



*Town of  
Hillsborough, California*



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



**TOWN OF HILLSBOROUGH, CALIFORNIA**  
**Comprehensive Annual Financial Report**  
**For the fiscal year ended**  
**June 30, 2003**

**Prepared by:**  
**Finance Department**



**Town of Hillsborough  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2003**

**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 .....   | 19 |
| Statement of Activities .....   | 20 |
| Fund Financial Statements:  |    |
| Balance-Sheet Governmental Funds .....  | 21 |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balances – Governmental Funds .....  | 22 |
| Reconciliation of the Statement of Revenues, Expenditures<br>and Changes in Fund Balances of Governmental Funds to<br>the Statement of Activities ..... | 23 |
| Statement of Net Assets – Proprietary Funds .....   | 24 |
| Statement of Revenues, Expenses and Changes in Fund Net<br>Assets – Proprietary Funds .....   | 25 |
| Statement of Cash Flows – Proprietary Funds .....   | 26 |
| Notes to the Financial Statements .....   | 27 |
| Required Supplementary Information:   |    |
| Schedule of Funding Progress – Employees Retirement System .....  | 43 |
| Schedule of Revenues, Expenditures and Changes in Fund<br>Balances – Budget and Actual – General Fund .....   | 44 |
| Note to Required Supplementary Information .....  | 45 |
| Combining Statements and Individual Fund Schedules:   |    |
| Nonmajor Governmental Funds:  |    |
| Combining Balance Sheet – Nonmajor Governmental Funds .....   | 47 |
| Combining Statement of Revenues, Expenditures and Changes in<br>Fund Balances – Nonmajor Governmental Funds .....                                       | 48 |
| Schedule of Revenues, Expenditures and Changes in Fund<br>Balances – Budget and Actual  |    |
| Police and Fire Special Tax Fund .....  | 49 |
| Gas Tax Fund .....  | 50 |
| Measure "A" Fund .....  | 51 |
| Police Grants Fund .....  | 52 |
| 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 15, 2003

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, 2003.

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

The Town of Hillsborough's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Hillsborough for the fiscal year ended June 30, 2003, 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, 2003, 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 10,825. 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, this comparison is presented on page 44 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 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. However, the robust changes that were experienced some three to four years ago have flattened as the downturn in California economy continues.

### **Long-term financial planning.**

The Town, as in most governments in the area, is faced with increasing retirement, workers compensation and health benefits costs. Coupled with the burst of the stock market bubble, the Town faces structural gap between operating revenues and the increasing expenditures. To address this challenge, staff, together with the Council and the Financial Advisory Committee, is aggressively looking at options to close that gap. Some of the things being considered include an alternate way to fund the annual cost of library services; utility tax on water, electricity, gas telephone and/or cable TV; a road parcel tax; sharing services with other jurisdictions; reducing service levels; or dipping into reserves.

As discussed elsewhere in this report, the Town issued \$15M Certificates of Participation to continue the enterprise funds' capital improvement plan that consist of improvements to the water and sewer systems.

**Cash management policies and practices.** The Town's cash and investments are managed on a pooled basis. The average investment portfolio was \$20 million in fiscal year 2002-2003. 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 approximately \$409,000 for the fiscal year ended June 30, 2003 earning an average return of over 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 75 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 provided annual transfers to reserves for future health benefit costs since July 2001.

Additional information on the Town's pension arrangement and postemployment benefits can be found in Notes 15 and 16 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, 2002. This was the first 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, prepared under the new governmental financial reporting model pursuant to the provisions of Governmental Accounting Standards Board (GASB) 34, 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.

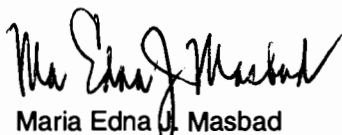
Additionally, the Town was also awarded the California Society of Municipal Finance Officers' (CSMFO) Certificate of Award for Outstanding Financial Reporting for its CAFR for the fiscal year ended June 30, 2002. This is the second year that the Town has received this award in recognition for meeting 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, 2002

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.



A handwritten signature in black ink, reading "William Patrick Vasta".

President

A handwritten signature in black ink, reading "Jeffrey R. Enos".

Executive Director

# California Society of Municipal Finance Officers

## Certificate of Award

### Outstanding Financial Reporting 2001-2002

Presented to the

## Town of Hillsborough

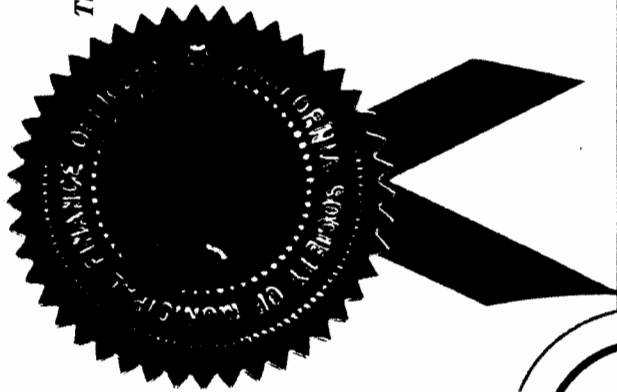
*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

February 24, 2003

*Bret M. Lmlee*

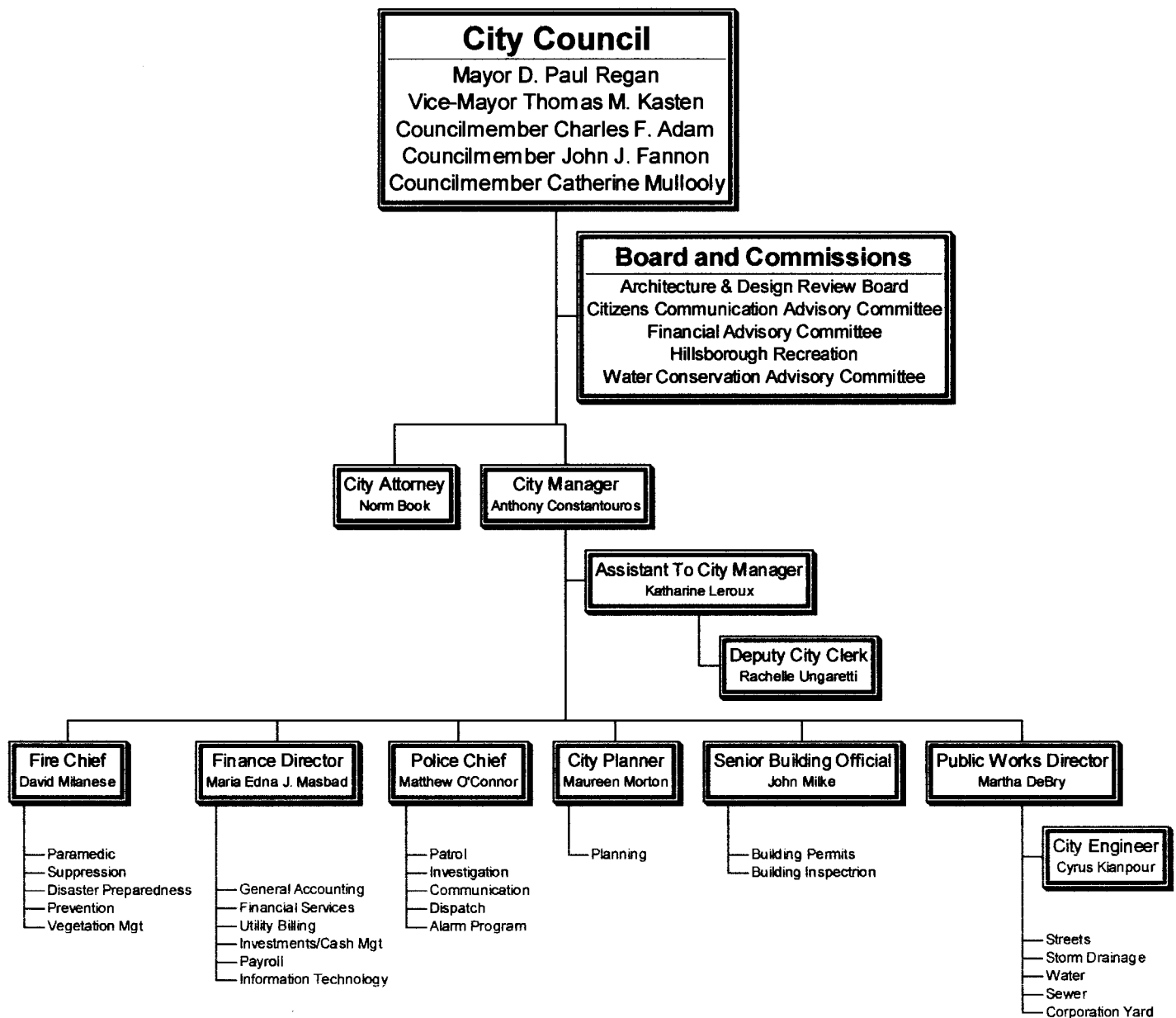
Chair, Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*



# Town of Hillsborough

## Organizational Chart and Principal Officials



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## **FINANCIAL SECTION**





## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying 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, 2003, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Town adopted Statements of the Governmental Accounting Standards Board No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003 on our consideration of the Town's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

The statistical section listed in the table of contents was not audited by us and accordingly, we do not express an opinion on this information.

Varrinck Trine, Day & Co. LLP.

Pleasanton, California  
October 10, 2003

## **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, 2003. 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 2002-2003 fiscal year by \$46,797,186 (*net assets*). Of this amount, \$17,934,582 (*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 \$864,095 primarily resulting from the contributed capital assets (water, sewer and storm drain lines and infrastructure) associated with the Stonebridge development valued at \$991,800. Net assets decreased by \$127,705 from regular operations. In summary, savings achieved by the departments in the general fund (governmental activities) were offset by increases in operating costs in the town's business-type activities, namely the water and sewer.
- As of June 30, 2003, the Town's governmental funds reported combined ending fund balances of \$8,235,469, slightly down from \$8,243,691 from the prior year. 97% of this total, \$8,046,836, is *available for spending* at the Town's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,459,792, or approximately 51 percent of total general fund expenditures.
- The Town acquired 2 fire engines in fiscal year 2002-03 and entered into a lease/purchase agreement for \$900,000 to fund them.

### **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 19-20 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 or 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 financial 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 which is considered to be a major fund. Data from the other five 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 21-23 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 24-26 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 27-41 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 43-45 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 \$46,797,186 at June 30, 2003. Reclassifications were made to the 2002 assets and liabilities to conform to the current year's presentation.

#### TOWN OF HILLSBOROUGH'S NET ASSETS

|  | <u>Governmental Activities</u> |              | <u>Business-type Activities</u> |              | <u>Total</u> |              |
|--|--------------------------------|--------------|---------------------------------|--------------|--------------|--------------|
|  | <u>2003</u>                    | <u>2002</u>  | <u>2003</u>                     | <u>2002</u>  | <u>2003</u>  | <u>2002</u>  |
| Current and other assets                           | \$11,876,512                   | \$11,303,578 | \$10,246,145                    | \$12,572,082 | \$22,122,657 | \$23,875,660 |
| Capital assets                                     | 9,470,935                      | 8,041,150    | 34,084,058                      | 32,415,990   | 43,554,993   | 40,457,140   |
| Total assets                                       | 21,347,447                     | 19,344,728   | 44,330,203                      | 44,988,072   | 65,677,650   | 64,332,800   |
| Long-term liabilities                              | 1,488,014                      | 850,220      | 14,470,949                      | 14,600,000   | 15,958,963   | 15,450,220   |
| Other liabilities                                  | 1,779,254                      | 1,203,405    | 1,142,247                       | 2,191,734    | 2,921,501    | 3,395,139    |
| Total liabilities                                  | 3,267,268                      | 2,053,625    | 15,613,196                      | 16,791,734   | 18,880,464   | 18,845,359   |
| <b>Net assets:</b>                                 |                                |              |                                 |              |              |              |
| Invested in capital assets,<br>Net of related debt | 8,689,913                      | 8,041,150    | 19,484,058                      | 17,615,990   | 28,173,971   | 25,657,140   |
| Restricted   | 188,633                        | 184,607      | 500,000                         | 500,000      | 688,633      | 684,607      |
| Unrestricted                                       | 9,201,633                      | 9,065,346    | 8,732,949                       | 10,080,348   | 17,934,582   | 19,145,694   |
| Total net assets                                   | \$18,080,179                   | \$17,291,103 | \$28,717,007                    | \$28,196,338 | \$46,797,186 | \$45,487,441 |

By far the largest portion of the Town's net assets (60 percent) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquired 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 (1.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$17,934,582) may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2003, 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 \$864,095 during the current fiscal year coming mainly from the dedicated capital assets associated with the Stonebridge development valued at \$991,800 and were recognized as in-kind contribution - \$363,600 for infrastructure (streets, curb & gutters, etc.) and \$628,200 of water and sewer lines.

**Governmental activities.** Governmental activities increased the Town of Hillsborough's net assets by \$789,076 thereby accounting for 91 percent of the total growth in the net assets of the Town. Reclassifications were made to the 2002 revenues and expenditures to conform to the current year's presentation.

#### TOWN OF HILLSBOROUGH'S CHANGES IN NET ASSETS

|                            | <u>Governmental Activities</u> |              | <u>Business-type Activities</u> |              | <u>Total</u> |              |
|----------------------------|--------------------------------|--------------|---------------------------------|--------------|--------------|--------------|
|                            | <u>2003</u>                    | <u>2002</u>  | <u>2003</u>                     | <u>2002</u>  | <u>2003</u>  | <u>2002</u>  |
| <b>REVENUES</b>            |                                |              |                                 |              |              |              |
| Program revenues:          |                                |              |                                 |              |              |              |
| Charges for services       | \$ 1,686,492                   | \$ 1,787,562 | \$ 9,402,007                    | \$ 8,828,493 | \$11,088,499 | \$10,616,055 |
| Operating grants and       |                                |              |                                 |              |              |              |
| Functional taxes           | 2,889,847                      | 2,782,366    |                                 |              | 2,889,847    | 2,782,366    |
| Capital grants and         |                                |              |                                 |              |              |              |
| Contributions              | 363,600                        |              | 628,200                         |              | 991,800      |              |
| General revenues:          |                                |              |                                 |              |              |              |
| Property taxes             | 6,863,862                      | 6,713,362    |                                 |              | 6,863,862    | 6,713,362    |
| Other taxes                | 1,613,970                      | 1,764,013    |                                 |              | 1,613,970    | 1,764,013    |
| Investment earnings        | 216,459                        | 425,756      | 192,093                         | 222,034      | 408,552      | 647,790      |
| All others                 | 199,682                        | 192,779      |                                 |              | 199,682      | 192,779      |
| Total revenues             | 13,833,912                     | 13,665,838   | 10,222,300                      | 9,050,527    | 24,056,212   | 22,716,365   |
| <b>EXPENSES</b>            |                                |              |                                 |              |              |              |
| General government         | 861,208                        | 664,416      |                                 |              | 861,208      | 664,416      |
| Public safety              | 9,332,715                      | 8,770,939    |                                 |              | 9,332,715    | 8,770,939    |
| Community services         | 1,757,876                      | 1,706,523    |                                 |              | 1,757,876    | 1,706,523    |
| Streets                    | 1,057,967                      | 1,066,992    |                                 |              | 1,057,967    | 1,066,992    |
| Interest on long-term debt | 35,070                         |              |                                 |              | 35,070       |              |
| Water                      |                                |              | 5,486,503                       | 4,780,576    | 5,486,503    | 4,780,576    |
| Sewer                      |                                |              | 4,660,778                       | 3,352,523    | 4,660,778    | 3,352,523    |
| Total expenses             | 13,044,836                     | 12,208,870   | 10,147,281                      | 8,133,099    | 23,192,117   | 20,341,969   |
| Increase in net assets     |                                |              |                                 |              |              |              |
| before transfer            | 789,076                        | 1,456,968    | 75,019                          | 917,428      | 864,095      | 2,374,396    |
| Transfers                  |                                | (1,558,390)  |                                 | 1,558,390    |              |              |
| Increase in net assets     | 789,076                        | (101,422)    | 75,019                          | 2,475,818    | 864,095      | 2,374,396    |
| Net assets—July 1, 2002    | 17,291,103                     | 17,392,525   | 28,196,338                      | 25,720,520   | 45,487,441   | 43,113,045   |
| Prior period adjustment    |                                |              | 445,650                         |              | 445,650      |              |
| Net assets—June 30, 2003   | \$18,080,179                   | \$17,291,103 | \$28,717,007                    | \$28,196,338 | \$46,797,186 | \$45,487,441 |

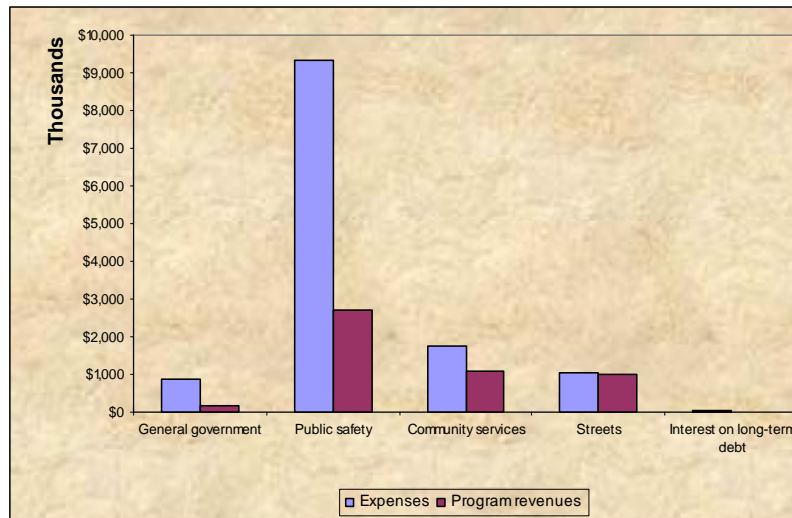
Key elements of the increase/decrease in revenues and expenses for governmental activities are as follows:

- Investment earnings decreased by 50% or \$209,000 mainly due from the current market condition. All other revenues were virtually unchanged. The capital contribution recognized from the dedicated assets of a completed development contributed to a net revenue increase of \$168,000.
- Several factors contributed to the approximately \$800,000 increase in expenses:
  - ✓ Personnel costs in public safety increased by approximately \$670,000 as salaries were brought nearer to market.
  - ✓ An additional accrual of \$91,000 was recognized for compensated absences (vacation leave for services already rendered and is probable to be paid and certain sick leave payable upon termination).
  - ✓ \$35,000 in interest was paid on the lease/purchase agreement for the 2 fire engines.



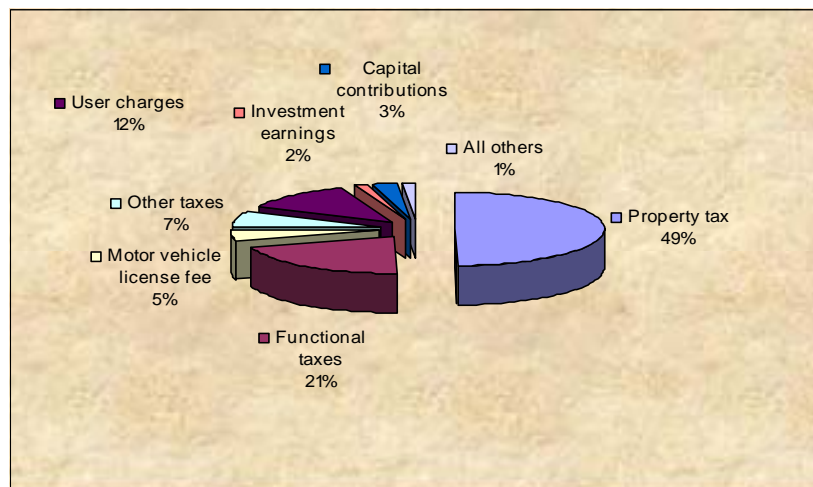
The graph below breaks down expenses by function and compares them to corresponding program revenues.

### Expenses and Program Revenues – Governmental Activities



The following breaks down revenues by source.

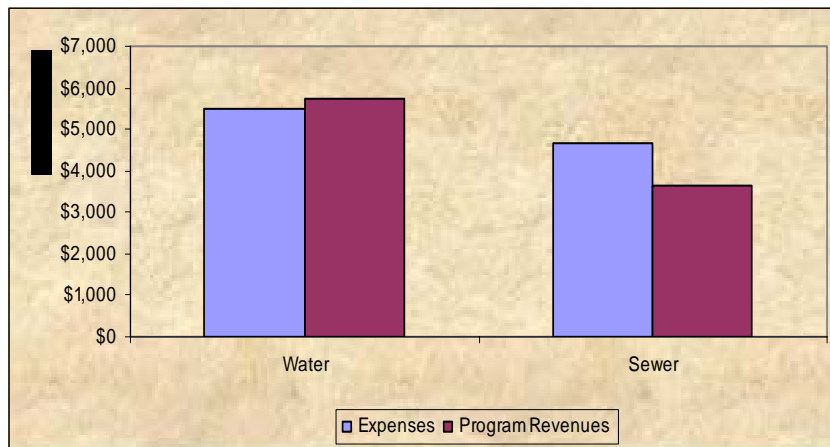
### Revenues by Source – Governmental Activities



**Business-type activities.** There is a slight increase of \$75,019 in net assets in the business-type activities of the Town. Highlights of the activities are as follows:

- Water usage projected to increase by 3 percent was flat and the 15% and 10% rate increases in water and sewer respectively, only brought in approximately \$574,000 increase in user charges.
- There was, however, a significant increase in operating expenses as follows:
  - ✓ Approximately \$413,000 against the self-insurance retention were paid relative to a number of liability claims most of which were from sewer backup.
  - ✓ Additional engineering costs of \$150,000 were incurred for the continuing capital improvement program.

- ✓ Contractual disposal cost increased by \$225,000 to cover our allocated costs of the capital improvements made to the systems of the contracting cities.
- ✓ A \$472,000 interest expense was recognized in 2002-2003; interest expense in the previous year was capitalized.
- ✓ Maintenance costs including personnel and materials & services increased by \$700,000 most of which were sewer related.
- The capital assets contributions associated with a completed development for \$628,200 contributed to the positive net asset change.
- On an individual basis, water revenues were sufficient to cover operating expenses; however, there were not enough revenues in the sewer operations to cover operational costs resulting to a \$784,509 decrease in the sewer net assets.



### 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, 2003, the Town's governmental funds reported combined ending fund balances of \$8,235,469, down \$8,222 from the prior year. \$6,459,792 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 51 per cent of total general fund expenditures while total fund balance represents 53 percent of that same amount.

The Town's general fund balanced increased by \$470,839 during the current fiscal year. Revenues, although virtually flat, were enough to cover expenditures.

**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 \$7,933,958, up from \$7,138,009, and those of the Sewer fund amounted to \$605,361, down from \$2,942,339. Factors concerning the finances of these two funds have already been addressed in the discussion of the business-type activities.

### General Fund Budgetary Highlights

There was a slight difference between the original budget and the final amended budget representing capital outlay authorized for the Fire Department out of the community improvement donation designated for public safety.

Actual expenditures exceeded budgeted amount for \$67,921 in the Streets Department resulting from unexpected maintenance costs.

Above items were both funded out of current revenues. Although revenues came short of budgetary estimates by approximately \$300,000 due mainly from the extended economic downturn, the departments realized savings of \$670,000 thereby eliminating the need to draw upon existing fund balance and adding a total of \$470,000 excess revenues to the General Fund fund balance – approximately \$370,000 more from the projected \$100,000.

### 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, 2003, amounts to

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

|                         | <u>Governmental Activities</u> |                     | <u>Business-type Activities</u> |                     | <u>Total</u>        |                     |
|-------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
|                         | <u>2003</u>                    | <u>2002</u>         | <u>2003</u>                     | <u>2002</u>         | <u>2003</u>         | <u>2002</u>         |
| Land and improvements   | \$ 2,914,649                   | \$ 3,018,356        |                                 |                     | \$ 2,914,649        | \$ 3,018,356        |
| Buildings               | 840,517                        | 888,048             | \$ 138,771                      | \$ 150,452          | 979,288             | 1,038,500           |
| Machinery and equipment | 2,030,976                      | 1,348,901           | 239,903                         | 316,270             | 2,270,879           | 1,665,171           |
| Infrastructure          | 3,684,793                      | 2,785,845           |                                 |                     | 3,684,793           | 2,785,845           |
| Water and sewer lines   |                                |                     | 33,705,384                      | 31,949,268          | 33,705,384          | 31,949,268          |
| <b>Total</b>            | <b>\$ 9,470,935</b>            | <b>\$ 8,041,150</b> | <b>\$34,084,058</b>             | <b>\$32,415,990</b> | <b>\$43,554,993</b> | <b>\$40,457,140</b> |

Additional information on the Town of Hillsborough's capital assets can be found in Note 5 starting from page 33 of this report.

**Long-term debt.** At June 30, 2003, the Town of Hillsborough had total debt outstanding excluding compensated absences in the amount of \$15,381,022.

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

|                               | <u>Governmental Activities</u> |                  | <u>Business-type Activities</u> |                     | <u>Total</u>        |                     |
|-------------------------------|--------------------------------|------------------|---------------------------------|---------------------|---------------------|---------------------|
|                               | <u>2003</u>                    | <u>2002</u>      | <u>F2003</u>                    | <u>2002</u>         | <u>2003</u>         | <u>2002</u>         |
| Certificates of participation |                                |                  | \$14,600,000                    | \$14,800,000        | \$14,600,000        | \$14,800,000        |
| Capital lease obligations     | \$781,022                      | \$ 57,213        |                                 |                     | 781,022             | 57,213              |
| <b>Total</b>                  | <b>\$781,022</b>               | <b>\$ 57,213</b> | <b>\$14,600,000</b>             | <b>\$14,800,000</b> | <b>\$15,381,022</b> | <b>\$14,857,213</b> |

The Town's total debt increased by \$900,000 in 2002-2003 that resulted from a lease/purchase agreement entered into, to fund acquisition of 2 fire engines. Of this amount, \$164,548 has been paid. 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.

On August 2003, the Town of Hillsborough issued \$15,000,000 Variable Rate Certificates of Participation to finance additional acquisition, construction and installation of certain water and sewer systems improvements to the Town's water and sewer systems.

Additional information on the Town's long-term debt can be found in Note 8 on pages 35-36 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The Town's assessed valuation increased by 7% for the next fiscal year and though down from the trend two years ago, still posed a healthy increase. This is the main factor considered in preparing the Town of Hillsborough's budget for the 2004 fiscal year since property taxes, together with the a flat public safety special tax, represent 67% of the general fund revenues.

To balance the budget for fiscal year 2003-2004 and overcome a \$1.7M shortfall from projected increases in operating costs particularly in the retirement and health insurance benefits costs, City Council approved a combination of savings, additional revenue sources, expenditure cuts and deferral of programs, eliminating the need to dip into the reserves going into the next fiscal year. The Town continues to explore other areas to address the projected continued structural gap between operating revenues and expenditures estimated to be approximately \$10M in the next five years.

The utility rates were also increased (15% in water and 30% in sewer) to pay for the additional debt service in connection with a new bond issue (\$15M) mentioned earlier and the projected increase in operating costs in both water and sewer operations. The 30% increase in sewer was necessary to cover the gap between the operating expenses and revenues as reflected in this fiscal year's operations.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**





**TOWN OF HILLSBOROUGH  
STATEMENT OF NET ASSETS  
JUNE 30, 2003**

|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>         |
|---|------------------------------------|-------------------------------------|----------------------|
| <b><u>ASSETS</u></b>                                    |                                    |                                     |                      |
| Cash and investments:                                   |                                    |                                     |                      |
| Town Treasury   | \$ 11,570,341                      | \$ 7,905,222                        | \$ 19,475,563        |
| Trustee (Restricted)                                    |                                    | 11,800                              | 11,800               |
| Receivables, net of estimated uncollectibles:           |                                    |                                     |                      |
| Accounts  | 179,501                            | 1,466,951                           | 1,646,452            |
| Interest  | 48,964                             | 36,079                              | 85,043               |
| Property tax receivable from County                     | 215,166                            |                                     | 215,166              |
| Internal balances                                       | (193,630)                          | 193,630                             |                      |
| Due from other governments                              | 51,622                             |                                     | 51,622               |
| Prepays   |                                    | 31,013                              | 31,013               |
| Supplies  | 4,548                              | 145,657                             | 150,205              |
| Cost of bond issuance (net of accumulated amortization) |                                    | 455,793                             | 455,793              |
| Capital assets (net of accumulated depreciation):       |                                    |                                     |                      |
| Land and improvements                                   | 2,914,649                          |                                     | 2,914,649            |
| Buildings   | 840,517                            | 138,771                             | 979,288              |
| Machinery and equipment                                 | 2,030,976                          | 239,903                             | 2,270,879            |
| Infrastructure  | 3,684,793                          |                                     | 3,684,793            |
| Water and sewer lines                                   |                                    | 33,705,384                          | 33,705,384           |
| Total Assets  | <u>21,347,447</u>                  | <u>44,330,203</u>                   | <u>65,677,650</u>    |
| <b><u>LIABILITIES</u></b>                               |                                    |                                     |                      |
| Accounts payable and other current liabilities          | 701,958                            | 373,679                             | 1,075,637            |
| Accrued payroll liabilities                             | 373,737                            |                                     | 373,737              |
| Deposits  | 347,950                            | 379,800                             | 727,750              |
| Uninsured claims  | 28,335                             | 175,408                             | 203,743              |
| Unearned revenue  | 79,283                             |                                     | 79,283               |
| Accrued interest payable                                | 1,739                              | 11,800                              | 13,539               |
| Current portion of long-term debt                       | 246,252                            | 201,560                             | 447,812              |
| Non-current liabilities:                                |                                    |                                     |                      |
| Due in more than one year                               | 1,488,014                          | 14,470,949                          | 15,958,963           |
| Total Liabilities                                       | <u>3,267,268</u>                   | <u>15,613,196</u>                   | <u>18,880,464</u>    |
| <b><u>NET ASSETS</u></b>                                |                                    |                                     |                      |
| Invested in capital assets, net of related debt         | 8,689,913                          | 19,484,058                          | 28,173,971           |
| Restricted for:   |                                    |                                     |                      |
| Debt Service  |                                    | 500,000                             | 500,000              |
| Local Legal Restrictions                                | 188,633                            |                                     | 188,633              |
| Unrestricted  | 9,201,633                          | 8,732,949                           | 17,934,582           |
| Total Net Assets  | <u>\$ 18,080,179</u>               | <u>\$ 28,717,007</u>                | <u>\$ 46,797,186</u> |

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, 2003**

| Functions/Programs               | <u>Expenses</u> | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Functional<br/>Taxes</u> | <u>Capital Grants<br/>and<br/>Contributions</u> | <u>Net (Expense) Revenues and<br/>Changes in Net Assets</u> |                                     |               |
|----------------------------------|-----------------|---------------------------------|--|---|---|-------------------------------------|---------------|
|                                  |                 |                                 |  |   | <u>Governmental<br/>Activities</u>                          | <u>Business-type<br/>Activities</u> | <u>Total</u>  |
| Governmental Activities:         |                 |                                 |  |   |   |                                     |               |
| General government               | \$ 861,208      | \$ 172,576                      |  |   | \$ (688,632)  |                                     | \$ (688,632)  |
| Public safety                    | 9,332,715       | 393,653                         | \$ 2,301,954   |   | (6,637,108)   |                                     | (6,637,108)   |
| Community services               | 1,757,876       | 1,069,180                       |  |   | (688,696)   |                                     | (688,696)     |
| Streets                          | 1,057,967       | 51,083                          | 587,893  | \$ 363,600                                      | (55,391)  |                                     | (55,391)      |
| Interest on long-term debt       | 35,070          | -                               |  |   | (35,070)  |                                     | (35,070)      |
| Total governmental activities    | 13,044,836      | 1,686,492                       | 2,889,847  | 363,600   | (8,104,897)   |                                     | (8,104,897)   |
| Business-type Activities:        |                 |                                 |  |   |   |                                     |               |
| Water                            | 5,486,503       | 5,740,293                       |  | 375,000   |   | \$ 628,790                          | 628,790       |
| Sewer                            | 4,660,778       | 3,661,714                       |  | 253,200   |   | (745,864)                           | (745,864)     |
| Total business-type activities   | 10,147,281      | 9,402,007                       | -  | 628,200   | -   | (117,074)                           | (117,074)     |
| Total                            | \$ 23,192,117   | \$ 11,088,499                   | \$ 2,889,847   | \$ 991,800                                      | (8,104,897)   | (117,074)                           | (8,221,971)   |
| General Revenues:                |                 |                                 |  |   |   |                                     |               |
| Property tax                     |                 |                                 |  |   | 6,863,862   |                                     | 6,863,862     |
| Property transfer tax            |                 |                                 |  |   | 200,621   |                                     | 200,621       |
| Franchise tax                    |                 |                                 |  |   | 271,332   |                                     | 271,332       |
| Sales Tax                        |                 |                                 |  |   | 70,267  |                                     | 70,267        |
| Motor vehicle license tax        |                 |                                 |  |   | 650,556   |                                     | 650,556       |
| Business license tax             |                 |                                 |  |   | 421,194   |                                     | 421,194       |
| All others                       |                 |                                 |  |   | 193,642   |                                     | 193,642       |
| Gain on sale of capital assets   |                 |                                 |  |   | 6,040   |                                     | 6,040         |
| Unrestricted investment earnings |                 |                                 |  |   | 216,459   | 192,093                             | 408,552       |
| Total general revenues           |                 |                                 |  |   | 8,893,973   | 192,093                             | 9,086,066     |
| Change in net assets             |                 |                                 |  |   | 789,076   | 75,019                              | 864,095       |
| Net assets - beginning           |                 |                                 |  |   | 17,291,103  | 28,196,338                          | 45,487,441    |
| Prior period adjustment          |                 |                                 |  |   |   | 445,650                             | 445,650       |
| Net assets - ending              |                 |                                 |  |   | \$ 18,080,179   | \$ 28,717,007                       | \$ 46,797,186 |

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, 2003**

| <b>ASSETS</b>                                  | <b><u>General</u></b> | <b><u>Other<br/>Governmental<br/>Funds</u></b> | <b><u>Total<br/>Governmental<br/>Funds</u></b> |
|--|-----------------------|--|--|
| Cash and investments:                          |                       |  |  |
| Town Treasury                                  | \$ 7,601,574          | \$ 1,576,337                                   | \$ 9,177,911                                   |
| Receivables, net of estimated uncollectibles:  |                       |  |  |
| Accounts                                       | 179,501               |  | 179,501  |
| Interest                                       | 32,813                | 6,236  | 39,049   |
| Property tax receivable from County            | 215,166               |  | 215,166  |
| Due from other governments                     |                       | 51,622   | 51,622   |
| Prepays  | 4,548                 |  | 4,548  |
|  | <hr/>                 |  | <hr/>  |
| Total Assets                                   | \$ 8,033,602          | \$ 1,634,195                                   | \$ 9,667,797                                   |
|  | <hr/>                 |  | <hr/>  |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>    |                       |  |  |
| Liabilities:                                   |                       |  |  |
| Accounts payable and other current liabilities | \$ 475,937            | \$ 64,999                                      | \$ 540,936                                     |
| Accrued payroll                                | 373,737               |  | 373,737  |
| Deposits payable                               | 347,950               |  | 347,950  |
| Compensated absences                           | 62,087                |  | 62,087   |
| Uninsured claims                               | 28,335                |  | 28,335   |
| Deferred revenue                               | 79,283                |  | 79,283   |
|  | <hr/>                 |  | <hr/>  |
| Total Liabilities                              | 1,367,329             | 64,999   | 1,432,328                                      |
|  | <hr/>                 |  | <hr/>  |
| Fund Balances:                                 |                       |  |  |
| Reserved for prepaids and other purposes       | 188,633               |  | 188,633  |
| Unreserved - designated and reported in:       |                       |  |  |
| General fund                                   | 17,848                |  | 17,848   |
| Special revenue funds                          |                       | 608,773  | 608,773  |
| Capital projects fund                          |                       | 960,423  | 960,423  |
| Unreserved - undesignated                      | 6,459,792             |  | 6,459,792                                      |
| Total fund balances                            | 6,666,273             | 1,569,196                                      | 8,235,469                                      |
| Total Liabilities and Fund Balances            | <hr/>                 | <hr/>  | <hr/>  |
|  | \$ 8,033,602          | \$ 1,634,195                                   |  |

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.   | 7,936,940     |
| 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. | 2,844,875     |
| Long-term liabilities, including capitalized leases, are not due and payable in the current period and therefore are not reported in the funds.   | <hr/>         |
|   | (937,105)     |
| Net assets of governmental activities   | <hr/>         |
|   | \$ 18,080,179 |

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, 2003**

|  | <u>General</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|----------------|---|---|
| REVENUES:  |                |   |   |
| Taxes:   |                |   |   |
| Property   | \$ 6,863,862   |   | \$ 6,863,862                            |
| Public safety special tax                                    |                | \$ 2,098,084                            | 2,098,084                               |
| Franchise taxes  | 271,332        |   | 271,332                                 |
| Business license tax   | 421,194        |   | 421,194                                 |
| All others   | 355,940        |   | 355,940                                 |
| Permits  | 592,012        |   | 592,012                                 |
| Intergovernmental  | 690,472        | 678,395                                 | 1,368,867                               |
| Service charges  | 870,101        | 135,486                                 | 1,005,587                               |
| Fines and forfeitures  | 35,024         |   | 35,024                                  |
| Investment earnings  | 133,155        | 35,151                                  | 168,306                                 |
| Miscellaneous  | 235,912        |   | 235,912                                 |
| Total Revenues   | 10,469,004     | 2,947,116                               | 13,416,120                              |
| EXPENDITURES:  |                |   |   |
| Current:   |                |   |   |
| General government   | 654,110        | 47,751                                  | 701,861                                 |
| Public safety  | 8,974,170      | 68,473                                  | 9,042,643                               |
| Community services   | 1,751,593      | 6,771                                   | 1,758,364                               |
| Streets  | 1,189,495      | 3,112                                   | 1,192,607                               |
| Capital outlay   | 28,891         | 824,976                                 | 853,867                                 |
| Total Expenditures   | 12,598,259     | 951,083                                 | 13,549,342                              |
| EXCESS (DEFICIENCY) OF REVENUES OVER<br>(UNDER) EXPENDITURES | (2,129,255)    | 1,996,033                               | (133,222)                               |
| OTHER FINANCING SOURCES (USES):                              |                |   |   |
| Operating transfers in                                       | 2,750,094      | 350,000                                 | 3,100,094                               |
| Operating transfers out                                      | (150,000)      | (2,825,094)                             | (2,975,094)                             |
| Total Other Financing Sources (Uses)                         | 2,600,094      | (2,475,094)                             | 125,000                                 |
| NET CHANGE IN FUND BALANCES                                  | 470,839        | (479,061)                               | (8,222)                                 |
| BEGINNING FUND BALANCES                                      | 6,195,434      | 2,048,257                               | 8,243,691                               |
| ENDING FUND BALANCES   | \$ 6,666,273   | \$ 1,569,196                            | \$ 8,235,469                            |

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, 2003**

Amounts reported for governmental activities in the statement of activities (page 20 ) are different because:

|   |                   |
|---|-------------------|
| Net change in fund balances - total governmental funds ( page 22)   | \$ (8,222)        |
| 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.  | 356,690           |
| The effect of transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets   | 363,600           |
| 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. | 11,643            |
| 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.   | (98,529)          |
| 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.   | (105,877)         |
| The net revenue of certain activities of the internal service fund is reported with governmental activities.  | 269,771           |
| Change in net assets of governmental activities (page 20)   | <u>\$ 789,076</u> |

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

**TOWN OF HILLSBOROUGH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2003**

|   | <b>Business-type Activities - Enterprise Funds</b> |                   |                     |                   | <b>Total</b>         | <b>Governmental<br/>Activities -<br/>Internal Service<br/>Fund</b> |
|---|--|-------------------|---------------------|-------------------|----------------------|--|
|   | <b>Water</b>                                       |                   | <b>Sewer</b>        |                   | <b>Current Year</b>  |  |
|   | <b>Current Year</b>                                | <b>Prior Year</b> | <b>Current Year</b> | <b>Prior Year</b> |                      |  |
| <b><u>ASSETS</u></b>  |  |                   |                     |                   |                      |  |
| Current Assets:   |  |                   |                     |                   |                      |  |
| Cash and investments:   |  |                   |                     |                   |                      |  |
| Town Treasury   | \$ 7,153,166                                       | \$ 6,363,419      | \$ 752,056          | \$ 3,861,888      | \$ 7,905,222         | \$ 2,392,430   |
| Trustee (Restricted)  | 3,711  | 42,820            | 8,089               | 93,328            | 11,800               |  |
| Receivables, net of estimated<br>uncollectibles:  |  |                   |                     |                   |                      |  |
| Accounts  | 1,361,485  | 1,394,904         | 105,466             | 97,905            | 1,466,951            |  |
| Interest  | 29,869   | 32,556            | 6,210               | 36,063            | 36,079               | 9,915  |
| Prepays   | 9,754  |                   | 21,259              |                   | 31,013               |  |
| Supplies  | 141,763  | 169,608           | 3,894               | 4,274             | 145,657              |  |
| Total current assets  | 8,699,748  | 8,003,307         | 896,974             | 4,093,458         | 9,596,722            | 2,402,345  |
| Noncurrent assets:  |  |                   |                     |                   |                      |  |
| Cost of bond issuance (net of<br>accumulated amortization)  | 143,352  | 149,492           | 312,441             | 325,825           | 455,793              |  |
| Capital assets:   |  |                   |                     |                   |                      |  |
| Buildings and improvements  | 292,176  | 292,176           | 49,161              | 49,161            | 341,337              |  |
| Machinery and equipment   | 206,940  | 298,455           | 431,512             | 317,588           | 638,452              | 2,314,263  |
| Water and sewer lines   | 43,855,607   | 42,744,910        | 35,671,552          | 33,202,905        | 79,527,159           |  |
| Less accumulated depreciation   | (28,661,516)                                       | (27,625,726)      | (17,761,374)        | (16,863,479)      | (46,422,890)         | (780,268)  |
| Total capital assets net of<br>accumulated depreciation   | 15,693,207   | 15,709,815        | 18,390,851          | 16,706,175        | 34,084,058           | 1,533,995  |
| Total noncurrent assets   | 15,836,559   | 15,859,307        | 18,703,292          | 17,032,000        | 34,539,851           | 1,533,995  |
| Total Assets  | 24,536,307   | 23,862,614        | 19,600,266          | 21,125,458        | 44,136,573           | 3,936,340  |
| <b><u>LIABILITIES</u></b>   |  |                   |                     |                   |                      |  |
| Current liabilities:  |  |                   |                     |                   |                      |  |
| Accounts payable  | 186,330  | 408,790           | 187,349             | 1,226,944         | 373,679              | 161,022  |
| Deposits  | 379,800  | 356,000           |                     |                   | 379,800              |  |
| Uninsured claims  | 39,728   |                   | 135,680             |                   | 175,408              |  |
| Compensated absences  | -  |                   | 1,560               |                   | 1,560                |  |
| Accrued interest payable  | 3,711  |                   | 8,089               |                   | 11,800               | 1,361  |
| Certificates of participation - current   | 62,902   | 62,902            | 137,098             | 137,098           | 200,000              |  |
| Capital leases payable - current  |  |                   |                     |                   |                      | 171,935  |
| Total current liabilities   | 672,471  | 827,692           | 469,776             | 1,364,042         | 1,142,247            | 334,318  |
| Noncurrent liabilities:   |  |                   |                     |                   |                      |  |
| Certificates of participation   | 5,034,462  | 5,097,364         | 9,365,538           | 9,502,636         | 14,400,000           |  |
| Compensated absences  | 49,573   |                   | 21,376              |                   | 70,949               |  |
| Capital leases payable  |  |                   |                     |                   |                      | 563,517  |
| Total noncurrent liabilities  | 5,084,035  | 5,097,364         | 9,386,914           | 9,502,636         | 14,470,949           | 563,517  |
| Total Liabilities   | 5,756,506  | 5,925,056         | 9,856,690           | 10,866,678        | 15,613,196           | 897,835  |
| <b><u>NET ASSETS</u></b>  |  |                   |                     |                   |                      |  |
| Invested in capital assets, net of<br>related debt  | 10,595,843   | 10,549,549        | 8,888,215           | 7,066,441         | 19,484,058           | 798,543  |
| Restricted for:   |  |                   |                     |                   |                      |  |
| Debt Service  | 250,000  | 250,000           | 250,000             | 250,000           | 500,000              |  |
| Unrestricted  | 7,933,958  | 7,138,009         | 605,361             | 2,942,339         | 8,539,319            | 2,239,962  |
| Total Net Assets  | \$ 18,779,801                                      | \$ 17,937,558     | \$ 9,743,576        | \$ 10,258,780     | 28,523,377           | \$ 3,038,505   |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds |  |                   |                     |                   | 193,630              |  |
| Net assets of business-type activities  |  |                   |                     |                   | <u>\$ 28,717,007</u> |  |

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, 2003**

|  | <u>Business-type Activities - Enterprise Funds</u> |                   |                     |                   | <u>Total</u><br><u>Current Year</u> | <u>Governmental</u><br><u>Activities -</u><br><u>Internal Service</u><br><u>Fund</u> |
|--|--|-------------------|---------------------|-------------------|-------------------------------------|--|
|  | <u>Water</u>                                       |                   | <u>Sewer</u>        |                   |                                     |  |
|  | <u>Current Year</u>                                | <u>Prior Year</u> | <u>Current Year</u> | <u>Prior Year</u> |                                     |  |
| OPERATING REVENUES:  |  |                   |                     |                   |                                     |  |
| Sale of water  | \$ 5,341,433                                       | \$ 4,859,952      |                     |                   | \$ 5,341,433                        |  |
| Water meter charges  | 328,702  | 299,596           |                     |                   | 328,702                             |  |
| Sewer service charges  |  |                   | \$ 3,589,855        | \$ 3,262,752      | 3,589,855                           |  |
| Connection fees  | 65,598   | 118,450           | 8,509               | 198,633           | 74,107                              |  |
| Other services   |  |                   |                     |                   |                                     | \$ 764,335   |
| Miscellaneous  | 4,560  | 2,250             | 63,350              | 86,860            | 67,910                              |  |
| Total Operating Revenues   | 5,740,293  | 5,280,248         | 3,661,714           | 3,548,245         | 9,402,007                           | 764,335  |
| OPERATING EXPENSES:  |  |                   |                     |                   |                                     |  |
| Water purchases, utilities and pumping   | 1,884,527  | 1,998,880         |                     |                   | 1,884,527                           |  |
| Sewage treatment services and utilities  |  |                   | 1,333,854           | 1,105,812         | 1,333,854                           |  |
| Personnel, overhead and facilities   | 1,664,398  | 1,349,012         | 1,320,426           | 1,134,862         | 2,984,824                           |  |
| Materials, supplies and other  | 867,628  | 386,398           | 844,786             | 269,082           | 1,712,414                           | 40,653   |
| Depreciation and amortization  | 1,041,932  | 1,046,286         | 911,278             | 842,767           | 1,953,210                           | 260,281  |
| Total Operating Expenses   | 5,458,485  | 4,780,576         | 4,410,344           | 3,352,523         | 9,868,829                           | 300,934  |
| Operating Income (loss)  | 281,808  | 499,672           | (748,630)           | 195,722           | (466,822)                           | 463,401  |
| NONOPERATING REVENUES (EXPENSES):  |  |                   |                     |                   |                                     |  |
| Gain on sale of disposal of fixed assets   |  |                   |                     |                   |                                     | 6,040  |
| Investment earnings  | 157,565  | 128,368           | 34,528              | 93,666            | 192,093                             | 48,153   |
| Interest expense   | (148,475)  | -                 | (323,607)           | -                 | (472,082)                           | (35,070)   |
| Total nonoperating revenue (expenses)  | 9,090  | 128,368           | (289,079)           | 93,666            | (279,989)                           | 19,123   |
| Income (loss) before contributions and transfers   | 290,898  | 628,040           | (1,037,709)         | 289,388           | (746,811)                           | 482,524  |
| Capital contributions  | 375,000  |                   | 253,200             |                   | 628,200                             |  |
| Transfers in   |  | 1,165,152         |                     | 393,238           |                                     |  |
| Transfers out  |  |                   |                     |                   |                                     | (125,000)  |
| Change in net assets   | 665,898  | 1,793,192         | (784,509)           | 682,626           | (118,611)                           | 357,524  |
| Total net assets - beginning   | 17,937,558   | 16,144,366        | 10,258,780          | 9,576,154         |                                     | 2,680,981  |
| Prior period adjustment  | 176,345  |                   | 269,305             |                   |                                     |  |
| Restated total net assets - beginning  | 18,113,903   | 16,144,366        | 10,528,085          | 9,576,154         |                                     | 2,680,981  |
| Total net assets - end   | \$ 18,779,801                                      | \$ 17,937,558     | \$ 9,743,576        | \$ 10,258,780     |                                     | \$ 3,038,505   |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. |  |                   |                     |                   | 193,630                             |  |
| Change in net assets of business-type activities (page 20 )  |  |                   |                     |                   | \$ 75,019                           |  |

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, 2003**

|   | <b>Business-type Activities - Enterprise Funds</b> |                   |                     |                   |                     | <b>Governmental<br/>Activities -<br/>Internal<br/>Service<br/>Fund</b> |
|---|--|-------------------|---------------------|-------------------|---------------------|--|
|   | <b>Water</b>                                       |                   | <b>Sewer</b>        |                   | <b>Total</b>        |  |
|   | <b>Current Year</b>                                | <b>Prior Year</b> | <b>Current Year</b> | <b>Prior Year</b> | <b>Current Year</b> | <b>Fund</b>  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |                   |                     |                   |                     |  |
| Receipts from customers and users   | \$ 5,797,512                                       | \$ 5,245,528      | \$ 3,654,153        | \$ 3,528,978      | \$ 9,451,665        |  |
| Receipts from interfund services provided   |  |                   |                     |                   |                     | \$ 764,335   |
| Payment to suppliers  | (4,332,492)  | (3,318,806)       | (4,282,589)         | (1,329,379)       | (8,615,081)         | (41,546)   |
| Payment to employees  | (52,985)   |                   | (8,795)             |                   | (61,780)            |  |
| Payment to interfund services used  | (136,390)  | (31,590)          | (88,280)            | (34,380)          | (224,670)           |  |
| Net cash provided (used) by operating activities  | 1,275,645  | 1,895,132         | (725,511)           | 2,165,219         | 550,134             | 722,789  |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES</b>  |  |                   |                     |                   |                     |  |
| Transfer to other funds   |  |                   |                     |                   |                     | (125,000)  |
| Net cash used by noncapital financing activities  | -  | -                 | -                   | -                 | -                   | (125,000)  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>   |  |                   |                     |                   |                     |  |
| Proceeds from capital debt  |  |                   |                     |                   |                     | 900,000  |
| Capital transfers from other funds  |  | 1,165,152         |                     | 393,238           | -                   |  |
| Acquisition and construction of capital assets  | (467,839)  | (700,510)         | (2,060,066)         | (3,525,250)       | (2,527,905)         | (831,517)  |
| Principal paid on capital debt  | (62,902)   | (62,902)          | (137,098)           | (137,098)         | (200,000)           |  |
| Interest paid on capital debt   | (154,518)  | (138,986)         | (336,777)           | (302,926)         | (491,295)           | (33,709)   |
| Capital lease down payment  |  |                   |                     |                   |                     | (164,548)  |
| Proceeds from sale of capital assets  |  |                   |                     |                   |                     | 28,803   |
| Net cash provided (used) by capital<br>and related financing activities   | (685,259)  | 262,754           | (2,533,941)         | (3,572,036)       | (3,219,200)         | (100,971)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |                   |                     |                   |                     |  |
| Investment earnings   | 160,252  | 176,618           | 64,381              | 175,853           | 224,633             | 51,559   |
| Net cash provided by investing activities   | 160,252  | 176,618           | 64,381              | 175,853           | 224,633             | 51,559   |
| Net increase (decrease) in cash and cash equivalents  | 750,638  | 2,334,504         | (3,195,071)         | (1,230,964)       | (2,444,433)         | 548,377  |
| Cash and cash equivalents - beginning   | 6,406,239  | 4,071,735         | 3,955,216           | 5,186,180         | 10,361,455          | 1,844,053  |
| Cash and cash equivalents - ending (including \$3,711<br>and \$8,089 for the water and sewer funds, respectively,<br>reported in restricted accounts) | \$ 7,156,877                                       | \$ 6,406,239      | \$ 760,145          | \$ 3,955,216      | \$ 7,917,022        | \$ 2,392,430   |
| <b>Reconciliation of operating income to net cash<br/>provided (used) by operating activities:</b>  |  |                   |                     |                   |                     |  |
| Operating income (loss)   | \$ 281,808   | \$ 499,672        | \$ (748,630)        | \$ 195,722        | \$ (466,822)        | \$ 463,401   |
| Adjustments to reconcile operating income to net<br>cash provided (used) by operating activities:   |  |                   |                     |                   |                     |  |
| Depreciation and amortization expense   | 1,041,932  | 1,046,286         | 911,278             | 842,767           | 1,953,210           | 260,281  |
| (Increase) decrease in accounts receivable  | 33,419   | (44,931)          | (7,561)             | (21,128)          | 25,858              |  |
| (Increase) decrease in inventories  | 27,845   | (39,989)          | 380                 | 1,861             | 28,225              |  |
| Increase (decrease) in customer deposits  | 23,800   | 50,200            | -                   |                   | 23,800              |  |
| Increase (decrease) in accounts payable   | (182,732)  | 383,894           | (903,914)           | 1,145,997         | (1,086,646)         | (893)  |
| Increase (decrease) in compensated<br>absences payable  | 49,573   |                   | 22,936              |                   | 72,509              |  |
| Total adjustments   | 993,837  | 1,395,460         | 23,119              | 1,969,497         | 1,016,956           | 259,388  |
| Net cash provided (used) by operating activities  | \$ 1,275,645                                       | \$ 1,895,132      | \$ (725,511)        | \$ 2,165,219      | \$ 550,134          | \$ 722,789   |
| <b>Noncash investing, capital and financing activities:</b>   |  |                   |                     |                   |                     |  |
| Net fixed assets contributed from prior years   | \$ 176,345   | \$ 321,349        | \$ 269,305          | \$ 114,753        | \$ 445,650          |  |
| Contributions of capital assets from developers   | 375,000  |                   | 253,200             |                   | 628,200             |  |
|   | \$ 551,345   | \$ 321,349        | \$ 522,505          | \$ 114,753        | \$ 1,073,850        |  |

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

## **NOTES TO THE FINANCIAL STATEMENTS**



**TOWN OF HILLSBOROUGH**  
**Notes to the Financial Statements**  
**June 30, 2003**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town implemented the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in this financial report.

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.

Complete financial statements for the individual component unit may be obtained by writing to the Town of Hillsborough, Finance Department 1600 Floribunda Avenue, Hillsborough, California 94010.

**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.

### 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.

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 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 investments 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 and its agencies, certificates of deposits placed with commercial banks, banker's acceptances, commercial paper, corporate notes, money market funds, repurchase agreements 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 normally invests only in the California LAIF pool. 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

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.

### 3. 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.

### 4. 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.

### 5. 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:

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



## 6. 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.

## 7. 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.

## 8. 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.

## 9. 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 \$937,105 difference are as follows:

|   |           |
|---|-----------|
| Accrued interest payable  | \$ 378    |
| Capital leases payable  | 45,570    |
| Compensated absences  | 891,157   |
| Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive<br>at <i>net assets – governmental activities</i> | \$937,105 |

#### 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 \$356,690 difference are as follows:

|  |           |
|--|-----------|
| Capital outlay   | \$853,867 |
| Depreciation expense   | (497,177) |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | \$356,690 |

Another element of that reconciliation states that “The effect of transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. The \$363,600 difference refers to the infrastructure contribution associated with a development, that increases net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.

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 11,643 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 \$98,529 are as follows:

|  |            |
|--|------------|
| Compensated absences   | (\$98,151) |
| Accrued interest   | ( 378)     |
| Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | (\$98,529) |

### NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY.

#### Excess of Expenditures over Appropriations

For the year ended June 30, 2003, expenditures exceeded appropriations for \$1,337, \$9,761 and \$5,133 in the Police and Fire Special Tax, Gas Tax and Measure “A” funds respectively. These over expenditures were funded by slightly greater than anticipated revenues for the Police and Fire Special Tax and 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, 2003 are as follows:

|  |                     |
|--|---------------------|
| Deposits and investments                               | \$19,475,563        |
| Restricted cash and investments – held by fiscal agent | 11,800              |
| <b>Total</b>   | <b>\$19,487,363</b> |

The California Government Code requires California banks and savings and loan associations to secure the secure 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, 2003 as follows:

|                                      | Carrying<br>Amount | Bank Balance     |                  |                  |
|--------------------------------------|--------------------|------------------|------------------|------------------|
|                                      |                    | Category 1       | Category 2       | Total            |
| Federally insured deposits           | \$254,352          | \$117,157        |                  | \$117,157        |
| Uninsured by collateralized deposits |                    |                  | \$563,484        | 563,484          |
| <b>Total</b>                         | <b>\$254,352</b>   | <b>\$117,157</b> | <b>\$563,484</b> | <b>\$680,641</b> |

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:

|   | <b>Non-categorized</b> |
|---|------------------------|
| Money Market Funds (US Government Securities) | \$ 11,800              |
| Local Agency Investment Fund                  | 19,221,211             |
| <b>Total</b>                                  | <b>\$19,233,011</b>    |

Interest and investment income consists of the following at June 30, 2003:

|                                 |                  |
|---------------------------------|------------------|
| Interest earned                 | \$412,401        |
| Net change in fair market value | ( 3,849)         |
| <b>Total</b>                    | <b>\$408,552</b> |

## NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

|   | Beginning<br>Balance | Increases    | Decreases  | Ending<br>Balance |
|---|----------------------|--------------|------------|-------------------|
| <b>Governmental Activities:</b>             |                      |              |            |                   |
| Land and improvements                       | \$ 3,352,930         |              | (\$ 4,389) | \$ 3,348,541      |
| Buildings                                   | 2,567,777            | \$ 19,381    |            | 2,587,158         |
| Machinery and equipment                     | 3,610,847            | 1,148,509    | ( 89,844)  | 4,669,512         |
| Infrastructure                              | 8,114,189            | 1,046,505    |            | 9,160,694         |
| Total capital assets                        | 17,645,743           | 2,214,395    | (94,233)   | 19,765,905        |
| Less accumulated depreciation for:          |                      |              |            |                   |
| Land and improvements                       | (334,574)            | (99,318)     |            | ( 433,892)        |
| Buildings                                   | (1,679,729)          | ( 66,912)    |            | (1,746,641)       |
| Machinery and equipment                     | (2,261,946)          | (443,671)    | 67,081     | (2,638,536)       |
| Infrastructure                              | (5,328,344)          | (147,557)    |            | (5,475,901)       |
| Total accumulated depreciation              | (9,604,593)          | (757,458)    | 67,081     | (10,294,970)      |
| Governmental activities capital assets, net | \$ 8,041,150         | \$ 1,456,937 | (\$27,152) | \$ 9,470,935      |

|  | Beginning<br>Balance | Increases    | Decreases | Ending<br>Balance |
|--|----------------------|--------------|-----------|-------------------|
| <b>Business-type Activities:</b>             |                      |              |           |                   |
| Buildings                                    | \$ 341,337           |              |           | \$ 341,337        |
| Machinery and equipment                      | 616,043              | \$ 22,408    |           | 638,451           |
| Systems & transmissions                      | 75,947,815           | 3,579,345    |           | 79,527,160        |
| Total capital assets                         | 76,905,195           | 3,601,753    |           | 80,506,948        |
| Less accumulated depreciation for:           |                      |              |           |                   |
| Buildings                                    | (190,885)            | (11,681)     |           | ( 202,566)        |
| Machinery and equipment                      | (299,773)            | (98,775)     |           | (398,548)         |
| Systems & transmissions                      | (43,998,547)         | (1,823,229)  |           | (45,821,776)      |
| Total accumulated depreciation               | (44,489,205)         | (1,933,685)  |           | (46,422,890)      |
| Business-type activities capital assets, net | \$ 32,415,990        | \$ 1,668,068 |           | \$ 34,084,058     |

Depreciation expense was charged to functions/programs as follows:

|  |             |
|--|-------------|
| <b>Governmental Activities:</b>  |             |
| General government   | \$129,833   |
| Public safety  | 208,236     |
| Community services   | 1,782       |
| Public works   | 157,326     |
| Capital assets held by the Town's internal service funds are charged to the various functions based on their usage of the assets | 260,281     |
| Total depreciation expense – governmental activities   | \$757,458   |
| <b>Business-type Activities:</b>   |             |
| Water  | \$1,035,790 |
| Sewer  | 897,895     |
| Total depreciation expense – business-type activities  | \$1,933,685 |

#### NOTE 6 – INTERFUND TRANSACTIONS

The following is a summary of the interfund transactions for the year ended June 30, 2003 is as follows:

| Transfer Out                | Transfer In  |                             |             |
|-----------------------------|--------------|-----------------------------|-------------|
|                             | General Fund | Nonmajor Governmental Funds | Total       |
| General fund                |              | \$ 150,000                  | \$ 150,000  |
| Nonmajor governmental funds | \$2,625,094  | 200,000                     | 2,825,094   |
| Internal service fund       | 125,000      |                             | 125,000     |
| Total                       | \$2,750,094  | \$ 350,000                  | \$3,100,094 |

#### NOTE 7 – LEASES

Capital Leases - The Town has entered into lease agreements as lessee for photocopiers and reproduction equipment. During 2002-2003, the Town also entered into a capital/lease agreement to acquire 2 fire engines. 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 future minimum lease payments for these leases are as follows:

| Year Ending 6/30                        | Governmental Activities |
|---|-------------------------|
|   | Amount                  |
| 2004                                    | \$ 217,050              |
| 2005                                    | 217,050                 |
| 2006                                    | 217,050                 |
| 2007                                    | 209,875                 |
| Total minimum lease payments            | 861,025                 |
| Less: Amount representing interest      | ( 80,003)               |
| Present value of minimum lease payments | \$ 781,022              |

#### NOTE 8 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2003, was as follows:

|  | Beginning Balance | Additions  | Reductions  | Ending Balance | Due Within One Year |
|--|-------------------|------------|-------------|----------------|---------------------|
| <b>Governmental activities:</b>              |                   |            |             |                |                     |
| Capital leases                               | \$ 57,213         | \$ 900,000 | (\$176,191) | \$ 781,022     | \$184,165           |
| Compensated absences                         | 916,308           | 131,661    | (94,725)    | 953,244        | 62,087              |
| Governmental activity long-term liabilities  | \$ 973,521        | 1,031,661  | (\$270,916) | \$ 1,734,266   | \$246,252           |
| <b>Business-type activities:</b>             |                   |            |             |                |                     |
| Compensated absences                         |                   | \$ 72,509  |             | \$ 72,509      | \$ 1,560            |
| Certificates of participation                | \$14,600,000      |            | (\$200,000) | 14,600,000     | 200,000             |
| Business-type activity long-term liabilities | \$14,600,000      | \$ 72,509  | (\$200,000) | \$14,672,509   | \$201,560           |

Certificates of participation—The certificates are recorded in the Enterprise Fund and were issued by the Public Improvement Corporation on June 1, 2000. The issue 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. Interest is payable on the first business day of each calendar month commencing on July 2000. The debt is secured by a pledge of the net revenues of the Enterprise Funds.

The Town signed interest swap agreements with Morgan Guaranty to convert the Series A COPs to a fixed rate of 5.262 percent until June 1, 2007. The Town purchased a rate cap of 6.5 percent on the Series B COPs for the first three years. On August 13, 2003, the Town signed an interest swap agreement with JPMorgan Chase Bank to convert the 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.

A standby purchase agreement (SPA) with Morgan Guaranty Trust Co. of New York 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 27, 2004.

There are limitations and covenants contained in the various debt agreements. The Town complies with all restrictive limitations and covenants at June 30, 2003.

In 2003, the Town's total interest cost was approximately 3.22%. 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, and 4.14% interest on Series B until maturity:

| Year Ending<br>June 30 | Business-type Activities |              |
|------------------------|--------------------------|--------------|
|                        | Principal                | Interest     |
| 2004                   | \$ 200,000               | \$ 659,418   |
| 2005                   | 200,000                  | 651,138      |
| 2006                   | 200,000                  | 642,858      |
| 2007                   | 200,000                  | 634,578      |
| 2008                   | 300,000                  | 686,960      |
| 2009-2013              | 2,000,000                | 3,194,180    |
| 2014-2018              | 2,600,000                | 2,610,100    |
| 2019-2023              | 3,000,000                | 1,912,500    |
| 2024-2028              | 4,100,000                | 1,067,100    |
| 2029-2030              | 1,800,000                | 133,020      |
| Total                  | \$14,600,000             | \$12,191,852 |

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, 2003 was \$4,520,000.

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 – SEGMENT INFORMATION – ENTERPRISE FUNDS

The tables below summarize financial data by segment for the Enterprise Funds as of June 30, 2003 and for the year then ended:

##### **CONDENSED STATEMENT OF NET ASSETS**

|   | WATER        | SEWER      | TOTAL        |
|---|--------------|------------|--------------|
| Assets:   |              |            |              |
| Current assets                                  | \$ 8,699,748 | \$ 896,974 | \$ 9,596,722 |
| Other noncurrent assets                         | 143,352      | 312,441    | 455,793      |
| Capital assets, net of accumulated depreciation | 15,693,207   | 18,390,851 | 34,084,058   |
| Total assets                                    | 24,536,307   | 19,600,266 | 44,136,573   |

|   |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
| <b>Liabilities:</b>                             |                     |                     |                     |
| Current liabilities                             | 672,471             | 469,776             | 1,142,247           |
| Noncurrent liabilities                          | 5,084,035           | 9,386,914           | 14,470,949          |
| Total liabilities                               | 5,756,506           | 9,856,690           | 15,613,196          |
| <b>Net assets:</b>                              |                     |                     |                     |
| Invested in capital assets, net of related debt | 10,595,843          | 8,888,215           | 19,484,058          |
| Restricted                                      | 250,000             | 250,000             | 500,000             |
| Unrestricted                                    | 7,933,958           | 605,361             | 8,539,319           |
| <b>TOTAL NET ASSETS</b>                         | <b>\$18,779,801</b> | <b>\$ 9,743,576</b> | <b>\$28,523,377</b> |

#### **CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

|  | <b>WATER</b>        | <b>SEWER</b>        | <b>TOTAL</b>        |
|--|---------------------|---------------------|---------------------|
| Operating revenues                       | \$ 5,740,293        | \$ 3,661,714        | \$ 9,402,007        |
| Depreciation and amortization expense    | ( 1,041,932)        | (911,278)           | (1,953,210)         |
| Other operating expenses                 | ( 4,416,553)        | (3,499,066)         | (7,915,619)         |
| Operating income (loss)                  | 281,808             | (748,630)           | (466,822)           |
| <b>Nonoperating revenues (expenses):</b> |                     |                     |                     |
| Investment earnings                      | 157,565             | 34,258              | 192,093             |
| Interest expense                         | (148,475)           | (323,607)           | (472,082)           |
| Capital contributions                    | 375,000             | 253,200             | 628,200             |
| Change in net assets                     | 665,898             | (784,509)           | (118,611)           |
| Beginning net assets                     | 17,937,558          | 10,258,780          | 28,196,338          |
| Prior period adjustment                  | 176,345             | 269,305             | 445,650             |
| Restated beginning net assets            | 18,113,903          | 10,528,085          | 28,641,988          |
| <b>ENDING NET ASSETS</b>                 | <b>\$18,779,801</b> | <b>\$ 9,743,576</b> | <b>\$28,523,377</b> |

#### **CONDENSED STATEMENT OF CASH FLOWS**

|   | <b>WATER</b>        | <b>SEWER</b>      | <b>TOTAL</b>        |
|---|---------------------|-------------------|---------------------|
| <b>Net cash provided (used) by:</b>       |                     |                   |                     |
| Operating activities                      | \$ 1,275,645        | ( \$ 725,511)     | \$ 550,134          |
| Capital and relating financing activities | (685,259)           | ( 2,533,941)      | (3,219,200)         |
| Investing activities                      | 160,252             | 64,381            | 224,633             |
| Net increase (decrease)                   | 750,638             | (3,195,071)       | (2,444,433)         |
| Beginning cash and cash equivalents       | 6,406,239           | 3,955,216         | 10,361,455          |
| <b>ENDING CASH AND CASH EQUIVALENTS</b>   | <b>\$ 7,156,877</b> | <b>\$ 760,145</b> | <b>\$ 7,917,022</b> |

#### **NOTE 10 – RISK MANAGEMENT**

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

The Town joined a public-entity risk pool (The Cities Group – a Joint Power Authority) that operates a Workers' Compensation self-insured program. The pool indemnifies the membership for their Workers' Compensation losses and recovers those costs from the members through a retrospective, loss experience based contribution-rating plan. The pool is self-insured for claims up to \$250,000 per occurrence. Claims in excess of this amount are insured up to \$6.1 million. The Town has no deductible for these claims. The Town's premiums for the fiscal year ended June 30, 2003 were \$434,824. 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, 2003 and 2002.

|  | 2003       | 2002       |
|--|------------|------------|
| Beginning Balance  | \$ 120,158 | \$ 112,915 |
| Claims incurred and changes in estimates for prior year claims | 438,339    | 79,654     |
| Claims paid  | (354,754)  | ( 72,411)  |
| Ending Balance   | \$ 203,743 | \$ 120,158 |

#### NOTE 11 – SUBSEQUENT EVENTS

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. Concurrently, the Town entered into a swap agreement with JPMorgan Chase Bank 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. Liquidity is provided through a standby purchase agreement .

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

#### NOTE 12 – 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 13 – 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 agreement it entered into with the municipalities. The costs incurred by the Town under these agreements amounted to \$1,221,346 and \$996,571 as of June 30, 2003 and 2002, 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 \$441,960 and \$423,400 as of June 30, 2003 and 2002, respectively.

At June 30, 2003, the Town has outstanding construction contracts and commitments for the water and sewer operations, as follows:

|            |           |
|------------|-----------|
| Water Fund | \$256,961 |
| Sewer Fund | 159,439   |
| Total      | \$416,400 |

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 14 – CLOSED FUNDS, RESTATEMENTS, AND PRIOR PERIOD ADJUSTMENTS

##### Closed and Consolidated Funds

Pursuant to recommended practice, effective the current fiscal year, two nonmajor special revenue funds were consolidated with the general fund, restating the beginning fund balance of the general fund as follows:

|  |             |
|--|-------------|
| Ending fund balances as of 6/30/02:                |             |
| General fund                                       | \$6,094,097 |
| Burglar alarm fund – special revenue fund          | 79,239      |
| Community improvement donation fund                | 22,098      |
| Restated fund balance as of 6/30/02 – General Fund | \$6,195,434 |

##### Restatement - Governmental Funds Capital Assets

In compliance with GASB 34 requirements to include infrastructure and raise the capitalization threshold in the capital assets used in the operation of governmental funds, beginning fund balance of the governmental funds' capital assets excluding those of the internal service fund, has been restated as follows:

|   | Ending Balance<br>6/30/02 | Restated Balance<br>6/30/02 |
|---|---------------------------|-----------------------------|
| Governmental funds capital assets:      |                           |                             |
| Land and improvements                   | \$ 3,352,931              | \$ 3,352,930                |
| Building and improvements               | 3,928,189                 | 2,567,777                   |
| Machinery and equipment                 | 2,774,529                 | 2,241,330                   |
| Infrastructure                          |                           | 8,114,189                   |
| Total governmental funds capital assets | \$10,055,649              | \$16,276,226                |

#### Prior Period Adjustment – Enterprise Funds

The prior period adjustments of \$176,345 and \$269,305 in the water and sewer funds respectively, represented fixed assets contributed from prior years that were recently identified.

#### NOTE 15 – 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 75 employees who are receiving this benefit. The Town finances the plan on a pay-as-you-go basis. For the year ended June 30, 2003, the Town paid \$432,125 for these benefits.

#### NOTE 16 – 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 7% (miscellaneous) or 9% (public safety) of their annual covered salary. 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 2003, the Town's annual pension cost was \$46,520. The required contribution for the current year was determined as part of the June 30, 2000 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 3.75% to 11.59% for safety members), and (c) 3.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.5%.

The Plans' provisions and benefits in effect at June 30, 2003 are summarized below:

|   | <b>Safety</b>    | <b>Miscellaneous</b> |
|---|------------------|----------------------|
| 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%        | 1.426% - 2.418%      |
| Required employee contribution rates      | 9%               | 7%                   |
| Required employer contribute rates        | 0%               | 1.364%               |

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 unfunded 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:

|               | <b>Fiscal Year<br/>Ending</b> | <b>Annual<br/>Pension<br/>Cost</b> | <b>Percentage<br/>Of APC<br/>Contributed</b> | <b>Net<br/>Pension<br/>Obligation</b> |
|---------------|-------------------------------|------------------------------------|--|---------------------------------------|
| Miscellaneous | 6/30/01                       | \$ - 0 -                           |  | \$ - 0 -                              |
|               | 6/30/02                       | \$ - 0 -                           |  | \$ - 0 -                              |
|               | 6/30/03                       | \$ 46,520                          | 100%   | \$ - 0 -                              |
| Public Safety | 6/30/01                       | \$ 30,099                          | 100%   | \$ - 0 -                              |
|               | 6/30/02                       | \$ - 0 -                           |  | \$ - 0 -                              |
|               | 6/30/03                       | \$ - 0 -                           |  | \$ - 0 -                              |

### 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, 2003 amounted to \$337,681.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**



**TOWN OF HILLSBOROUGH  
SCHEDULE OF FUNDING PROGRESS  
EMPLOYEES RETIREMENT SYSTEM**

| <u>Valuation<br/>Date</u> | <u>Accrued<br/>Liability</u><br>(a) | <u>Actuarial<br/>Value of<br/>Assets</u><br>(b) | <u>Overfunded<br/>(Unfunded)<br/>Liability</u><br>(a) - (b) | <u>Funded<br/>Status</u><br>(b) / (a) | <u>Annual<br/>Covered<br/>Payroll</u><br>(c) | <u>UAAL as a<br/>% of<br/>Payroll</u><br>[(a)-(b)]/(c) |
|---------------------------|-------------------------------------|---|---|---------------------------------------|--|--|
| PUBLIC SAFETY:            |                                     |   |   |                                       |  |  |
| Retirement Program        |                                     |   |   |                                       |  |  |
| 6/30/2000                 | \$ 32,586,533                       | \$ 40,735,553                                   | \$ 8,149,020  | 125.0%                                | \$ 4,389,410                                 | 185.7%   |
| 6/30/2001                 | 35,475,361                          | 41,367,976                                      | 5,892,615   | 116.6%                                | 4,509,296                                    | 130.7%   |
| 6/30/2002                 | 37,856,231                          | 38,111,501                                      | 255,270   | 100.7%                                | 4,671,044                                    | 5.5%   |
| 1959 Survivor Program     |                                     |   |   |                                       |  |  |
| 6/30/2000                 |                                     | 212,596   | 212,596   |                                       | 4,389,410                                    | 4.8%   |
| 6/30/2001                 |                                     |   |   |                                       | 4,509,296                                    | 0.0%   |
| 6/30/2002                 |                                     |   |   |                                       | 4,671,044                                    | 0.0%   |
| MISCELLANEOUS:            |                                     |   |   |                                       |  |  |
| Retirement Program        |                                     |   |   |                                       |  |  |
| 6/30/2000                 | 10,635,568                          | 12,796,443                                      | 2,160,875   | 120.3%                                | 2,343,505                                    | 92.2%  |
| 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%   |
| 1959 Survivor Program     |                                     |   |   |                                       |  |  |
| 6/30/2000                 |                                     | 608   | 608   |                                       | 2,343,505                                    | 0.0%   |
| 6/30/2001                 |                                     | 641   | 641   |                                       | 2,732,067                                    | 0.0%   |
| 6/30/2002                 |                                     | 624   | 624   |                                       | 3,168,847                                    | 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, 2003**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> |
|--|----------------------------|-------------------------|---------------|---|
| REVENUES:  |                            |                         |               |   |
| Taxes:   |                            |                         |               |   |
| Property   | \$ 7,021,800               | \$ 7,021,800            | \$ 6,863,862  | \$ (157,938)  |
| Franchise taxes  | 313,525                    | 313,525                 | 271,332       | (42,193)  |
| Business license tax   | 500,000                    | 500,000                 | 421,194       | (78,806)  |
| All others   | 390,000                    | 390,000                 | 355,940       | (34,060)  |
| Permits  | 600,000                    | 600,000                 | 592,012       | (7,988)   |
| Intergovernmental  | 695,200                    | 695,200                 | 690,472       | (4,728)   |
| Service charges  | 772,750                    | 772,750                 | 870,101       | 97,351  |
| Fines and forfeitures  | 17,500                     | 17,500                  | 35,024        | 17,524  |
| Investment earnings  | 250,450                    | 250,450                 | 133,155       | (117,295)   |
| Miscellaneous  | 200,600                    | 200,600                 | 235,912       | 35,312  |
| Total Revenues   | 10,761,825                 | 10,761,825              | 10,469,004    | (292,821)   |
| EXPENDITURES:  |                            |                         |               |   |
| Current:   |                            |                         |               |   |
| General government   | 818,620                    | 818,620                 | 654,110       | 164,510   |
| Public safety  | 9,311,222                  | 9,311,222               | 8,974,170     | 337,052   |
| Community services   | 1,994,088                  | 1,994,088               | 1,751,593     | 242,495   |
| Streets  | 1,121,574                  | 1,121,574               | 1,189,495     | (67,921)  |
| Capital outlay   | 1,000                      | 29,100                  | 28,891        | 209   |
| Total Expenditures   | 13,246,504                 | 13,274,604              | 12,598,259    | 676,345   |
| EXCESS (DEFICIENCY) OF REVENUES OVER<br>(UNDER) EXPENDITURES | (2,484,679)                | (2,512,779)             | (2,129,255)   | 383,524   |
| OTHER FINANCING SOURCES (USES):                              |                            |                         |               |   |
| Operating transfers in                                       | 2,761,248                  | 2,761,248               | 2,750,094     | (11,154)  |
| Operating transfers out                                      | (150,000)                  | (150,000)               | (150,000)     | -   |
| Total Other Financing Sources (Uses)                         | 2,611,248                  | 2,611,248               | 2,600,094     | (11,154)  |
| NET CHANGE IN FUND BALANCES                                  | 126,569                    | 98,469                  | 470,839       | 372,370   |
| BEGINNING FUND BALANCES                                      | 6,195,434                  | 6,195,434               | 6,195,434     | -   |
| ENDING FUND BALANCES   | \$ 6,322,003               | \$ 6,293,903            | \$ 6,666,273  | \$ 372,370  |



**Town of Hillsborough**  
**Note to Required Supplementary Information**  
**June 30, 2003**

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, 2003 were \$17,402. 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 is presented as required supplementary information.

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**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.

Police and Fire Special Tax Fund – This fund is used to account for revenues from a Town of Hillsborough voter-approved special tax which proceeds are designated for public safety operations and capital expenditures.

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.



| SPECIAL REVENUE                |            |            |                  |                     |                                   | Total |
|--------------------------------|------------|------------|------------------|---------------------|-----------------------------------|-------|
| Police and Fire<br>Special Tax | Gas<br>Tax | Measure A  | Police<br>Grants | CAPITAL<br>PROJECTS | Nonmajor<br>Governmental<br>Funds |       |
|                                | \$ 131,411 | \$ 296,941 | \$ 155,525       | \$ 992,460          | \$ 1,576,337                      |       |
|                                | 613        | 1,259      | 299              | 4,065               | 6,236                             |       |
|                                | 23,457     | 28,165     |                  |                     | 51,622                            |       |
| \$ -                           | \$ 155,481 | \$ 326,365 | \$ 155,824       | \$ 996,525          | \$ 1,634,195                      |       |
|                                |            |            | \$ 28,897        | \$ 36,102           | 64,999                            |       |
| -                              | -          | -          | 28,897           | 36,102              | 64,999                            |       |
|                                | \$ 155,481 | \$ 326,365 | 126,927          |                     | -                                 |       |
|                                |            |            |                  | 960,423             | 481,846                           |       |
|                                |            |            |                  |                     | 126,927                           |       |
| -                              | 155,481    | 326,365    | 126,927          | 960,423             | 960,423                           |       |
| \$ -                           | \$ 155,481 | \$ 326,365 | \$ 155,824       | \$ 996,525          | \$ 1,634,195                      |       |

47

**TOWN OF HILLSBOROUGH**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | <b>SPECIAL REVENUE</b>                     |                    |                  |                          |                             | <b>Total<br/>Nonmajor<br/>Governmental<br/>Funds</b> |
|---|--|--------------------|------------------|--------------------------|-----------------------------|--|
|   | <b>Police<br/>and Fire<br/>Special Tax</b> | <b>Gas<br/>Tax</b> | <b>Measure A</b> | <b>Police<br/>Grants</b> | <b>CAPITAL<br/>PROJECTS</b> |  |
| REVENUES:                               |  |                    |                  |                          |                             |  |
| Police and fire special tax             | \$ 2,098,084                               |                    |                  |                          |                             | \$ 2,098,084   |
| Intergovernmental                       |  | \$ 219,915         | \$ 339,662       | \$ 118,818               |                             | 678,395  |
| Service charges                         | 135,486                                    |                    |                  |                          |                             | 135,486  |
| Investment earnings                     |  | 4,502              | 6,997            | 2,469                    | \$ 21,183                   | 35,151   |
| Total Revenues                          | 2,233,570                                  | 224,417            | 346,659          | 121,287                  | 21,183                      | 2,947,116  |
| EXPENDITURES:                           |  |                    |                  |                          |                             |  |
| Current:                                |  |                    |                  |                          |                             |  |
| General government                      |  | 9,761              | 5,133            | 465                      | 32,392                      | 47,751   |
| Public safety                           |  |                    |                  | 68,007                   | 466                         | 68,473   |
| Community services                      |  |                    |                  |                          | 6,771                       | 6,771  |
| Public works                            |  |                    |                  |                          | 3,112                       | 3,112  |
| Capital outlay                          |  |                    |                  | 12,084                   | 812,892                     | 824,976  |
| Total Expenditures                      | -  | 9,761              | 5,133            | 80,556                   | 855,633                     | 951,083  |
| EXCESS OF REVENUES OVER<br>EXPENDITURES | 2,233,570                                  | 214,656            | 341,526          | 40,731                   | (834,450)                   | 1,996,033  |
| OTHER FINANCING SOURCES (USES):         |  |                    |                  |                          |                             |  |
| Transfers In                            |  |                    |                  |                          | 350,000                     | 350,000  |
| Transfers Out                           | (2,233,570)                                | (200,000)          | (350,000)        | (41,524)                 |                             | (2,825,094)  |
| Total Other Financing Sources (Uses)    | (2,233,570)                                | (200,000)          | (350,000)        | (41,524)                 | 350,000                     | (2,475,094)  |
| NET CHANGE IN FUND BALANCES             | -  | 14,656             | (8,474)          | (793)                    | (484,450)                   | (479,061)  |
| BEGINNING FUND BALANCES                 |  | 140,825            | 334,839          | 127,720                  | 1,444,873                   | 2,048,257  |
| ENDING FUND BALANCES                    | \$ -                                       | \$ 155,481         | \$ 326,365       | \$ 126,927               | \$ 960,423                  | \$ 1,569,196   |

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



**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, 2003**

|  | <u>Original and<br/>Final Budget</u> | <u>Actual</u>      | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> |
|--|--------------------------------------|--------------------|---|
| REVENUES:  |                                      |                    |   |
| Police and Fire special tax                            | \$ 2,100,233                         | \$ 2,098,084       | \$ (2,149)  |
| Service charges  | 132,000                              | 135,486            | 3,486   |
| Total Revenues   | <u>2,232,233</u>                     | <u>2,233,570</u>   | <u>1,337</u>  |
| EXPENDITURES:  |                                      |                    |   |
| Current:   |                                      |                    |   |
| General Government                                     |                                      |                    |   |
| Public safety  |                                      |                    |   |
| Total Expenditures                                     | <u>-</u>                             | <u>-</u>           | <u>-</u>  |
| EXCESS OF REVENUES OVER EXPENDITURES                   | 2,232,233                            | 2,233,570          | 1,337   |
| OTHER FINANCING USES:                                  |                                      |                    |   |
| Operating Transfers Out                                | <u>(2,232,233)</u>                   | <u>(2,233,570)</u> | <u>(1,337)</u>  |
| EXCESS OF REVENUES OVER EXPENDITURES<br>AND OTHER USES | -                                    | -                  | -   |
| BEGINNING FUND BALANCES                                | <u>-</u>                             | <u>-</u>           | <u>-</u>  |
| ENDING FUND BALANCES                                   | <u>\$ -</u>                          | <u>\$ -</u>        | <u>\$ -</u>   |

**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, 2003**

|  | <u>Original and<br/>Final Budget</u> | <u>Actual</u>     | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> |
|--|--------------------------------------|-------------------|---|
| REVENUES:  |                                      |                   |   |
| Intergovernmental                                      | \$ 223,000                           | \$ 219,915        | \$ (3,085)  |
| Investment earnings                                    | 2,000                                | 4,502             | 2,502   |
| Total Revenues   | <u>225,000</u>                       | <u>224,417</u>    | <u>(583)</u>  |
| EXPENDITURES:  |                                      |                   |   |
| Current:   |                                      |                   |   |
| General Government                                     | <u>-</u>                             | <u>9,761</u>      | <u>(9,761)</u>  |
| Total Expenditures                                     | <u>-</u>                             | <u>9,761</u>      | <u>(9,761)</u>  |
| EXCESS OF REVENUES OVER EXPENDITURES                   | 225,000                              | 214,656           | (10,344)  |
| OTHER FINANCING USES:                                  |                                      |                   |   |
| Operating Transfers Out                                | <u>(200,000)</u>                     | <u>(200,000)</u>  | <u>-</u>  |
| EXCESS OF REVENUES OVER EXPENDITURES<br>AND OTHER USES | 25,000                               | 14,656            | (10,344)  |
| BEGINNING FUND BALANCES                                | <u>140,825</u>                       | <u>140,825</u>    | <u>-</u>  |
| ENDING FUND BALANCES                                   | <u>\$ 165,825</u>                    | <u>\$ 155,481</u> | <u>\$ (10,344)</u>  |

**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, 2003**

|  | <u>Original and<br/>Final Budget</u> | <u>Actual</u> | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> |
|--|--------------------------------------|---------------|---|
| REVENUES:  |                                      |               |   |
| Intergovernmental                                      | \$ 332,000                           | \$ 339,662    | \$ 7,662  |
| Investment earnings                                    | 6,000                                | 6,997         | 997   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| Total Revenues   | 338,000                              | 346,659       | 8,659   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| EXPENDITURES:  |                                      |               |   |
| Current:   |                                      |               |   |
| General Government                                     | -                                    | 5,133         | (5,133)   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| Total Expenditures                                     | -                                    | 5,133         | (5,133)   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| EXCESS OF REVENUES OVER EXPENDITURES                   | 338,000                              | 341,526       | 3,526   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| OTHER FINANCING USES:                                  |                                      |               |   |
| Operating Transfers Out                                | (350,000)                            | (350,000)     | -   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| EXCESS OF REVENUES OVER EXPENDITURES<br>AND OTHER USES | (12,000)                             | (8,474)       | 3,526   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| BEGINNING FUND BALANCES                                | 334,839                              | 334,839       | -   |
|  | <hr/>                                | <hr/>         | <hr/>   |
| ENDING FUND BALANCES                                   | \$ 322,839                           | \$ 326,365    | \$ 3,526  |
|  | <hr/>                                | <hr/>         | <hr/>   |

**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, 2003**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> |
|--|----------------------------|-------------------------|---------------|---|
| REVENUES:  |                            |                         |               |   |
| Intergovernmental                                      | \$ 100,000                 | \$ 100,000              | \$ 118,818    | \$ 18,818   |
| Investment earnings                                    | 2,500                      | 2,500                   | 2,469         | (31)  |
| Total Revenues   | 102,500                    | 102,500                 | 121,287       | 18,787  |
| EXPENDITURES:  |                            |                         |               |   |
| Current:   |                            |                         |               |   |
| General government                                     |                            | 500                     | 465           | 35  |
| Public safety  |                            | 68,010                  | 68,007        | 3   |
| Capital Outlay   |                            | 12,100                  | 12,084        | 16  |
| Total Expenditures                                     | -                          | 80,610                  | 80,556        | 54  |
| EXCESS OF REVENUES OVER EXPENDITURES                   | 102,500                    | 21,890                  | 40,731        | 18,841  |
| OTHER FINANCING USES:                                  |                            |                         |               |   |
| Operating Transfers Out                                | (54,015)                   | (54,015)                | (41,524)      | 12,491  |
| EXCESS OF REVENUES OVER EXPENDITURES<br>AND OTHER USES | 48,485                     | (32,125)                | (793)         | 31,332  |
| BEGINNING FUND BALANCES                                | 127,720                    | 127,720                 | 127,720       | -   |
| ENDING FUND BALANCES                                   | \$ 176,205                 | \$ 95,595               | \$ 126,927    | \$ 31,332   |

**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, 2003**

|   | <u>2003</u>          | <u>2002</u>          |
|---|----------------------|----------------------|
| Governmental funds capital assets:                          |                      |                      |
| Land and improvements                                       | \$ 3,348,541         | \$ 3,352,930         |
| Building and improvements                                   | 2,587,158            | 2,567,777            |
| Machinery and equipment                                     | 2,355,249            | 2,241,330            |
| Infrastructure  | <u>9,160,694</u>     | <u>8,114,189</u>     |
| Total governmental funds capital assets                     | <u>\$ 17,451,642</u> | <u>\$ 16,276,226</u> |
| Investments in governmental funds capital assets by source: |                      |                      |
| General fund  | \$ 1,927,960         | \$ 1,969,207         |
| Special revenue fund  | 49,565               | 9,393                |
| Capital projects funds                                      | 9,399,500            | 859,799              |
| Other - unclassified  | <u>6,074,617</u>     | <u>13,437,827</u>    |
| Total governmental funds capital assets                     | <u>\$ 17,451,642</u> | <u>\$ 16,276,226</u> |

(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, 2003**

| <u>Function and Activity</u>               | <u>Land and<br/>Improvements</u> | <u>Buildings and<br/>Improvements</u> | <u>Machinery<br/>and<br/>Equipment</u> | <u>Infrastructure</u> | <u>Total</u>  |
|--|----------------------------------|---------------------------------------|--|-----------------------|---------------|
| General Government:                        |                                  |                                       |  |                       |               |
| Council                                    | \$                               | \$ 6,155                              | \$ 6,891                               |                       | \$ 13,046     |
| Finance                                    |                                  | -                                     | 75,379                                 |                       | 75,379        |
| General Services                           | 3,348,541                        | 195,409                               | 217,320                                |                       | 3,761,270     |
| Total General Government                   | 3,348,541                        | 201,564                               | 299,590                                | -                     | 3,849,695     |
| Public Safety:                             |                                  |                                       |  |                       |               |
| Police                                     |                                  | 76,075                                | 839,596                                |                       | 915,671       |
| Fire                                       |                                  | 892,846                               | 1,209,308                              |                       | 2,102,154     |
| Total Public Safety                        | -                                | 968,921                               | 2,048,904                              | -                     | 3,017,825     |
| Community Services:                        |                                  |                                       |  |                       |               |
| Building                                   |                                  | 5,980                                 | 6,755                                  |                       | 12,735        |
| Total Community Services                   |                                  | 5,980                                 | 6,755                                  | -                     | 12,735        |
| Public Work:                               |                                  |                                       |  |                       |               |
| Streets                                    |                                  | 1,410,693                             | -                                      | \$ 9,160,694          | 10,571,387    |
| Total Public Work                          |                                  | 1,410,693                             | -                                      | 9,160,694             | 10,571,387    |
| TOTAL GOVERNMENTAL FUNDS<br>CAPITAL ASSETS | \$ 3,348,541                     | \$ 2,587,158                          | \$ 2,355,249                           | \$ 9,160,694          | \$ 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 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, 2003**

|  | <b>Restated<br/>Governmental<br/>Funds Capital<br/>Assets<br/>July 1, 2002</b> | <b>Additions</b>    | <b>Deductions</b> | <b>Governmental<br/>Funds Capital<br/>Assets<br/>June 30, 2003</b> |
|--|--|---------------------|-------------------|--|
| General Government:                            |  |                     |                   |  |
| Council  | \$ 13,046  |                     |                   | \$ 13,046  |
| Finance  | 75,379   |                     |                   | 75,379   |
| General Services                               | 3,703,145  | \$ 58,125           |                   | 3,761,270  |
| Total General Government                       | 3,791,570  | 58,125              | -                 | 3,849,695  |
| Public Safety:                                 |  |                     |                   |  |
| Police   | 888,812  | 68,910              | \$ 42,051         | 915,671  |
| Fire   | 2,058,227  | 43,927              |                   | 2,102,154  |
| Total Public Safety                            | 2,947,039  | 112,837             | 42,051            | 3,017,825  |
| Community Services:                            |  |                     |                   |  |
| Building                                       | 12,735   |                     |                   | 12,735   |
| Total Community Services                       | 12,735   | -                   | -                 | 12,735   |
| Public Work:                                   |  |                     |                   |  |
| Engineering                                    | -  |                     |                   | -  |
| Streets  | 9,524,882  | 1,046,505           |                   | 10,571,387   |
| Total Public Work                              | 9,524,882  | 1,046,505           | -                 | 10,571,387   |
| <b>TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS</b> | <b>\$ 16,276,226</b>   | <b>\$ 1,217,467</b> | <b>\$ 42,051</b>  | <b>\$ 17,451,642</b>   |

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

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## **STATISTICAL SECTION**



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

| <b>Fiscal<br/>Year</b> | <b>Total</b> | <b>General<br/>Government</b> | <b>Public<br/>Safety</b> | <b>Community<br/>Services</b> | <b>Streets</b> | <b>Interest on<br/>Long-term<br/>Debt</b> | <b>Water</b> | <b>Sewer</b> |
|------------------------|--------------|-------------------------------|--------------------------|-------------------------------|----------------|---|--------------|--------------|
| 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    |

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)**

| Fiscal<br>Year | PROGRAM REVENUES        |  |   | GENERAL REVENUES |   |  |                    | Total         |
|----------------|-------------------------|--|---|------------------|---|--|--------------------|---------------|
|                | Charges for<br>Services | Operating<br>Grants &<br>Functional<br>Taxes | Capital<br>Grants &<br>Contri-<br>butions | Taxes            | Grants &<br>Contributions<br>Not<br>Restricted<br>to Specific<br>Programs | Unrestricted<br>Investment<br>Earnings | Miscel-<br>laneous |               |
| 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    |

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**

| <b>Fiscal<br/>Year</b> | <b>Total</b> | <b>General<br/>Government</b> | <b>Public<br/>Safety</b> | <b>Community<br/>Services</b> | <b>Public<br/>Works</b> | <b>Capital<br/>Outlay</b> |
|------------------------|--------------|-------------------------------|--------------------------|-------------------------------|-------------------------|---------------------------|
| 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                   |

(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**

| <b>Fiscal<br/>Year</b> | <b>Total</b> | <b>Taxes</b> | <b>Licenses &amp;<br/>Permits</b> | <b>Intergovern-<br/>mental</b> | <b>Charges<br/>for Services</b> | <b>Miscel-<br/>laneous</b> |
|------------------------|--------------|--------------|-----------------------------------|--------------------------------|---------------------------------|----------------------------|
| 1993-94                | \$ 7,862,623 | \$ 5,598,181 | \$ 277,720                        | \$ 953,522                     | \$ 343,608                      | \$ 689,592                 |
| 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                    |

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



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

| <b>Fiscal<br/>Year</b> | <b>Property<br/>Tax</b> | <b>Sales<br/>Tax</b> | <b>Franchise<br/>Tax</b> | <b>Vehicle<br/>License<br/>Fee</b> | <b>Business<br/>License<br/>Tax</b> | <b>Property<br/>Transfer<br/>Tax</b> | <b>General<br/>Fund<br/>Tax</b> | <b>Total</b> |
|------------------------|-------------------------|----------------------|--------------------------|------------------------------------|-------------------------------------|--------------------------------------|---------------------------------|--------------|
| 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                              | 20,415                          | 6,154,298    |
| 1999-00                | 5,170,249               | 82,528               | 219,642                  | 566,017                            | 601,303                             | 351,841                              | 4,982                           | 6,996,562    |
| 2000-01                | 5,700,371               | 86,678               | 267,610                  | 608,087                            | 598,293                             | 262,445                              |                                 | 7,523,484    |
| 2001-02                | 6,713,362               | 79,288               | 302,034                  | 603,700                            | 559,221                             | 219,770                              |                                 | 8,477,375    |
| 2002-03                | 6,863,862               | 70,267               | 271,332                  | 650,556                            | 421,194                             | 200,621                              |                                 | 8,477,832    |

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 FIVE FISCAL YEARS (2)**

| <u>Fiscal<br/>Year</u> | <u>Secured</u> | <u>Unsecured</u> | <u>HOPTR</u> | <u>Unitary</u> | <u>Educational<br/>Revenue<br/>Augmentation<br/>Fund<br/>(ERAF) Shift</u> | <u>Total</u> | <u>Amount<br/>Received (3)</u> | <u>Percent<br/>Received</u> |
|------------------------|----------------|------------------|--------------|----------------|---|--------------|--------------------------------|-----------------------------|
| 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%                      |

(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**

| <u>Fiscal<br/>Year</u> | <u>Secured</u>          |                           |                       | <u>Unsecured</u> | <u>Total</u>    | <u>% of<br/>Change</u> |
|------------------------|-------------------------|---------------------------|-----------------------|------------------|-----------------|------------------------|
|                        | <u>Gross<br/>Values</u> | <u>Exemptions<br/>(1)</u> | <u>Net<br/>Values</u> |                  |                 |                        |
| 1993-94                | \$ 2,306,311,053        | \$ 8,438,258              | \$ 2,297,872,795      | \$ 3,712,440     | \$2,301,585,235 | 5%                     |
| 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%                     |

(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 2002-2003**

| <u>Category</u> | <u>No of<br/>Parcels</u> | <u>Assessed<br/>Value</u> | <u>% to<br/>Total</u> | <u>Net Taxable<br/>Value</u> |
|-----------------|--------------------------|---------------------------|-----------------------|------------------------------|
| Residential     | 3,843                    | \$ 4,157,343,462          | 97.4%                 | \$ 4,154,171,050             |
| Exempt          | 68                       |                           | 0.0%                  |                              |
| Recreational    | 7                        | 4,674,416                 | 0.1%                  | 4,674,416                    |
| Institutional   | 1                        | 9,035,466                 | 0.2%                  |                              |
| Vacant          | 133                      | 65,753,276                | 1.5%                  | 65,753,276                   |
| Miscellaneous   | 13                       | 914,245                   | 0.0%                  | 914,245                      |
| Unknown         | 14                       | 27,281,162                | 0.6%                  | 19,431,443                   |
| Unsecured       |                          | 4,467,860                 | 0.1%                  | 4,467,860                    |
|                 | <u>4,079</u>             | <u>\$ 4,269,469,887</u>   | <u>100.0%</u>         | <u>\$ 4,249,412,290</u>      |

Source: San Mateo County Assessor's Office

**TOWN OF HILLSBOROUGH  
COMPUTATION OF LEGAL DEBT MARGIN  
June 30, 2003**

|                                      |                         |
|--------------------------------------|-------------------------|
| Assessed Valuation                   | <u>\$ 4,249,240,206</u> |
| Debt Limit (3.75% of Assessed Value) | \$ 159,346,508          |
| Debt Subject To Limit                | -                       |
| Legal Debt Margin                    | <u>\$ 159,346,508</u>   |

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

**TOWN OF HILLSBOROUGH  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
June 30, 2003**

| <u>Jurisdiction</u>   | <u>Applicable<br/>Percentage</u> | <u>6/30/2003<br/>Debt</u> |
|---|----------------------------------|---------------------------|
| DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:                               |                                  |                           |
| San Mateo Union High School District  | 13.142%                          | \$ 14,401,812             |
| San Mateo Community College District  | 4.894%                           | 4,741,093                 |
| Hillsborough School District  | 99.885%                          | 13,484,475                |
| Burlingame School District  | 0.026%                           | 4,525                     |
| San Mateo-Foster City School District   | 0.539%                           | 560,206                   |
| Town of Hillsborough  |                                  | -                         |
| Total Direct and Overlapping Tax and Assessment Debt                          |                                  | <u>33,192,111</u>         |
| OVERLAPPING GENERAL FUND OBLIGATION DEBT:                                     |                                  |                           |
| San Mateo County General Fund Obligations                                     | 4.894%                           | 13,404,349                |
| San Mateo County Board of Education Certificates of Participation             | 4.894%                           | 242,742                   |
| San Mateo County Mosquito Abatement District<br>Certificates of Participation | 6.705%                           | <u>127,730</u>            |
| Total Gross Overlapping General Fund Obligation Debt                          |                                  | <u>13,774,821</u>         |
| Combined Total Debt   |                                  | <u>\$ 46,966,932 (1)</u>  |
| RATIOS TO ASSESSED VALUATION:   |                                  |                           |
| Direct Debt   |                                  | -                         |
| Total Overlapping Tax and Assessment Debt                                     |                                  | 0.78%                     |
| Combined Total Debt   |                                  | 1.11%                     |

(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**

| <u>Residential Construction</u> |   |               |                        |
|---------------------------------|---|---------------|------------------------|
| <u>Fiscal<br/>Year</u>          | <u>Number of<br/>Building<br/>Permits</u> | <u>Value</u>  | <u>% of<br/>Change</u> |
| 1993-94                         | 761                                       | \$ 31,235,002 | 18%                    |
| 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%                   |

Source: Town of Hillsborough Building Department

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

| <b><u>Fiscal Year</u></b> | <b>Countywide<br/><u>Tax</u></b> | <b><u>Schools</u></b> | <b><u>Total</u></b> |
|---------------------------|----------------------------------|-----------------------|---------------------|
| 93/94                     | 1.0000                           |                       | 1.0000              |
| 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 2001-02**

| <b>Taxpayer</b>                  | <b>No of<br/>Parcels</b> | <b>Assessed<br/>Value</b> | <b>% of Total<br/>Assessed<br/>Valuation</b> |
|----------------------------------|--------------------------|---------------------------|--|
| James G. B. De Martini III Trust | 5                        | \$ 38,678,298             | 0.91%  |
| Terence J. Garnett               | 2                        | 20,042,092                | 0.47%  |
| Val E. Vaden Trust               | 3                        | 18,253,603                | 0.43%  |
| Otto J. Miller                   | 7                        | 16,885,130                | 0.40%  |
| Stonebridge Partners LLC         | 5                        | 12,484,793                | 0.29%  |
| Amati LLC                        | 2                        | 12,194,240                | 0.29%  |
| Roland Van Der Meer Trust        | 2                        | 10,098,000                | 0.24%  |
| Nueva Day School                 | 1                        | 9,035,466                 | 0.21%  |
| Charles M. Parrish               | 2                        | 8,843,400                 | 0.21%  |
| Rupert H. Johnson Jr.            | 1                        | 8,728,616                 | 0.20%  |
|                                  | <u>30</u>                | <u>\$ 155,243,638</u>     | <u>3.64%</u>                                 |

(1) All residential properties

Source: HdL Coren & Cone, San Mateo County Assessor 2000-01 Combined Tax Rolls

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

| <u>Fiscal<br/>Year</u> | <u>Water<br/>Sales</u> | <u>Meter<br/>Charges</u> | <u>Sewer<br/>Charges</u> | <u>Total</u> | <u>% of<br/>Change</u> |
|------------------------|------------------------|--------------------------|--------------------------|--------------|------------------------|
| 1993-94                | \$ 2,595,184           | \$ 265,549               | \$ 1,479,286             | \$ 4,340,019 | 14%                    |
| 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%                    |

Source: Town's Finance Department

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

| <u>Fiscal<br/>Year</u> | <u>Water (2)</u>  |                    | <u>Sewer</u>       |                    |
|------------------------|-------------------|--------------------|--------------------|--------------------|
|                        | <u>0-50 units</u> | <u>% of Change</u> | <u>Residential</u> | <u>% of Change</u> |
| 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 Projected      | 3.33              | 5%                 | 1,324.00           | 10%                |
| 2005-06 Projected      | 3.50              | 5%                 | 1,456.00           | 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 2002-2003**

| <b><u>Customer</u></b>       | <b><u>Consumption<br/>(Units) (1)</u></b> | <b><u>Revenue</u></b> | <b><u>% of<br/>Revenues (2)</u></b> |
|------------------------------|---|-----------------------|-------------------------------------|
| Burlingame Country Club      | 7,803                                     | \$ 32,079             | 0.601%                              |
| Crystal Springs School       | 5,437                                     | 23,424                | 0.439%                              |
| Nueva School                 | 4,636                                     | 20,421                | 0.382%                              |
| Robert MacDonnell            | 4,141                                     | 18,504                | 0.346%                              |
| Sam J. Bamieh                | 4,021                                     | 17,384                | 0.325%                              |
| Lillian L. Howell            | 3,338                                     | 15,736                | 0.295%                              |
| Hillsborough School District | 4,275                                     | 12,312                | 0.230%                              |
| West School                  | 4,178                                     | 12,033                | 0.225%                              |
| Judy Swanson                 | 2,937                                     | 11,945                | 0.224%                              |
| Lillian Schuman              | 2,393                                     | 11,227                | 0.210%                              |
|                              | <u>43,159</u>                             | <u>\$ 175,065</u>     | <u>3.277%</u>                       |

(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 2002-2003**

| <u>Customer</u>               | <u>Revenue</u> | <u>% of<br/>Revenues (1)</u> |
|-------------------------------|----------------|------------------------------|
| Hillsborough School District  | \$ 8,565       | 0.239%                       |
| Burlingame Country Club       | 7,091          | 0.198%                       |
| Crystal Springs Upland School | 5,668          | 0.158%                       |
| Crystal Springs Golf Club     | 5,596          | 0.156%                       |
| Caltrans Rest Stop            | 4,864          | 0.135%                       |
| Nueva School                  | 3,050          | 0.085%                       |
| Hillsborough Racquet Club     | 732            | 0.020%                       |
|                               | <hr/>          | <hr/>                        |
|                               | \$ 35,566      | 0.991%                       |
|                               | <hr/>          | <hr/>                        |

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

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

| <b><u>Fiscal<br/>Year</u></b> | <b><u>Revenues</u></b> | <b><u>Expenses<br/>(2)</u></b> | <b><u>Net Revenues<br/>Available for<br/>Debt Service</u></b> | <b><u>Principal</u></b> | <b><u>Interest &amp;<br/>Fiscal<br/>Charges</u></b> | <b><u>Total<br/>Debt<br/>Service</u></b> | <b><u>Coverage</u></b> |
|-------------------------------|------------------------|--------------------------------|---|-------------------------|---|--|------------------------|
| 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                   |

(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, 2003**

| <u>Description/Carrier</u>  | <u>Coverage</u>   | <u>Policy Number</u> | <u>Expiration Date</u> |
|---|---|----------------------|------------------------|
| <b>General, Automobile &amp; Public Officials (E &amp; O) Liability</b>                           |   |                      |                        |
| Self-Insured Retention  | \$ 50,000   | Thru the ABAG        | 7/1/2004               |
| PLAN's coverage   | 5,000,000   | PLAN Pool            |                        |
| PLAN's excess coverage  | 5,000,000   |                      |                        |
| Total   | <u>\$ 10,050,000</u>  |                      |                        |
| <b>Employment Practices Liability</b>   |   |                      |                        |
| Self-Insured Retention  | \$ 100,000  | FD043050S            | 7/1/2004               |
| Excess Insurance  | 5,000,000   |                      |                        |
| Total   | <u>\$ 5,100,000</u>   |                      |                        |
| Lloyds, London  |   |                      |                        |
| <b>Boiler &amp; Machinery</b>   |   |                      |                        |
| Deductible  | \$ 5,000  | Thru the ABAG        | 7/1/2004               |
| Limits  | As specified  | PLAN Pool            |                        |
| <b>Earthquake-Difference in Conditions</b>  |   |                      |                        |
| Deductible  | 15% of total value  | ESX351726            | 1/24/2004              |
|   | \$25,000 MIN  |                      |                        |
| Limits  | \$ 10,000,000   |                      |                        |
| Essex Insurance Company   |   |                      |                        |
| <b>Commercial Property, Including Automobile Physical-Damage - Excluding Flood and Earthquake</b> |   | Thru the ABAG        | 7/1/2004               |
| Deductible  | \$ 5,000  | PLAN Pool            |                        |
| Limits  | As specified  |                      |                        |
| <b>Worker's Compensation (through The Cities Group)</b>   |   |                      |                        |
| SIR   | \$ 250,000  | P-0625               |                        |
| Excess Insurance  | 6,100,000   | JPA Reg.             |                        |
| Total   | <u>\$ 6,350,000</u>   | DIR 4-0456           |                        |
| <b>Group Insurance Benefits:</b>  |   |                      |                        |
| Medical Insurance   | CalPERS Health Plans  |                      | open-ended             |
| Dental Insurance and Vision Insurance   | Teamsters Union Local #856<br>Health and Welfare Fund - Police<br>Cities Group - Fire, Miscellaneous<br>and Unrepresented Employees |                      | open-ended             |
| Life Insurance  | Cities Group  |                      |                        |
| Long-Term Disability  | Cities Group  |                      |                        |

Source: Town's Finance Department

**TOWN OF HILLSBOROUGH  
MISCELLANEOUS STATISTICS  
JUNE 30, 2003**

|  |  |
|--|--|
| 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                                       | 10,825   |
| 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                     | 118.75   |
| POLICE:  |  |
| Number of Station                                | 1  |
| Number of Sworn Personnel                        | 27   |
| FIRE:  |  |
| Number of Fire Stations                          | 3  |
| Number of Fire Protection Personnel              | 35   |
| WATER ENTERPRISE:                                |  |
| Number of accounts                               | 4,177  |
| Average units of daily consumption               | 4,407  |
| Miles of water mains                             | 97.4   |
| Number of water tanks and distribution reservoir | 17 tanks/1 reservoir   |
| SEWER ENTERPRISE:                                |  |
| Number of accounts                               | 3,892  |
| 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:<br>North Hillsborough Elementary<br>South Hillsborough Elementary<br>West Hillsborough Elementary<br>Middle School:<br>Crocker Middle School |
| Private Schools                                  | Nueva Learning Center - Preschool, Kindergarten through Grade 8<br>Crystal Springs Upland School - Grades 6 through 12                                   |

Source: Town's Finance Department