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

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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 form material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Hillsborough's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Hillsborough for the fiscal year ended June 30, 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

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

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

The Town currently has a land area of approximately 6.23 square miles and a population of 10,825. 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.

President

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.

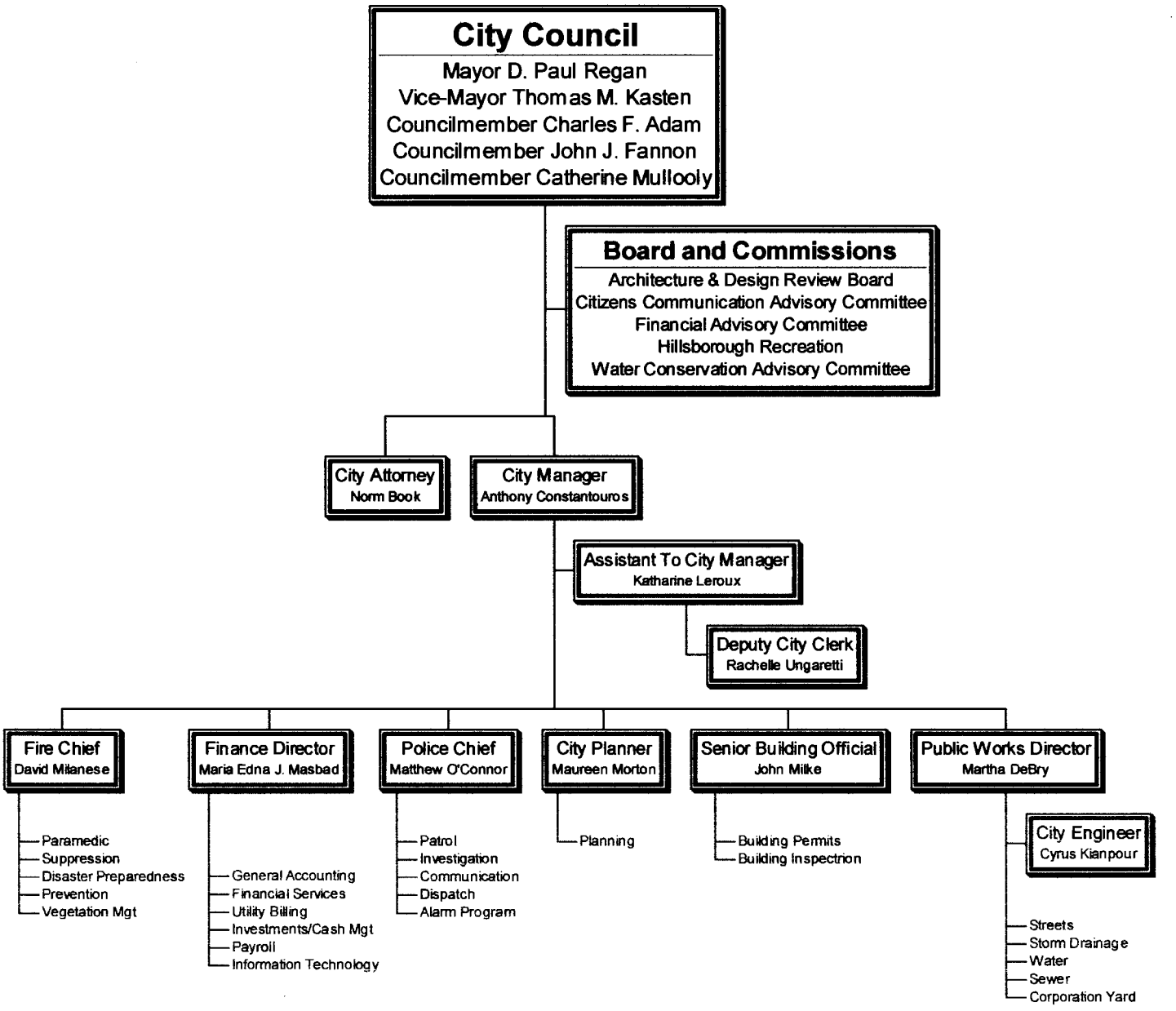
February 24, 2003

Brent M Plumlee

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

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Town Council
Town of Hillsborough
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.

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FRESNO • LAGUNA HILLS • PLEASANTON • RANCHO CUCAMONGA • SAN JOSE

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.

Vavrinek, 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 of objectives. The Town of Hillsborough, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Hillsborough can be divided into two categories: governmental funds and proprietary funds.

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

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

The Town maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund 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

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
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
Net assets:						
Invested in capital assets, 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

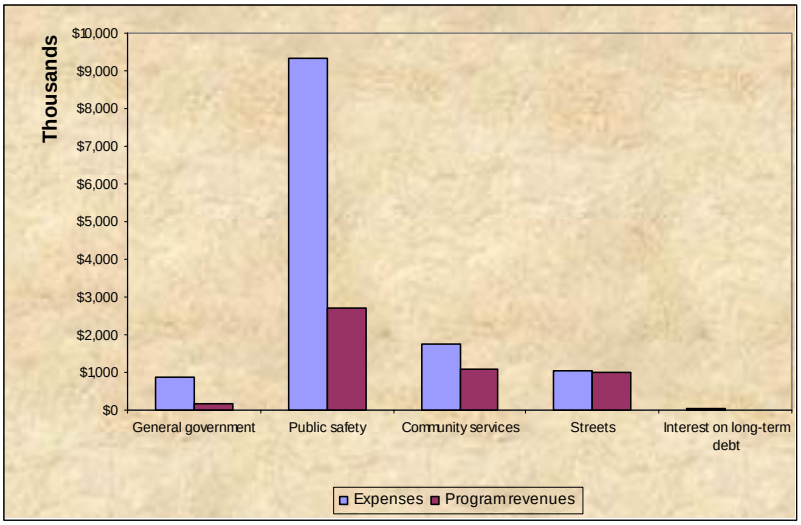
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
REVENUES						
Program revenues:						
Charges for services	$ 1,686,492	$ 1,787,562	$ 9,402,007	$ 8,828,493	$11,088,499	$10,616,055
Operating grants and Functional taxes	2,889,847	2,782,366			2,889,847	2,782,366
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
EXPENSES						
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.

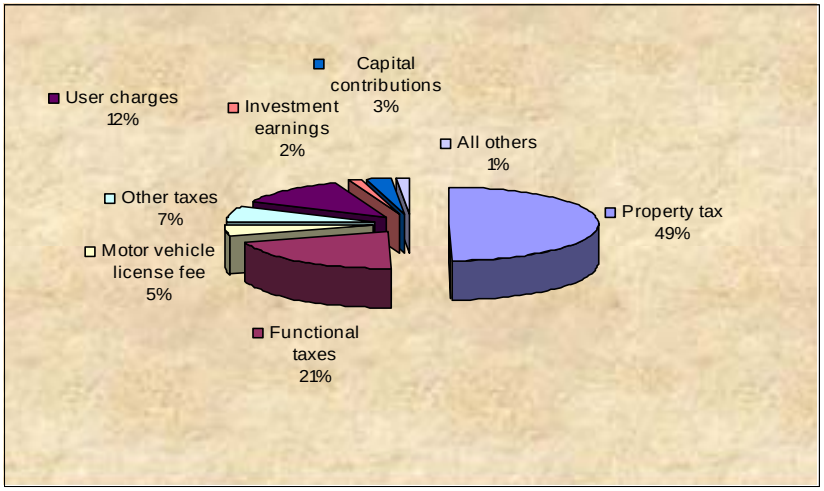
The graph below breaks down expenses by function and compares them to corresponding program revenues.

Expenses and Program Revenues – Governmental Activities



The following breaks down revenues by source.

Revenues by Source – Governmental Activities

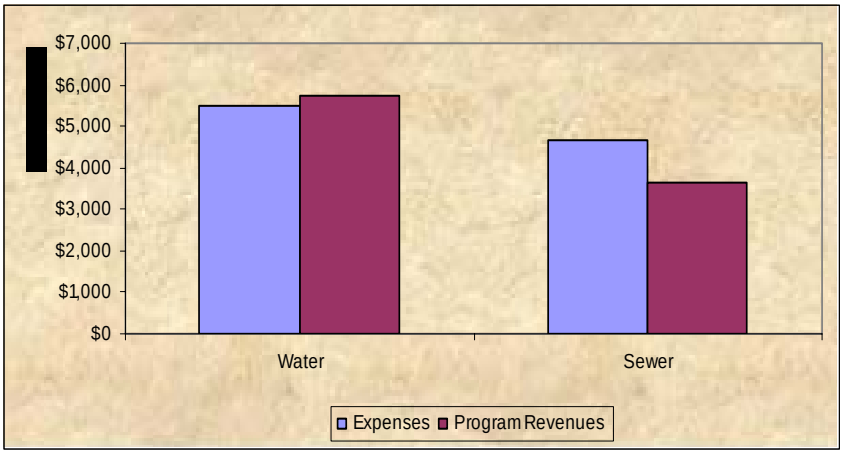


Business-type activities. There is a slight increase of $75,019 in net assets in the business-type activities of the Town. Highlights of the activities are as follows:

- 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)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
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
Total	$ 9,470,935	$ 8,041,150	$34,084,058	$32,415,990	$43,554,993	$40,457,140

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)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	F2003	2002	2003	2002
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
Total	$781,022	$ 57,213	$14,600,000	$14,800,000	$15,381,022	$14,857,213

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
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
Prepaids		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	21,347,447	44,330,203	65,677,650
LIABILITIES			
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	3,267,268	15,613,196	18,880,464
NET ASSETS			
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	$ 18,080,179	$ 28,717,007	$ 46,797,186

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	Expenses	Charges for Services	Operating Grants and Functional Taxes	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities	Net (Expense) Revenues and Changes in Net Assets: Business-type Activities	Net (Expense) Revenues and Changes in Net Assets: Total
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

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
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
Prepaids	4,548		4,548
Total Assets	$ 8,033,602	$ 1,634,195	$ 9,667,797
LIABILITIES AND FUND BALANCES			
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
Total Liabilities	1,367,329	64,999	1,432,328
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	$ 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.	(937,105)
Net assets of governmental activities	$ 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

	General	Other Governmental Funds	Total Governmental Funds
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 (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)	$	789,076

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

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Water		Sewer		Total	Internal Service
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Fund
ASSETS						
Current Assets:						
Cash and investments:						
Town Treasury	$ 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 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
Prepaids	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 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 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
LIABILITIES						
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
NET ASSETS						
Invested in capital assets, net of 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	$ 28,717,007

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

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Water		Sewer		Total	Internal Service
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Fund
OPERATING REVENUES:						
Sale of water	$ 5,341,433	$ 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

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Water		Sewer		Total	
	Current Year	Prior Year	Current Year	Prior Year	Current Year	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 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
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer to other funds						(125,000)
Net cash used by noncapital financing activities	-	-	-	-	-	(125,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
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 and related financing activities	(685,259)	262,754	(2,533,941)	(3,572,036)	(3,219,200)	(100,971)
CASH FLOWS FROM INVESTING ACTIVITIES						
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 and $8,089 for the water and sewer funds, respectively, reported in restricted accounts	$ 7,156,877	$ 6,406,239	$ 760,145	$ 3,955,216	$ 7,917,022	$ 2,392,430
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ 281,808	$ 499,672	$ (748,630)	$ 195,722	$ (466,822)	$ 463,401
Adjustments to reconcile operating income to net 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 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
Noncash investing, capital and financing activities:						
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

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 increased 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:

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

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 *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$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 *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$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 *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	($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
Total	$19,487,363

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 nay 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	Bank Balance		
	Amount	Category 1	Category 2	Total
Federally insured deposits	$254,352	$117,157		$117,157
Uninsured by collateralized deposits			$563,484	563,484
Total	$254,352	$117,157	$563,484	$680,641

Investments are categorized into these three categories of credit risk:

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

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

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

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

Interest earned	$412,401
Net change in fair market value	(3,849)
Total	$408,552

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
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 Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
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:

Governmental Activities:	
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
Business-type Activities:	
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 In		
Transfer Out	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
Governmental activities:					
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
Business-type activities:					
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 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

Liabilities:			
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
Net assets:			
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
TOTAL NET ASSETS	$18,779,801	$ 9,743,576	$28,523,377

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

	WATER	SEWER	TOTAL
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)
Nonoperating revenues (expenses):			
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
ENDING NET ASSETS	$18,779,801	$ 9,743,576	$28,523,377

CONDENSED STATEMENT OF CASH FLOWS

	WATER	SEWER	TOTAL
Net cash provided (used) by:			
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
ENDING CASH AND CASH EQUIVALENTS	$ 7,156,877	$ 760,145	$ 7,917,022

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 agreements 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 6/30/02	Restated Balance 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:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	55
Monthly benefits, as a % of annual salary	2% - 2.7%	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 unfounded liability may not be lower than the payment calculated over a 30-year amortization period.

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

	Fiscal Year Ending	Annual Pension Cost	Percentage Of APC Contributed	Net Pension Obligation
Miscellaneous	6/30/01	$ - 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

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (b)	Overfunded (Unfunded) Liability (a) - (b)	Funded Status (b) / (a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a)-(b)]/(c)
PUBLIC SAFETY:						
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

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
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 (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.

TOWN OF HILLSBOROUGH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003

	SPECIAL REVENUE					
	Police and Fire Special Tax	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments:						
Town Treasury		$ 131,411	$ 296,941	$ 155,525	$ 992,460	$ 1,576,337
Interest receivable		613	1,259	299	4,065	6,236
Due from other governments		23,457	28,165			51,622
Total Assets	$ -	$ 155,481	$ 326,365	$ 155,824	$ 996,525	$ 1,634,195
LIABILITIES						
Accounts payable				$ 28,897	$ 36,102	$ 64,999
Total Liabilities	-	-	-	28,897	36,102	64,999
FUND BALANCES						
Unreserved -						-
Designated for streets		$ 155,481	$ 326,365			481,846
Designated for public safety				126,927		126,927
Designated for capital improvement plan					960,423	960,423
Total Fund Balances	-	155,481	326,365	126,927	960,423	1,569,196
Total Liabilities & Fund Balances	$ -	$ 155,481	$ 326,365	$ 155,824	$ 996,525	$ 1,634,195

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

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

	SPECIAL REVENUE					
	Police and Fire Special Tax	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
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 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

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

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

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

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

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

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

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
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 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

	2003	2002
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	9,160,694	8,114,189
Total governmental funds capital assets	$ 17,451,642	$ 16,276,226
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	6,074,617	13,437,827
Total governmental funds capital assets	$ 17,451,642	$ 16,276,226

(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

Function and Activity	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Infrastructure	Total
General Government:					
Council	$	$ 6,155	$ 6,891		$ 13,046
Finance		-	75,379		75,379
General Services	3,348,541	195,409	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 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

	Restated Governmental Funds Capital Assets July 1, 2002	Additions	Deductions	Governmental Funds Capital Assets June 30, 2003
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
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 16,276,226	$ 1,217,467	$ 42,051	$ 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.

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STATISTICAL SECTION

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

Fiscal Year	Total	General Government	Public Safety	Community Services	Streets	Interest on Long-term Debt	Water	Sewer
2001-02	$20,341,969	$ 664,416	$ 8,770,939	$ 1,706,523	$ 1,066,992	$ -	$4,780,576	$ 3,352,523
2002-03	23,192,117	861,208	9,332,715	1,757,876	1,057,967	35,070	5,486,503	4,660,778

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

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

	PROGRAM REVENUES			GENERAL REVENUES				
Fiscal Year	Charges for Services	Operating Grants & Functional Taxes	Capital Grants & Contri-butions	Taxes	Grants & Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscel-laneous	Total
2001-02	$ 10,616,055	$ 2,782,366	$ -	$ 8,477,375	$ -	$ 647,790	$ 192,779	$ 22,716,365
2002-03	11,088,499	2,889,847	991,800	8,477,832	-	408,552	199,682	24,056,212

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

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

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

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

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

Fiscal Year	Total	Taxes	Licenses & Permits	Intergovern-mental	Charges for Services	Miscel-laneous
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)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Vehicle License Fee	Business License Tax	Property Transfer Tax	General Fund Tax	Total
1995-96	$ 3,854,742	$ 59,743	$ 158,179	$ 417,257	$ 299,385	$ 117,490	$ 1,408,696	$ 6,315,492
1996-97	4,028,505	48,962	165,963	437,378	340,753	185,556	1,417,666	6,624,783
1997-98	4,268,819	60,817	209,009	469,236	355,201	192,911	1,420,926	6,976,919
1998-99	4,640,000	69,272	182,140	513,799	524,770	203,902	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)

Fiscal Year	Secured	Unsecured	HOPTR	Unitary	Educational Revenue Augmentation Fund (ERAF) Shift	Total	Amount Received (3)	Percent Received
1998-99	$ 4,595,065	$ 572,618	$ 77,131	$ 88,773	$ (762,978)	$ 4,570,609	$ 4,602,635	100.16%
1999-00	5,034,587	601,603	77,418	93,614	(831,188)	4,976,034	5,028,318	99.88%
2000-01	5,564,809	703,374	77,289	47,688	(919,728)	5,473,432	5,461,414	98.14%
2001-02	6,381,400	804,156	80,764	52,336	(1,052,665)	6,265,991	6,243,446	97.84%
2002-03	6,869,562	803,356	77,357	50,977	(1,122,773)	6,678,479	6,575,434	95.72%

(1) Town gets approximately $0.187 per dollar of property tax.
(2) Information from fiscal years 93-94 through 97-98 were not available and hence not included in this report.
(3) Receipts exclude supplemental taxes
Source: San Mateo County Assessor's Office

TOWN OF HILLSBOROUGH
ASSESSED VALUES OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year		Secured Gross Values	Secured Exemptions (1)	Secured Net Values	Unsecured	Total	% of Change
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

Category	No of Parcels	Assessed Value	% to Total	Net Taxable Value
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
	4,079	$ 4,269,469,887	100.0%	$ 4,249,412,290

Source: San Mateo County Assessor's Office

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

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

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

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

Jurisdiction	Applicable Percentage	6/30/2003 Debt
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		33,192,111
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		
Certificates of Participation	6.705%	127,730
Total Gross Overlapping General Fund Obligation Debt		13,774,821
Combined Total Debt		$ 46,966,932 (1)
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

	Residential Construction		
Fiscal Year	Number of Building Permits	Value	% of Change
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

Fiscal Year	Countywide Tax	Schools	Total
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

Taxpayer	No of Parcels	Assessed Value	% of Total Assessed Valuation
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%
	30	$ 155,243,638	3.64%

(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

Fiscal Year	Water Sales	Meter Charges	Sewer Charges	Total	% of Change
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)

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

Customer	Consumption (Units) (1)	Revenue	% of Revenues (2)
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%
	43,159	$ 175,065	3.277%

(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

Customer	Revenue	% of Revenues (1)
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%
	$ 35,566	0.991%

(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)

Fiscal Year	Revenues		Expenses (2)	Net Revenues Available for Debt Service	Principal	Interest & Fiscal Charges	Total Debt Service		Coverage
1995-96	$ 5,245,243		$ 4,044,434	$ 1,200,809	$ 160,000	$ 247,683	$ 407,683		$ 2.95
1996-97	5,714,241		4,082,550	1,631,691	165,000	212,799	377,799		4.32
1997-98	5,334,576		4,058,180	1,276,396	210,000	387,958	597,958	(3)	2.13
1998-99	5,658,517		4,766,523	891,994	265,000	205,863	470,863		1.89
1999-00	6,868,488		6,196,925	671,563	190,000	336,464	526,464	(3)	1.28
2000-01	7,851,628		6,317,162	1,534,466	100,000	675,282	775,282		1.98
2001-02	9,050,527	(4)	6,244,046	2,806,481	100,000	441,912	541,912		5.18
2002-03	9,594,100		7,915,619	1,678,481	200,000	472,082	672,082		2.50

(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

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

Source: Town's Finance Department

TOWN OF HILLSBOROUGH
MISCELLANEOUS STATISTICS
JUNE 30, 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: North Hillsborough Elementary South Hillsborough Elementary West Hillsborough Elementary Middle School: Crocker Middle School
Private Schools	Nueva Learning Center - Preschool, Kindergarten through Grade 8 Crystal Springs Upland School - Grades 6 through 12

Source: Town's Finance Department