(45,821,776)	(1,949,744)		(47,771,520)
Total accumulated depreciation	(46,422,890)	(2,029,830)		(48,452,720)
Total capital assets, being depreciated, net	34,084,058	531,735		34,615,793
Business-type activities capital assets, net	$ 34,084,058	$ 531,735	$	$ 34,615,793

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$134,776
Public safety	222,728
Community services	765
Public works	167,367
Capital assets held by the Town's internal service funds are charged to the various functions based on their usage of the assets	324,152
Total depreciation expense – governmental activities	$849,788
Business-type Activities:	
Water	$1,080,284
Sewer	949,546
Total depreciation expense – business-type activities	$2,029,830

NOTE 6 – INTERFUND TRANSACTIONS

The following is a summary of the interfund transactions for the year ended June 30, 2004:

	Transfer In		
Transfer Out	**General Fund**	**Nonmajor Governmental Funds**	**Total**
General fund		$ 185,000	$ 185,000
Police and Fire special tax fund	$2,273,896		2,273,896
Nonmajor governmental funds	350,000	377,622	727,622
Total	$2,623,896	$ 562,622	$3,186,518

The transfers in to the General Fund included $2,273,906 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.

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	128,731
Total	$ 822,103

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

	Governmental Activities
Year Ending 6/30	**Amount**
2005	$ 217,050
2006	217,050
2007	209,875
Total minimum lease payments	643,975
Less: Amount representing interest	(47,118)
Present value of minimum lease payments	$ 596,857

NOTE 8 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	$ 781,022	$	($184,165)	$ 596,857	$192,499
Compensated absences	953,244	192,478	(114,995)	1,030,727	28,485
Governmental activity long-term liabilities	$ 1,734,266	$ 192,478	($299,160)	$ 1,627,584	$220,984
Business-type activities:					
Compensated absences	$ 72,509	$ 20,151	$ (1,560)	$ 91,100	
Certificates of participation	14,600,000	15,000,000	(400,000)	29,200,000	500,000
Business-type activity long-term liabilities	$14,672,509	$15,020,151	($401,560)	$29,291,100	$500,000

Compensated absences—Compensated absences due within one year represent unpaid balances of reimbursable unused leave of employees expected to retire in the following year. 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.

The Town signed interest swap agreements to convert the 2000 Series A COPs to a fixed rate of 5.262 percent until June 1, 2007. On August 13, 2003, the Town entered into a floating to fixed rate knockout swap agreement to convert the 2000 Series B 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 to the bond issuance of the 2003 Series A bonds, the Town also entered into a floating to fixed rate knockout swap agreement to convert the bonds into a fixed rate of 3.77 percent, subject to an early termination under certain conditions, until they mature on June 1, 2033. Both swaps are intended to remain in place for the life of the bonds, barring 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 immediately preceding rolling consecutive 180 day period is more than 7.00%.

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, 2005.

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, 2004.

In 2004, the Town's total interest cost was approximately 4.17%. The following is the computed annual principal, interest and other costs requirements on the 2000 COPs based on a 5.262% interest on Series A through 2007 and at 6.5% thereafter, 4.14% interest on Series B until maturity and 4.16% interest on 2003 Series A until maturity:

Year Ending June 30	Business-type Activities Principal	Interest
2005	$ 500,000	$ 1,285,928
2006	500,000	1,265,168
2007	500,000	1,244,408
2008	600,000	1,284,310
2009	600,000	1,256,660
2010-2014	4,000,000	5,810,560
2015-2019	4,900,000	4,768,550
2020-2024	5,900,000	3,535,690
2025-2029	7,500,000	1,996,080
2030-2033	4,200,000	394,950
Total	$29,200,000	$22,842,304

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, 2004 was $4,420,000.

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 9 – 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, 2004 were $609,941. 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, 2004 and 2003.

	2004	2003
Beginning Balance	$ 203,743	$ 120,158
Claims incurred and changes in estimates for prior year claims	360,744	438,339
Claims paid	(277,358)	(354,754)
Ending Balance	$ 287,129	$ 203,743

NOTE 10 – 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 11 – 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 $1,923,668 and $1,221,346 as of June 30, 2004 and 2003, 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 $527,895 and $441,960 as of June 30, 2004 and 2003, respectively.

At June 30, 2004, the Town has outstanding construction contracts and commitments for the water and sewer operations, as follows:

Water Fund	$110,332
Sewer Fund	188,239
Total	$298,571

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 12 – 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 78 employees who are receiving this benefit. The Town finances the plan on a pay-as-you-go basis. For the year ended June 30, 2004, the Town paid $538,412 for these benefits.

NOTE 13 – 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 2003, plan members contributed $763,237. 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 2004, the Town's annual pension cost was $646,374. The required contribution for the current year was determined as part of the June 30, 2001 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 11.587% 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, 2004 are summarized below:

	Safety	**Miscellaneous**
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	55
Monthly benefits, as a % of annual salary	2% - 2.7%	2% - 2.7%
Required employee contribution rates	9%	8%
Required employer contribute rates	4.828%	11.034%

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	6/30/02	$ - 0 -		$ - 0 -
	6/30/03	$ 46,520	100%	$ - 0 -
	6/30/04	$392,107	100%	$ - 0 -
Public Safety	6/30/02	$ - 0 -		$ - 0 -
	6/30/03	$ - 0 -		$ - 0 -
	6/30/04	$254,267	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, 2004 amounted to $346,435.

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:						
Retirement Program						
6/30/2001					1,985,589	0.0%
6/30/2002	17,234,459	17,351,927	(117,468)	100.7%	1,985,589	-5.9%
6/30/2003	19,229,185	17,316,608	1,912,577	90.1%	2,172,772	88.0%
1959 Survivor Program						
6/30/2001			-		1,985,589	0.0%
6/30/2002			-		1,985,589	0.0%
6/30/2003			-		2,172,772	0.0%
FIRE:						
Retirement Program						
6/30/2001					2,685,455	0.0%
6/30/2002	20,620,093	20,759,574	(139,481)	100.7%	2,685,455	-5.2%
6/30/2003	22,053,789	20,482,413	1,571,376	92.9%	2,853,812	55.1%
1959 Survivor Program						
6/30/2001			-		2,685,455	0.0%
6/30/2002			-		2,685,455	0.0%
6/30/2003			-		2,853,812	0.0%
MISCELLANEOUS:						
Retirement Program						
6/30/2001	11,592,098	13,084,601	(1,492,503)	112.9%	2,732,067	-54.6%
6/30/2002	14,241,181	12,396,728	1,844,453	87.0%	3,168,847	58.2%
6/30/2003	16,663,339	12,450,463	4,212,876	74.7%	3,691,761	114.1%
1959 Survivor Program						
6/30/2001		641	(641)		2,732,067	0.0%
6/30/2002		624	(624)		3,168,847	0.0%
6/30/2003		647	(647)		3,691,761	0.0%

TOWN OF HILLSBOROUGH
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Taxes:				
Property	$ 7,125,640	$ 7,125,640	$ 7,321,906	$ 196,266
Franchise taxes	593,500	593,500	597,022	3,522
Business license tax	720,000	570,000	596,959	26,959
All others	360,000	620,000	771,070	151,070
Permits	746,100	896,100	952,786	56,686
Intergovernmental	688,200	488,200	596,706	108,506
Service charges	1,235,300	930,300	959,659	29,359
Fines and forfeitures	18,500	18,500	38,843	20,343
Investment earnings	150,000	150,000	70,242	(79,758)
Miscellaneous	175,100	175,100	220,821	45,721
Total Revenues	11,812,340	11,567,340	12,126,014	558,674
EXPENDITURES:				
Current:				
General government	589,063	624,497	595,017	29,480
Public safety	10,269,680	10,203,883	9,750,383	453,500
Community services	1,880,923	1,856,467	1,830,695	25,772
Streets	1,442,298	1,289,188	1,288,426	762
Capital outlay	32,500	32,500	31,228	1,272
Total Expenditures	14,214,464	14,006,535	13,495,749	510,786
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,402,124)	(2,439,195)	(1,369,735)	1,069,460
OTHER FINANCING SOURCES (USES):				
Operating transfers in	2,680,000	2,680,000	2,623,896	(56,104)
Operating transfers out	(185,000)	(185,000)	(185,000)	-
Total Other Financing Sources (Uses)	2,495,000	2,495,000	2,438,896	(56,104)
NET CHANGE IN FUND BALANCES	92,876	55,805	1,069,161	1,013,356
BEGINNING FUND BALANCES	6,666,273	6,666,273	6,666,273	-
ENDING FUND BALANCES	$ 6,759,149	$ 6,722,078	$ 7,735,434	$ 1,013,356

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, 2004

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Police and Fire special tax	$ 2,200,000	$ 2,137,608	$ (62,392)
Investment earnings	130,000	136,288	6,288
Total Revenues	2,330,000	2,273,896	(56,104)
EXPENDITURES:			
Current:			
General Government	-	-	-
Total Expenditures	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	2,330,000	2,273,896	(56,104)
OTHER FINANCING USES:			
Operating Transfers Out	(2,330,000)	(2,273,896)	56,104
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	-	-	-
BEGINNING FUND BALANCES	-	-	-
ENDING FUND BALANCES	$ -	$ -	$ -

Town of Hillsborough
Note to Required Supplementary Information
June 30, 2004

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, 2004 were $4,100. 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, 2004

	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
ASSETS					
Cash and investments:					
Town Treasury	$ -	$ 273,962	$ 161,592	$ 1,163,642	$ 1,599,196
Interest receivable	1,056	1,168	632	2,770	5,626
Due from other governments	22,085	28,414			50,499
Due from other funds				7,749	7,749
Total Assets	$ 23,141	$ 303,544	$ 162,224	$ 1,174,161	$ 1,663,070
LIABILITIES					
Accounts payable	$ -	$ -	$ 26	$ 38,391	$ 38,417
Due to other funds	8,284				8,284
Total Liabilities	8,284	-	26	38,391	46,701
FUND BALANCES					
Unreserved -					
Designated for streets	14,857	303,544			318,401
Designated for public safety			162,198		162,198
Designated for capital improvement plan				1,135,770	1,135,770
Total Fund Balances	14,857	303,544	162,198	1,135,770	1,616,369
Total Liabilities & Fund Balances	$ 23,141	$ 303,544	$ 162,224	$ 1,174,161	$ 1,663,070

TOWN OF HILLSBOROUGH
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
REVENUES:					
Police and fire special tax	$ -	$ -	$ -	$ -	$ -
Intergovernmental	217,034	328,715	100,598	279,900	926,247
Service charges					-
Investment earnings	2,103	3,698	1,342	11,128	18,271
Miscellaneous				26,017	26,017
Total Revenues	219,137	332,413	101,940	317,045	970,535
EXPENDITURES:					
Current:					
General government	9,761	5,234			14,995
Public safety			26,731	46,227	72,958
Community services				39,493	39,493
Public works				4,187	4,187
Capital outlay			12,316	614,413	626,729
Total Expenditures	9,761	5,234	39,047	704,320	758,362
EXCESS OF REVENUES OVER EXPENDITURES	209,376	327,179	62,893	(387,275)	212,173
OTHER FINANCING SOURCES (USES):					
Transfers In				562,622	562,622
Transfers Out	(350,000)	(350,000)	(27,622)		(727,622)
Total Other Financing Sources (Uses)	(350,000)	(350,000)	(27,622)	562,622	(165,000)
NET CHANGE IN FUND BALANCES	(140,624)	(22,821)	35,271	175,347	47,173
BEGINNING FUND BALANCES	155,481	326,365	126,927	960,423	1,569,196
ENDING FUND BALANCES	$ 14,857	$ 303,544	$ 162,198	$ 1,135,770	$ 1,616,369

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, 2004

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 223,000	$ 217,034	$ (5,966)
Investment earnings	2,000	2,103	103
Total Revenues	225,000	219,137	(5,863)
EXPENDITURES:			
Current:			
General Government	-	9,761	(9,761)
Total Expenditures	-	9,761	(9,761)
EXCESS OF REVENUES OVER EXPENDITURES	225,000	209,376	(15,624)
OTHER FINANCING USES:			
Operating Transfers Out	(350,000)	(350,000)	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	(125,000)	(140,624)	(15,624)
BEGINNING FUND BALANCES	155,481	155,481	-
ENDING FUND BALANCES	$ 30,481	$ 14,857	$ (15,624)

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, 2004

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 343,000	$ 328,715	$ (14,285)
Investment earnings	7,000	3,698	(3,302)
Total Revenues	350,000	332,413	(17,587)
EXPENDITURES:			
Current:			
General Government	-	5,234	(5,234)
Total Expenditures	-	5,234	(5,234)
EXCESS OF REVENUES OVER EXPENDITURES	350,000	327,179	(22,821)
OTHER FINANCING USES:			
Operating Transfers Out	(350,000)	(350,000)	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	-	(22,821)	(22,821)
BEGINNING FUND BALANCES	326,365	326,365	-
ENDING FUND BALANCES	$ 326,365	$ 303,544	$ (22,821)

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, 2004

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 100,000	$ 100,598	$ 598
Investment earnings		1,342	1,342
Total Revenues	100,000	101,940	1,940
EXPENDITURES:			
Current:			
General government		-	-
Public safety	27,000	26,731	269
Capital Outlay	12,500	12,316	184
Total Expenditures	39,500	39,047	453
EXCESS OF REVENUES OVER EXPENDITURES	60,500	62,893	2,393
OTHER FINANCING USES:			
Operating Transfers Out	(28,000)	(27,622)	378
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	32,500	35,271	2,771
BEGINNING FUND BALANCES	126,927	126,927	-
ENDING FUND BALANCES	$ 159,427	$ 162,198	$ 2,771

This page is intentionally left blank.

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, 2004

	2004	2003
Governmental funds capital assets:		
Land	$ 1,456,560	$ 1,456,560
Land improvements	1,938,715	1,891,981
Building and improvements	2,587,158	2,587,158
Machinery and equipment	1,832,509	2,355,249
Infrastructure	9,544,657	9,160,694
Total governmental funds capital assets	$ 17,359,599	$ 17,451,642
Investments in governmental funds capital assets by source:		
General fund	$ 1,209,189	$ 1,927,960
Special revenue fund	61,880	49,565
Capital projects funds	10,013,913	9,399,500
Other - unclassified	6,074,617	6,074,617
Total governmental funds capital assets	$ 17,359,599	$ 17,451,642

(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, 2004

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	273,287		3,817,237
Total General Government	3,348,541	201,564	355,557	-	3,905,662
Public Safety:					
Police		76,075	931,334		1,007,409
Fire	46,734	892,846	535,001		1,474,581
Total Public Safety	46,734	968,921	1,466,335	-	2,481,990
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	9,544,657	10,959,212
Total Public Work		1,410,693	3,862	9,544,657	10,959,212
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 3,395,275	$ 2,587,158	$ 1,832,509	$ 9,544,657	$ 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 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, 2004

	Governmental Funds Capital Assets July 1, 2003	Additions	Retirements	Governmental Funds Capital Assets June 30, 2004
General Government:				
Council	$ 13,046	$ -	$ -	$ 13,046
Finance	75,379			75,379
General Services	3,761,270	55,967		3,817,237
Total General Government	3,849,695	55,967	-	3,905,662
Public Safety:				
Police	915,671	91,738		1,007,409
Fire	2,102,154	122,427	750,000	1,474,581
Total Public Safety	3,017,825	214,165	750,000	2,481,990
Community Services:				
Building	12,735			12,735
Total Community Services	12,735	-	-	12,735
Public Work:				
Engineering	-			-
Streets	10,571,387	387,825		10,959,212
Total Public Work	10,571,387	387,825	-	10,959,212
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 17,451,642	$ 657,957	$ 750,000	$ 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 the internal service fund are included as governmental activities in the statement of net assets.

This page is intentionally left blank.

STATISTICAL SECTION

TOWN OF HILLSBOROUGH
GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST TWO FISCAL YEARS (1)

Fiscal Year	Total	General Government	Public Safety	Community Services	Streets	Interest on Long-term Debt	Water	Sewer
2001-02	$20,341,969	$ 664,416	$ 8,770,939	$ 1,706,523	$ 1,066,992	$ -	$ 4,780,576	$ 3,352,523
2002-03	23,192,117	861,208	9,332,715	1,757,876	1,057,967	35,070	5,486,503	4,660,778
2003-04	25,875,170	748,034	9,795,994	1,917,420	1,482,061	30,448	6,502,981	5,398,232

Source: Town's Finance Department
(1) Information from 93-94 through 00-01 were stated under the old governmental financial reporting model.

TOWN OF HILLSBOROUGH
GOVERNMENT-WIDE REVENUES
LAST TWO FISCAL YEARS (1)

	PROGRAM REVENUES			GENERAL REVENUES				
Fiscal Year	Charges for Services	Operating Grants & Functional Taxes	Capital Grants & Contri-butions	Taxes	Grants & Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscel-laneous	Total
2001-02	$ 10,616,055	$ 2,782,366	$ -	$ 8,477,375	$ -	$ 647,790	$ 192,779	$ 22,716,365
2002-03	11,088,499	2,889,847	991,800	8,477,832	-	408,552	199,682	24,056,212
2003-04	14,056,885	3,198,961	1,101,276	9,376,289		356,361	580,603	28,670,375

Source: Town's Finance Department
(1) Information from 93-94 through 00-01 were stated under the old governmental financial reporting model.

TOWN OF HILLSBOROUGH
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS

Fiscal Year		Total	General Government	Public Safety	Community Services	Public Works	Capital Outlay
1993-94		$ 9,421,762	$ 871,616	$ 5,232,143	$ 457,807	$ 1,046,157	$ 1,814,039
1994-95		7,472,195	970,960	5,382,990	569,315	464,407	84,523
1995-96		8,989,951	695,436	5,580,156	1,537,741	516,776	659,842
1996-97		8,686,652	804,279	6,106,813	1,365,651	343,375	66,534
1997-98		9,140,152	1,187,829	6,200,209	1,223,023	382,668	146,423
1998-99		10,358,770	828,105	7,207,418	1,027,897	246,058	1,049,292
1999-00		9,980,684	606,958	7,328,859	748,735	650,047	646,085
2000-01		11,069,878	909,503	7,745,863	958,668	608,265	847,579
2001-02	(2)	14,012,240	593,361	8,697,839	1,727,252	989,953	2,003,835
2002-03	(2)	$ 13,549,342	701,861	9,042,643	1,758,364	1,192,607	853,867
2003-04		14,254,111	610,012	9,823,341	1,870,188	1,292,613	657,957

(1) Includes general, special revenue and capital projects funds.
(2) Certain functions were reclassified from general government to community services - $661,990 and $645,121 in FY 2002-03 and 2001-02 respectively.
Source: Town's Finance Department

TOWN OF HILLSBOROUGH
GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)
LAST TEN FISCAL YEARS

Fiscal Year	Total	Taxes	Licenses & Permits	Intergovern-mental	Charges for Services	Miscel-laneous
1994-95	$ 7,945,918	$ 5,475,413	$ 247,283	$ 974,765	$ 323,635	$ 924,822
1995-96	8,161,378	5,692,897	291,420	1,032,926	340,249	803,886
1996-97	8,985,990	5,972,617	415,774	1,523,362	426,921	647,316
1997-98	9,117,297	6,244,928	427,335	1,166,556	447,773	830,705
1998-99	10,442,474	7,195,366	582,960	1,166,361	722,953	774,834
1999-00	11,787,082	8,003,941	532,547	1,321,176	1,015,086	914,332
2000-01	13,257,904	8,567,160	757,279	1,679,442	1,160,563	1,093,460
2001-02	13,610,970	9,541,314	702,091	1,435,748	1,011,728	920,089
2002-03	13,416,120	10,010,412	592,012	1,368,867	1,005,587	439,242
2003-04	15,370,445	11,424,565	952,786	1,522,953	1,095,947	374,194

(1) Includes general, special revenue and capital projects funds.
Source: Town's Finance Department

TOWN OF HILLSBOROUGH
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST NINE FISCAL YEARS (1)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Vehicle License Fee	Business License Tax	Property Transfer Tax	Public Safety Tax	General Fund Tax	Total
1995-96	$ 3,854,742	$ 59,743	$ 158,179	$ 417,257	$ 299,385	$ 117,490		$1,408,696	$ 6,315,492
1996-97	4,028,505	48,962	165,963	437,378	340,753	185,556		1,417,666	6,624,783
1997-98	4,268,819	60,817	209,009	469,236	355,201	192,911		1,420,926	6,976,919
1998-99	4,640,000	69,272	182,140	513,799	524,770	203,902	$ 1,744,490	20,415	7,898,788
1999-00	5,170,249	82,528	219,642	566,017	601,303	351,841	1,793,176	4,982	8,789,738
2000-01	5,700,371	86,678	267,610	608,087	598,293	262,445	1,875,898		9,399,382
2001-02	6,713,362	79,288	302,034	603,700	559,221	219,770	1,918,162		10,395,537
2002-03	6,863,862	70,267	271,332	650,556	421,194	200,621	2,098,084		10,575,916
2003-04	7,321,906	75,842	597,022	490,656	596,959	293,904	2,137,608		11,513,897

Source: Town's Finance Department
(1) Information for the fiscal years 93-94 and 94-95 were not available and hence not included in this report.

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

(1) Town gets approximately $0.187 per dollar of property tax.
(2) Information from fiscal years 93-94 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
ASSESSED VALUES OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year		Secured Gross Values	Secured Exemptions (1)	Secured Net Values	Unsecured	Total	% of Change
1994-95		$ 2,382,797,098	$ 8,642,689	$ 2,374,154,409	$ 3,259,023	$2,377,413,432	3%
1995-96	(2)			2,471,937,561	4,603,436	2,476,540,997	4%
1996-97	(2)			2,565,295,646	2,554,425	2,567,850,071	4%
1997-98		2,719,533,026	9,190,783	2,710,342,243	3,322,420	2,713,664,663	6%
1998-99		2,941,617,433	11,145,203	2,930,472,230	3,376,784	2,933,849,014	8%
1999-00		3,194,528,889	13,097,454	3,181,431,435	3,413,692	3,184,845,127	9%
2000-01		3,506,585,684	14,352,645	3,492,233,039	4,956,263	3,497,189,302	10%
2001-02		4,002,196,504	19,311,054	3,982,885,450	6,970,312	3,989,855,762	14%
2002-03		4,265,002,027	20,057,597	4,244,944,430	4,295,776	4,249,240,206	7%
2003-04		4,593,643,316	36,750,869	4,556,892,447	4,892,748	4,561,785,195	7%

(1) Exclusive of HOPTR
(2) Information on exemptions for these years were not available.
Source: San Mateo County Assessor's Office

TOWN OF HILLSBOROUGH
ASSESSED VALUES OF TAXABLE PROPERTY-USE CATEGORY
FISCAL YEAR 2003-04

Category	No of Parcels	Assessed Value	% to Total	Net Taxable Value
Residential	3,850	$ 4,464,395,782	97.1%	$ 4,461,163,925
Exempt	69		0.0%	
Recreational	7	5,215,313	0.1%	5,215,313
Institutional	1	9,105,403	0.2%	
Vacant	121	53,414,856	1.2%	53,414,856
Miscellaneous	13	928,389	0.0%	928,389
Unknown	26	60,583,573	1.3%	36,169,964
Unsecured		4,894,336	0.1%	4,894,336
	4,087	$ 4,598,537,652	100.0%	$ 4,561,786,783

Source: San Mateo County Assessor's Office

TOWN OF HILLSBOROUGH
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2004

Assessed Valuation	$	4,561,785,195
Debt Limit (3.75% of Assessed Value)	$	171,066,945
Debt Subject To Limit		-
Legal Debt Margin	$	171,066,945

(1) Source: San Mateo County Assessor's Office

TOWN OF HILLSBOROUGH
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2004

Jurisdiction	Applicable Percentage	6/30/2003 Debt	
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
San Mateo Union High School District	13.611%	$ 18,286,372	
San Mateo Community College District	4.969%	4,697,723	
Hillsborough School District	99.904%	13,487,040	
Burlingame School District	0.026%	4,672	
San Mateo-Foster City School District	5.440%	561,653	
Town of Hillsborough		-	
Total Direct and Overlapping Tax and Assessment Debt		37,037,460	
OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Mateo County General Fund Obligations	4.969%	21,023,279	
San Mateo County Board of Education Certificates of Participation	4.969%	237,270	
San Mateo Community College District Certificates of Participation	4.969%	1,534,676	
San Mateo County Mosquito Abatement District Certificates of Participation	6.868%	117,099	
Total Gross Overlapping General Fund Obligation Debt		22,912,324	
Combined Total Debt		$ 59,949,784	(1)
RATIOS TO ASSESSED VALUATION:			
Direct Debt		-	
Total Overlapping Tax and Assessment Debt		0.81%	
Combined Total Debt		1.31%	

(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
TABLE OF CONSTRUCTION ACTIVITY
LAST TEN FISCAL YEARS

	Residential Construction		
Fiscal Year	Number of Building Permits	Value	% of Change
1994-95	723	27,937,334	-11%
1995-96	869	26,694,466	-4%
1996-97	846	40,374,190	51%
1997-98	813	39,219,195	-3%
1998-99	972	59,146,954	51%
1999-00	833	60,127,713	2%
2000-01	817	79,263,526	32%
2001-02	739	74,078,807	-7%
2002-03	697	54,048,277	-27%
2003-04	671	75,540,320	40%

Source: Town of Hillsborough Building Department

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

Fiscal Year	Countywide Tax	Schools	Total
94/95	$ 1.0000		$ 1.0000
95/96	1.0000		1.0000
96/97	1.0000		1.0000
97/98	1.0000		1.0000
98/99	1.0000		1.0000
99/00	1.0000		1.0000
00/01	1.0000		1.0000
01/02	1.0000	0.0153	1.0153
02/03	1.0000	0.0244	1.0244
03/04	1.0000	0.0516	1.0516

Source: County of San Mateo Assessor's Office

TOWN OF HILLSBOROUGH
TOP 10 TAXPAYERS (BASED ON GROSS ASSESSED VALUES)
FISCAL YEAR 2003-04

Taxpayer	No of Parcels	Assessed Value	% of Total Assessed Valuation
James G. B. De Martini III Trust	5	$ 32,248,375	0.70%
Crystal Springs Uplands School	1	24,413,609	0.53%
Terence J. Garnett Trust	1	15,501,960	0.34%
Val E. Vaden Trust	2	15,398,440	0.33%
Otto J. Miller	7	14,474,086	0.31%
Amati LLC	3	13,369,790	0.29%
Litke Properties Inc.	2	9,590,000	0.21%
Nueva Day School	1	9,105,403	0.20%
Gregory D. Sullivan Trust	1	9,050,000	0.20%
Charles M. Parrish	2	9,020,268	0.20%
	25	$ 152,171,931	3.31%

(1) All residential properties
Source: HdL Coren & Cone, San Mateo County Assessor 2003-04 Combined Tax Rolls

TOWN OF HILLSBOROUGH
WATER SALES, METER CHARGES AND SEWER SERVICE CHARGES
LAST TEN FISCAL YEARS

Fiscal Year	Water Sales	Meter Charges	Sewer Charges	Total	% of Change
1994-95	2,450,717	264,835	1,647,316	4,362,868	1%
1995-96	2,873,159	263,838	1,832,471	4,969,468	14%
1996-97	3,166,686	265,753	1,927,001	5,359,440	8%
1997-98	2,697,112	271,838	2,023,835	4,992,785	-7%
1998-99	2,805,240	270,717	2,199,160	5,275,117	6%
1999-00	3,654,934	273,563	2,475,444	6,403,941	21%
2000-01	4,308,384	249,489	2,725,623	7,283,496	14%
2001-02	4,859,952	299,596	3,262,752	8,422,300	16%
2002-03	5,341,433	328,702	3,589,855	9,259,990	10%
2003-04	6,701,055	332,247	4,660,549	11,693,851	26%

Source: Town's Finance Department

TOWN OF HILLSBOROUGH
WATER AND SEWER RATES
LAST SEVEN AND 2003-2004 FISCAL YEARS (1)

Fiscal Year		Water (2) 0-50 units	% of Change	Sewer Residential	% of Change
1996-97		$ 1.80		$ 502.43	
1997-98		1.80	0%	527.54	5%
1998-99		1.80	0%	580.00	10%
1999-00		1.80	0%	638.00	10%
2000-01		2.18	21%	702.00	10%
2001-02		2.40	10%	842.00	20%
2002-03		2.76	15%	926.00	10%
2003-04		3.17	15%	1,204.00	30%
2004-05		3.17	0%	1,264.00	5%
2005-06	Projected	3.33	5%	1,390.00	10%

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.

TOWN OF HILLSBOROUGH
TEN LARGEST WATER ACCOUNTS
FISCAL YEAR 2003-04

Customer	Consumption (Units) (1)	Revenue	% of Revenues (2)
The Nueva School	7,994	$ 43,823	0.654%
Burlingame Country Club	7,956	36,251	0.541%
Crystal Springs School	6,131	31,963	0.477%
Charles Johnson	5,597	29,198	0.436%
Robert Macdonnell	5,665	24,798	0.370%
Sam J. Bamieh	4,312	22,378	0.334%
Caltrans	3,610	19,575	0.292%
Lillian L. Howell	3,188	17,955	0.268%
Hillsborough School District	5,000	16,550	0.247%
Judy Swanson	3,486	16,520	0.247%
	52,939	$ 259,011	3.865%

(1) 1 unit of water is approximately 748 gallons.
(2) Revenues represent water consumption revenues.
Source: Town's Finance Department

TOWN OF HILLSBOROUGH
SEVEN LARGEST SEWER ACCOUNTS
FISCAL YEAR 2003-2004

Customer		Revenue	% of Revenues (1)
Hillsborough School District	$	11,135	0.239%
Burlingame Country Club		9,218	0.198%
Crystal Springs Upland School		7,368	0.158%
Crystal Springs Golf Club		7,275	0.156%
Caltrans Rest Stop		6,323	0.136%
Nueva School		3,965	0.085%
Hillsborough Racquet Club		952	0.020%
	$	46,236	0.992%

(1) Revenues represent sewer service charges.
Source: Town's Finance Department

TOWN OF HILLSBOROUGH
SCHEDULE OF ENTERPRISE FUNDS BOND COVERAGE
LAST NINE FISCAL YEARS (1)

Fiscal Year	Revenues		Expenses (2)	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	(3)	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	(3)	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	(4)	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

(1) There were no bonds issued before fiscal year 95-96.
(2) Total expenses exclusive of depreciation and interest
(3) Debt service did not include principal redeemed/refunded during the years.
(4) 2001-2002 revenues exclusive of one-time transfer from Capital Projects
Source: Town's Finance Department

TOWN OF HILLSBOROUGH
SCHEDULE OF INSURANCE IN FORCE
June 20, 2004

Description/Carrier	Coverage	Policy Number	Expiration Date
General, Automobile & Public Officials (E & O) Liability			
Self-Insured Retention	$ 50,000	Thru the ABAG	7/1/2005
PLAN's coverage	5,000,000	PLAN Pool	
PLAN's excess coverage	5,000,000		
Total	$ 10,050,000		
Employment Practices Liability			
Self-Insured Retention	$ 100,000	B0595FDO462402004	7/1/2005
Excess Insurance	5,000,000		
Total	$ 5,100,000		
Lloyd's London			
Boiler & Machinery			
Deductible	$ 5,000	Thru the ABAG	7/1/2005
Limits	As specified	PLAN Pool	
Earthquake-Difference in Conditions			
Deductible	$ 25,000	SIU32522	1/24/2005
Limits	$ 10,000,000		
Redland Insurance Co.	TIV-$26,966,232		
Commercial Property, Including Automobile Physical-Damage - Excluding Flood and Earthquake		Thru the ABAG PLAN Pool	7/1/2005
Deductible	$ 5,000		
Limits	As specified		
Notary Bond Coverage			
Deductible	$ -	104037895	3/1/03-3/1/07
Limits	$ 15,000	103577666	3/15/01-3/15/05
Travelers Property and Casualty			
Worker's Compensation (through The Cities Group)			
SIR	$ 250,000	P-0625	
Limits	Limit of JPA Assets and reinsurance approximately $12.2M	JPA Reg. DIR 4-0456	
Group Insurance Benefits:			
Medical Insurance	CalPERS Health Plans		open-ended
Dental Insurance and Vision Insurance	Teamsters Union Local #856 Health and Welfare Fund - Police		open-ended
	Cities Group - Fire, Miscellaneous and Unrepresented Employees		
Life Insurance	Cities Group		
Long-Term Disability	Cities Group		

Source: Town's Finance Department

TOWN OF HILLSBOROUGH
MISCELLANEOUS STATISTICS
JUNE 30, 2004

GEOGRAPHIC LOCATION	Located in San Mateo County west of Highway 101 and the El Camino Real and east of Highway 280 approximately 15 miles south of San Francisco
POPULATION	10,850
AREA IN SQUARE MILES	6.23 square miles
FORM OF GOVERNMENT	Council-Manager
DATE OF INCORPORATION	May 5, 1910
MILES OF STREETS	81
NUMBER OF BUDGETED EMPLOYEES	112.75
POLICE:	
Number of Station	1
Number of Sworn Personnel	24
FIRE (Merged operations - Central County Fire Department)	
Number of Fire Stations	5
Number of Fire Protection Personnel	76.25
WATER ENTERPRISE:	
Number of accounts	4,174
Average units of daily consumption	5,028
Miles of water mains	97.4
Number of water tanks and distribution reservoir	17 tanks/1 reservoir
SEWER ENTERPRISE:	
Number of accounts	3,871
Miles of sewer mains	93.79
Miles of storm drain piping	33.22
LIBRARY	Provided through Burlingame and San Mateo Libraries
RECREATION	Provided through Hillsborough Recreation Joint Power Agreement
EDUCATION	
Hillsborough City School District	Elementary: North Hillsborough Elementary South Hillsborough Elementary West Hillsborough Elementary Middle School: Crocker Middle School
Private Schools	Nueva Learning Center - Preschool, Kindergarten through Grade 8 Crystal Springs Upland School - Grades 6 through 12

Source: Town's Finance Department