



City of Millbrae California

Comprehensive Annual Financial Report



For the year ended
June 30, 2005

CITY OF MILLBRAE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005

Prepared by
FINANCE DIVISION,
DEPARTMENT OF GENERAL SERVICES

CITY OF MILLBRAE

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City of Millbrae

621 Magnolia Avenue, Millbrae, CA 94030

MARC HERSHMAN
Mayor
DANIEL F. QUIGG
Vice Mayor
ROBERT G. GOTTSCHALK
Councilman
NADIA V. HOLOBER
Councilwoman
LINDA T. LARSON
Councilwoman
MARY VELLA TRESELER
Treasurer

November 14, 2005

Honorable Mayor and Members of the City Council
City of Millbrae
621 Magnolia Avenue
Millbrae, CA 94030

Dear Mayor and Council Members:

The comprehensive annual financial report of the City of Millbrae for the year ended June 30, 2005, is hereby submitted as mandated by local ordinances and state statutes. These ordinances and statutes require that the City of Millbrae issue annually a report on its financial position and activity, which is required to be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results or operations of the various funds and component units of the City of Millbrae. All disclosures necessary to enable the reader to gain an understanding of the City of Millbrae's activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section, which is un-audited, includes this letter of transmittal, an organizational chart and a list of the City of Millbrae's principal elected and appointed officials. The financial section includes management discussion and analysis, the basic financial statements, required supplemental information and the combining financial statements for non-major funds, as well as the independent auditor's report on these financial statements. The statistical section, which is un-audited, includes selected financial and demographic information, generally presented on a multi-year basis.

The City of Millbrae is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Information related to this single audit, including a schedule of federal expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in a separately issued single audit report. Since the aggregate amount of federal financial assistance is less than \$300,000, the City is not subject to a Single Audit this year.

City Council/City Manager (650) 259-2334	City Clerk (650) 259-2334	Public Works/Engineering (650) 259-2339	Parks/Recreation (650) 259-2360	Police Department (650) 259-2300
Personnel (650) 259-2334	Finance/Water (650) 259-2350	Community Development (650) 259-2341	Building Division (650) 259-2330	Fire Department (650) 259-2400

Honorable Mayor, City Council Members and Citizens of the City of Millbrae
November 14, 2005
Page Two

The financial reporting entity (the government) includes all the funds of the primary government (i.e., the City of Millbrae as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of services including police and fire protection; sanitation and water services; the construction and maintenance of highways, streets and infrastructure; recreational activities and cultural events.

Although the blended component units are legally separate entities, they are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Millbrae Redevelopment Agency (RDA) is reported as funds of the primary government in the Special Revenue, Capital Project, and Debt Service.

Included as a part of this letter are several attachments, which provide important information regarding the operations, economic environment and financial position of the City. The attachments are:

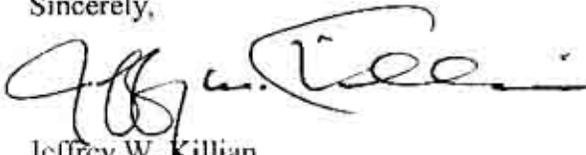
<u>Attachment</u>	<u>Content</u>
A	Governmental Structure, Local Economic Condition and Outlook
B	Major Initiatives for the Year
C	Financial Information
D	Other Information

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire Finance Division staff and the Maze & Associates auditing staff. Each member of Finance and the audit team has our appreciation for the contributions made in the preparation of this report.

We also express special appreciation to Financial Services Manager Christine Ma, whose dedication and managing skills made it possible for a successful completion of the annual audit.

I also wish to express my thanks to the members of the City Council, the City Treasurer, Department Heads, and their staff for their interest and support toward conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,



Jeffrey W. Killian
Assistant City Manager
Director of General Services

ATTACHMENT A

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

The City of Millbrae is located on the Peninsula, 15 miles south of San Francisco. The boundaries of this City extend roughly from the Bayshore Freeway on the east to Skyline Boulevard on the west. This distance is approximately 1.7 miles. The distance between the north and south City limit line is approximately 2.05 miles.

Adjacent to the San Francisco International Airport and located in the heart of San Mateo County, Millbrae is gently cradled in the sun-warmed hills that separate the Pacific Ocean from the San Francisco Bay. Major freeways border both its eastern and western boundaries, making Millbrae easily accessible from all parts of the Bay Area. Many hillside homes enjoy beautiful bay views. Well-cared for middle-class neighborhoods, twelve local parks and the Green Hills Country Club add to the charm of the residential community.

Millbrae's economic community is a vital mix of retail, shopping, restaurants, service businesses, hotels and public services. With the BART/SFO Extension completed, the City has adopted the Millbrae Station Area Specific Plan in order to attract hotel, office, retail and housing development to the area around the Millbrae BART station. The Millbrae BART Station provides the only Intermodal rail connection west of the Mississippi, the first regional rail system in the Bay Area. This unique station, which is connected to and is adjacent to the San Francisco International Airport, allows BART, CalTrain and SamTrans to connect under one roof, thereby maximizing regional travel options to passengers in the Bay Area.

General Information: Population: 20,464; Incorporated: January 14, 1948; San Mateo County Seat Established: 1856; Registered Voters: 11,432 (1/98); Number of Households: 7,956 - Occupied. Elevation: 25 feet at low point; 800 feet at high point Average Temperature: Low of 42 in January; high of 71 in late September Land Area: 3.2 square miles Population density (person per sq. miles): 6,473.

Millbrae operates as a General Law City, provides for a Council-City Manager form of government, which clearly distinguishes the legislative powers of the City Council from the Administrative powers of the City Manager.

The City Council and City Treasurer are the only bodies elected directly by the residents of Millbrae. As the legislative branch of the government, the City Council makes final decisions on all major City matters. The Council adopts ordinances and resolutions necessary for efficient governmental operations, approves the budget, and acts as a board of appeals. It appoints the City Manager and City Attorney as well as the members of the City's boards and commissions. The City Manager manages the day-to-day operations of the City and appoints and dismisses all Department Heads.

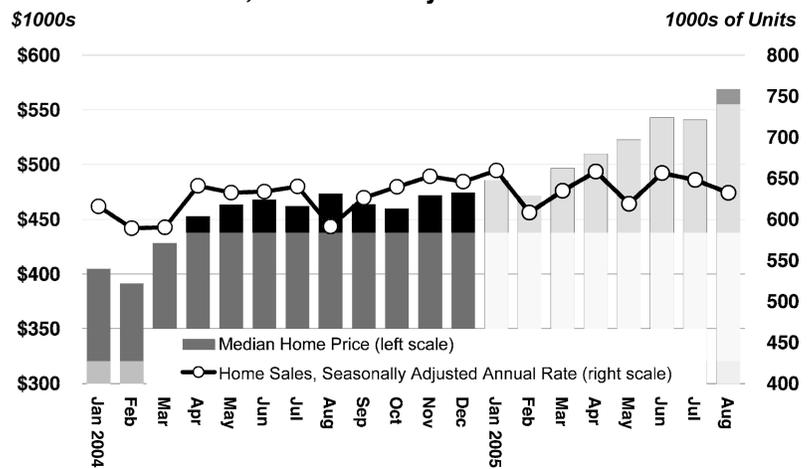
General Municipal Elections are held on the first Tuesday after the first Monday in November of odd-numbered years.

State Economy

California's broad-based economic expansion continued in FY 2005. Employment grew at a good pace, commercial construction continued to exceed last year's pace, and home sales held up well in the face of rising prices and interest rates. Some key State-wide employment and real estate economic facts are stated below:

- California has created jobs every month this year, at an average monthly rate of 20,400. Another 17,200 were added in August.
- From August 2004 to August 2005, California payroll employment grew by 223,300, or 1.5 percent. Employment rose in nine out of 11 major industry sectors.
- The state's unemployment rate has improved steadily during the first eight months of 2005, from 6.0 percent in December 2004 to 5.2 percent in August. However, the labor force statistics have been uncharacteristically volatile since the Bureau of Labor Statistics adopted a new local area methodology in February of this year. Civilian employment made extraordinary jumps in February, April, and August. Estimated unemployment fell precipitously in March and July.
- Even though home building slowed in August, this year is still on track to match the healthy pace achieved in 2004. Residential building permits were issued at a seasonally adjusted, annual rate of 212,000 units during the first eight months of 2005. This is slightly better than the 210,000-unit pace set during the same months of 2004. Single-family construction picked up enough over last year to more than compensate for a slight slowing in the multi-family sector.
- Nonresidential construction permitting slowed in August by 9 percent after a very strong July. All building categories slowed, but the steepest declines were in the Industrial and Store sectors. For the first eight months of 2005 as a whole, nonresidential construction was up over 12 percent above the same months of 2004.
- California home prices continued to rise despite somewhat softer sales. The median price of existing single-family homes sold in August climbed to \$568,890, a 20-percent increase from a year earlier, while the pace of home sales slowed to an annual rate of 632,240 units.

Home Prices Rise, Sales Steady



Source: California Association of Realtors

- Home prices may have received a boost from the anticipation of rising mortgage rates. Both long-term fixed and adjustable mortgage rates drifted higher in July and August, which may have been taken as a signal of higher rates to come.

(Source: State of California Department of Finance)

San Mateo County Economy

The City of Millbrae is located in San Mateo County. San Mateo County is one of nine counties in the San Francisco Bay Area and significantly contributing to the Bay Area economy. San Mateo's 531 square miles are part of a continuous urban area stretching from San Jose (Santa Clara County) in the south to the city/county of San Francisco in the north. California's Department of Finance estimates San Mateo's population at more than 723,000 persons. By the year 2020, the county is projected to exceed 786,000 residents.

San Mateo County's labor force declined by 5,900 (1.6 percent) in 2004 to 363,400; since 2000, the labor force has cumulatively declined 8.7 percent or 34,800. San Mateo's 2004 unemployment rate dropped to 5.0 percent from a high of 5.9 percent in 2003. Since 2000, San Mateo County posted consistently lower rates than California.

Industry employment in San Mateo totaled 327,500 in 2004, down 1,900 from the previous year; since 2000, the county's industry employment has cumulatively decreased by 12.8 percent (down 48,300). Industries recording the largest employment gains during the years 2000–2004 included educational and health services; other services; and leisure and hospitality. In educational and health services, both major components recorded job gains: health care and social assistance (up 1,600); and educational services (up 700). Other services employment added 1,000 jobs in membership associations and organizations, offsetting losses in repair and maintenance and personal and laundry services. Leisure and hospitality gains concentrated in amusement, gambling, and recreation (up 400).

City of Millbrae

The economic decline experienced during FY 2001 through FY 2004 has reversed and is in a slow to moderate recovery. The City's previously largest revenue source, Transient Occupancy Tax (Hotel Tax) decreased by more than 50% has been growing since April of 2004. Future Hotel Tax growth is projected at the rate of 3% to 5% annually. The hotel/travel industry has the greatest impact on the local economy and the City's revenue base. Although Sales Tax had declined in previous years, growth is now projected at the rate of 3%.

Property Tax increases are much stronger. General Fund Property Tax increased 7.24% in Fiscal Year 2005 and is projected to increase 5% to 6% annually during the next two years. Property values will continue to hold or increase in value for the foreseeable future. In addition, the City of Millbrae now received \$1.125 million annually in fire assessment revenue. The City has positioned itself to quickly accommodate large new commercial development surrounding the Millbrae BART Station with the approval of the Station Area Specific Plan. New high-end condominium development is to be completed in December 2006 in the Specific Plan area.

ATTACHMENT B

MAJOR INITIATIVES FOR THE YEAR

- **Redevelopment Agency Bond Refinancing.** The City Redevelopment Agency refinanced its bonds at a lower interest rate, and at the same time took advantage of the increased revenue stream coming into the Agency by increasing the bond amount to \$8.6 million. The new capital funding will facilitate new redevelopment projects.
- **Asian Community Outreach.** The City of Millbrae has taken a number of actions to promote participation of the Asian population within the City with various community affairs. Some specific actions include: meetings and development of plans to help bring cultural programs to the City, and to disseminate information to the Asian Community about city issues, share information about various programs of interest; assisted in promoting Bi-Lingual Story time, Nan Hai Culture Event, Mr. Yin Piano Concert, World Journal Youth Concert; translated and dispersed Press Release for Police Department, Millbrae Now Meetings and Recreation Department Activity Guides; helped the Recreation Department develop classes & rentals targeted to the Asian population, (Educational Summer Camp, Line Dancing, After School Classes, Chinese Harp); and staff is working on future special events – Lunar New Year, Taste of Millbrae and an “Art & Culture Event” to be held in October 2006.
- **Millbrae NOW – 5-Year Financial Plan.** The City of Millbrae held two well-publicized community meetings soliciting public comment regarding projected financial shortfalls projected within the next five years. Over 150 were in attendance. A presentation was made regarding the City of Millbrae’s financial future and what alternatives were available. Those in attendance were asked to indicate whether they wished for a continuance of current service levels, a modest increase in service levels or a significant increase in service levels. The vast majority of those attending supported a modest increase or significant increase. This selection was made with the understanding that in addition to the renewal of the fire assessment which sunsets in four years, another one to two million dollars is needed to fund these improvements.
- **Successful Renewal of Solid Waste Service Agreement – Implementation of Increased Franchise Fee.** The City was able to increase the revenues projected for solid waste franchise fees as part of its renegotiation and extension of the current solid waste collection service agreement with South San Francisco Scavenger Company. At the same time, only modest increases were implemented and small increases are forecast in the three-year agreement.
- **New Police Chief Hired – Police Communications County Contract.** The City of Millbrae had shared the Fire Chief with the Police Department and by doing so, created a Public Safety Director. This measure was seen as temporary until a longer term direction for the Police Department was determined. The City Council considered various alternatives including contracting with other cities and the county for police services. The Council approved a contract with San Mateo County for the provision of police emergency communication services. This contract will retain or improve current communication services levels and will provide \$300,000 in annual savings in operating costs, as well as significant future capital improvements. It was

determined to retain police records services and other core police activities with the City's own workforce. The City hired a seasoned and capable Police Chief that will be shared between the City of Millbrae and the City of Brisbane, where he has served as Police Chief for 18 years.

- **Cogeneration Project.** The City Council approved a major wastewater system improvement with the construction of a upgrade to the waste water treatment plant's cogeneration system. The project is the culmination of 9 months of collaborative planning by the City of Millbrae and Chevron Energy Solutions, which is engineering and managing the installation as prime contractor. The new system provides environmental and financial incentives, and replaces several antiquated plan systems. The new cogeneration/grease receiving system will efficiently create and use a free fuel: methane gas produced from restaurant grease. This novel use of wate kitchen grease will increase by 40\$ the amount of "green power" generated by the facility's cogeneration plant. As a result, the City is projected to cut electricity use by about 1.5 million kilowatt-hours each year at a savings of \$112,000 annually. The lower demand translates to 1,178,000 fewer pounds of carbon dioxide emitted into the environment. The savings created by the project will fully pay for the system improvements.

- **Wastewater Treatment Plant Renovation.** The City's wastewater collection system and treatment plan will undergo extensive renovation starting in 2006. New, up-to-date treatment technology that is more energy efficient and capable of meeting increasingly stringent local, state, and federal clean water regulations will replace deteriorated and obsolete plant equipment and components. The total project is budget is \$35 million. The City is applying for low-interest California state loans and other low-cost financing to pay for the project.

ATTACHMENT C

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, the City is responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, special revenue funds and the debt service fund are included in the annual appropriated budget. Project-length budgets are prepared for the capital projects funds. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is at the departmental level within each fund. The government also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances generally are re-appropriated as part of the following year's budget.

As demonstrated by the statements included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Cash Management Policies and Practices. During the year, temporarily idle cash was invested in certificates of deposit, the Local Agency Investment Fund demand deposits, and the San Mateo County Investment Pool.

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, the majority of deposits were either insured by federal depository insurance or collateralized. Nearly all investments held by the City at June 30, 2005, are classified in the category of lowest custodial credit risk as defined by the Government Accounting Standards Board.

The basic objectives of Millbrae's investment program are, in order of priority:

1. Safety
2. Liquidity, and
3. Yield.

This Investment Policy is reviewed annually to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. Proposed amendments to the Policy shall be prepared by Finance staff and reviewed and approved by City Administrator and the City Council.

Risk Management: The City participates in Association of Bay Area Governments (ABAG) Plan Corporation, a non-profit benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$10 million of general liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. The City has also purchased excess coverage insurance for worker's compensation claims from an independent commercial insurance company with a \$300,000 deductible. In addition, various risk control techniques, including annual safety audits and employee accident prevention training, have been implemented to minimize losses.

The City has refrained from duplicating information contained in the "Management Discussion and Analysis" (MD&A) or in the notes to the financial statements.

ATTACHMENT D

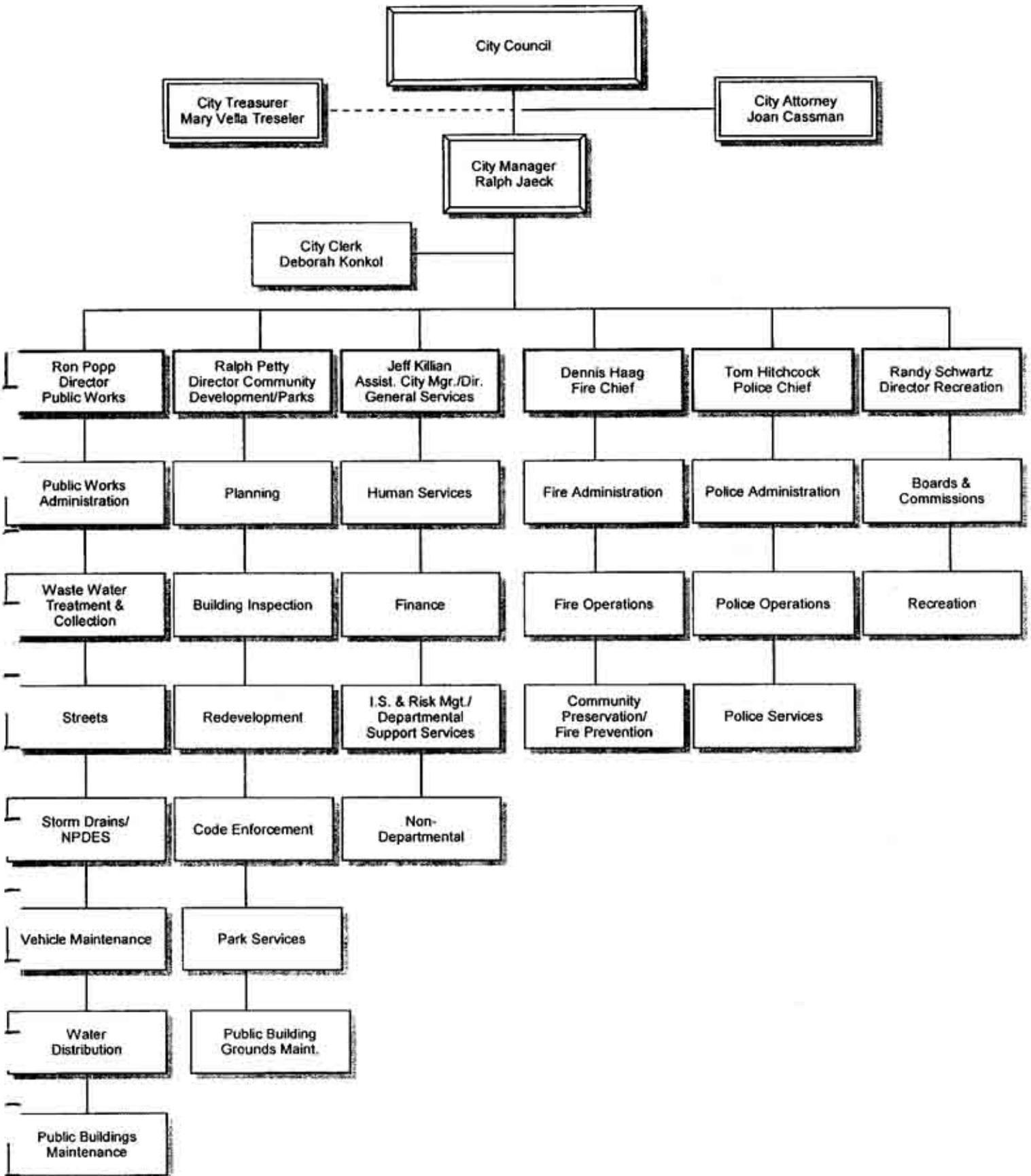
OTHER INFORMATION

Independent Audit. State statutes require an annual audit by independent certified public accountants. The firm of Maze and Associates was awarded a five-year auditing contract (beginning in FY 1998-1999) by the City Council. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget's Circular A-133. Generally accepted auditing standards and the standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements and supplemental information is included in the financial section of this report. The auditor's reports on internal controls and compliance with applicable laws and regulations can be found in a separately issued single audit report.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Millbrae for its Comprehensive Annual Financial Report (the CAFR) for fiscal year ended June 30, 2004. This was the 10th consecutive year that the City achieved this prestigious national award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report in conformance with the highest standards for preparation of a government financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Finance management staff is of the opinion that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements. The Comprehensive Annual Financial Report will be submitted to the GFOA to determine its eligibility for another certificate.

The City has also received a similar Certificate of Award from the California Society of Municipal Finance Officers for the last 10 years, including Fiscal Year 2004. These awards are the highest awards given for government accounting and financial reporting achievements in the State of California.

City of Millbrae Organization Chart



ELECTED OFFICIALS

ROBERT G. GOTTSCHALK, MAYOR
MARC HERSHMAN, VICE MAYOR
NADIA V. HOLOBER, COUNCILWOMAN
LINDA T. LARSON, COUNCILWOMAN
GINA PAPAN, COUNCILWOMAN

COMMISSIONS, COMMITTEES, AND ADVISORY BOARDS

PLANNING COMMISSION

John Turek, Chair
John Walker, Vice Chair
Terry Birt
Lorrie A. Kalos-Gunn
Catherine Quigg

ARTS COMMISSION

Loyd Love, Chair
Harold (BUD) Jenson, Treasurer
Robert J. Hughes
Shannon Morton
San Ong
Leslie Peay-Heckman
Mason Yu, Jr
Alvin Yu, Student Member

COMMUNITY PRESERVATION COMMISSION

Gale Grinsell, Chair
Jeanne Brown
John Coakes
Donna Eghbal
Walter Haag
Ann Kirkbride
Walter Levison
Betsy Shader
Peter Yeh
Ezen Choo, Student Member

DOWNTOWN PROCESS COMMITTEE

Dan Rogers
Harry Aubright
Alexander Bernardo
Vern Bruce
Mark Doiron
Matt Fitzgibbons
Ahtossa P. Fullerton
Dave Massolo
Dolores Sand

PARK AND RECREATION COMMISSION

Peter Grossman, Chair
Lynn Mutto, Vice Chair
Robert J. Lustenberger, Secretary
George Lynch, Jr.
Judi Mosqueda
Paul Seto
Elias Shamieh
Hisham Dahud, Student Member

**AIRCRAFT NOISE ADVISORY
COMMITTEE**

Walter Ramseur, Chair
John Bowers
Donald F. Morrissey

YOUTH ADVISORY COMMITTEE

Jennifer Agius
Faisal Attrach
Riley Bright
Nicole Calson
Jennifer Chiou
Natalie Common
Mario Flaherty
Kim Hammon
Amanda Chanel, Li
Pilar Mullins
Paula Pankratius
Neil Spliess
Allen Tolleth
Shazia Virji
Kelly Wiles
Iris Yu

SISTER CITY COMMISSION

Tom Dawdy, Chair
Rose Agius, Secretary
Edwin Bonavia, Treasurer
Margarita Rosenthal
Dennis Acosta
Mary Scully Alotis
Francis E. Axiaq
John Donhoff
Margaret Ghawi
Doris Morse
Judy Tiscornia Pettee
Anna Vella

SENIOR ADVISORY COMMITTEE

Harriet Larsen, Chair
Barbara Aymar, Vice Chair
Robert Lustenberger
Carol Bonner
Marge Colapietro
Glade Beresford
Ann Long
Betty Borjas
Patricia Pealini
Jo-Mary Rhode
Laverne Seiler
Mini Lin
William Bower

TOURISM COMMITTEE

Susan Lee
Timothy Lusher
Barry Ongert
Vijay Patel
Art Schwass
Mohamed Virji
Anne Leclair
John Ford

**MILLBRAE COMMUNITY
FOUNDATION**

Catherine Quigg, President
R. Terry Bauer, Vice President
Alicia Espinoza, Secretary
Linda Maule, Treasurer
Gordon Dito, Assistant Treasurer
Paul Bourque
Janet Fogarty
Deirdri Gladwin
Lee Mahon

DIRECTORY OF CITY OFFICIALS

CITY MANAGER

Ralph L. Jaeck

ASSISTANT CITY MANAGER

Jeffrey W. Killian

CITY ATTORNEY

Joan Cassman

CITY CLERK

Deborah Konkol

COMMUNITY DEVELOPMENT & PARKS DIRECTOR

Ralph Petty

FIRE CHIEF

Dennis Haag

RECREATION DIRECTOR

Randy Schwartz

POLICE CHIEF

Tom Hitchcock

PUBLIC WORKS DIRECTOR

Ron Popp



City of Millbrae

OUR VALUES

We are committed to the following values which are key to achievement of our Mission.

- **Quality:**
We will produce nothing less than superior, high quality products and services. The public and our colleagues deserve nothing less.
- **Customer Service:**
Service to people is what we're all about. We will provide products and services which meet the changing needs of the community. We will always provide services with respect, courtesy, warmth and responsiveness.
- **Integrity and Honesty:**
Honesty, openness, fair-dealing and the highest ethical behavior are the foundation for our work.
- **Innovation:**
We encourage our colleagues and the public to suggest new ideas for improving our products and services, and for doing things more efficiently and effectively.
- **Teamwork:**
Teamwork is each of us working together to reach a common goal. Teamwork is accomplished when each member contributes their unique abilities, actively communicates and supports each other.
- **Colleagues:**
We recognize, from managers to line workers, we are colleagues working toward a common goal, accomplishment of the City's overall mission. Each of us should share in the City's success which we make possible.
- **Pride and Enjoyment In Our Work:**
We believe our work should be a source of personal enjoyment and satisfaction. We accept the challenge to promote a work place in which pride, personal enjoyment, and satisfaction can flourish.
- **Action Orientation:**
We are an organization which is decisive. We will act without delay, after considering alternatives and implications. We are proud of our ability to respond quickly and effectively to emergencies and changing priorities.
- **Citizen Participation:**
We are committed to keeping the public informed by using a variety of communication networks. Effective public policy depends on achievement of community consensus.
- **Cultural Diversity:**
The world in which we live is always changing. We recognize the need to adapt to meet all new challenges within our community and surrounding region. We will be sensitive to the differing cultural and personal needs of our community.
- **Legal Responsibility:**
We accept the challenge to actively participate in legislative activities; supporting that with which we agree and opposing that with which we disagree. We will endeavor to know and comply with all Federal and State mandates.
- **Regional Responsibility:**
Our City is a part of a large, interdependent metropolitan area. We will actively participate in regional planning to serve the best interests of our City and the region.
- **Planning:**
We are a forward-looking organization, continuously assessing trends and developments which will impact our Mission. We seek to satisfy current needs in a manner which helps obtain our long-range goals.

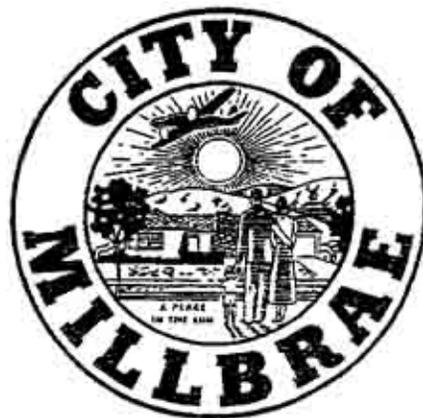
City of Millbrae

OUR PURPOSES

The purpose of the City of Millbrae municipal government is to provide the conditions necessary for a high quality of life and prosperity for Millbrae residents, businesses and institutions.

A high quality of life and community prosperity are based upon:

- **Democratic, Local, Self-government:** determination of needs, priorities, and policies by local residents through democratically elected representatives.
- **Public Health and Safety:** providing an environment free from disease, pollution, crime, fire and conditions injurious to public health and well-being.
- **Physical, Cultural, and Social Well-Being:** providing facilities and programs for our residents to help meet their needs for socialization, recreation, and cultural and spiritual growth.
- **Economic Prosperity:** to create conditions which will promote strong sales and trade in our business sector, and a strong tax base to support local government services.
- **Environmental Protection:** to promote conservation of our natural environment and resources, and to promote an attractive, uncluttered, well-maintained and landscaped urban environment.
- **Public Facilities and Infrastructure:** to provide, maintain and operate public facilities and infrastructure essential to serving and supporting the public and private sectors of the City.



This Mission Statement is the result of the combined efforts of our colleagues. It was adopted by the City Council on the 23rd of July 1991.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Milbrae,
California

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

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



Nancy L. Ziehl

President

Jeffrey R. Emmer

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of Milbrae

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

February 24, 2005

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

To the City Council
City of Millbrae, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millbrae as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millbrae at June 30, 2005 and the results of its operations and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis and the budgetary comparison for the General Fund and major special revenue funds are required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit as made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Millbrae. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



September 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2005 is the third year the City is required to issue its financial statements in the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34), which requires the City to provide this overview of its financial activities for the fiscal year. Reading this analysis with the accompanying Transmittal Letter and Basic Financial Statements will provide a more comprehensive overview of the City of Millbrae's financial condition.

FISCAL 2005 FINANCIAL HIGHLIGHTS

The economic decline experienced during the past few years appeared to be leveling off with signs of a slow to moderate recovery. The City's previously largest revenue source, Transient Occupancy Tax (Hotel Tax) decreased by more than 50% and now showed a 3.26% growth in 2004-05. Property Taxes increased 52%. This huge increase mainly resulted from a \$1.1 million of new Fire Assessment Tax and a \$1.1 million of the Property Tax in Lieu of Vehicle License Fee. Due to a change in the method for distribution of the Vehicle License Fee Adjustment Amount (VLFAA) by the State of California in 2004-05, the VLFAA was treated as property tax, instead of intergovernmental revenue. Regular property taxes increased 12%. On the other hand, Sales Tax was \$0.06 million lower than the prior year mainly due to a weak recovery and a change in distribution method for Sales Tax by the State of California. The State of California legislature enacted new provisions that changed how Sales and Use Taxes were distributed starting 2005. Under the new revenue 'swapping' procedures – commonly referred to as the 'triple flip', began July 1, 2004. Since this time, the statewide base sales and use tax rate remained at 7.25%. However, local governments' portion was reduced to 0.75%, from the previous 1% of the local tax base. The 0.25% of tax rate was then shifted to the State. In return the local governments were reimbursed with a portion of the county Educational Revenue Augmentation Fund, which was set aside in the Sales and Use Tax Compensation Fund. The actual 2005 reimbursements to local governments were lower due to a timing difference. Although sales tax had declined in previous years, future growth is now projected at the rate of 3%.

The fiscal turnaround of Millbrae began with the difficult expenditure cuts made over the past 3 fiscal years. Certain revenue enhancements enacted in early this year and last year were realized in 2005. This year the City of Millbrae received \$1.108 million in fire assessment revenue, \$355,747 from sale of the VLF loan receivable, and a \$94,175 increase in refuse franchise fee due to a related fee increase enacted earlier this year. The net General Fund balance increased \$1.1 million in 2005. Other financial highlights of the year include the following:

- The City's total net assets increased \$0.3 million during Fiscal 2005. At June 30, 2005, net assets totaled \$27 million;
- Total City revenues, including program and general revenues, decreased to \$26 million, while total expenses increased to \$26 million in fiscal 2005;
- Net assets in Governmental funds were \$12 million, while net assets in business activities were \$15 million;
- Governmental Program Revenues were \$3 million;
- Governmental Program Expenses were \$18.4 million in fiscal 2005;
- Revenues from Business-Type activities were \$7.6 million in fiscal 2005;
- Expenses of Business-Type Activities were \$7.7 million in fiscal 2005;
- General Fund revenues totaled \$13.1 million and expenditures were \$11.5 million, which represented an increase of \$0.2 million over the prior year amounts; and,
- General Fund balance was \$1.6 million at the 2005 fiscal year end.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in the following six sections:

- 1) Introductory section, which includes the Transmittal Letter and general information,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
- 4) Required Supplemental Information,
- 5) Combining statements for Non-major Governmental Funds,
- 6) Statistical information.

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into Government Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental activities**—All of the City's basic services are considered to be governmental activities, including general government, public safety, highway and streets, culture and recreation, community development, and capital improvements. These services are supported by general City revenues such as taxes, and by specific program revenues such as building fees.
- The City's governmental activities include the activities of a separate legal entity, the City of Millbrae Redevelopment Agency, because the City is financially accountable for the Agency.

- ***Business-type activities***— All City’s enterprise activities are reported here, including water, wastewater treatment and collection (sanitation), and storm drains. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

The citywide financial statements are prepared on an accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City’s most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City’s activities.

Fund Financial Statements include governmental, enterprise and internal service funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as has been done in the past, and include all their assets and liabilities, current and long-term.

Since the City’s Internal Service Funds provide goods and services only to the City’s governmental and business-type activities, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the citywide financial statements and any related profits or losses are returned to the activities, which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of “Budget” and “Actual” financial information are presented only for the General Fund and other Major funds that are Special Revenue Funds.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City’s Governmental Activities (Tables 1, 2 and 3) and Business-Type Activities (Tables 4 and 5) presented in the citywide Statement of Net Assets and Statement of Activities that follow.

Governmental Activities

Table 1
Governmental Net Assets at June 30, 2005
(in Millions)

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Cash and investments	\$19	\$18
Other assets	12	12
Capital assets	<u>23</u>	<u>20</u>
Total assets	54	50
Long-term debt outstanding	37	33
Other liabilities	<u>5</u>	<u>5</u>
Total liabilities	42	38
Net assets:		
Invested in capital assets, net of debt	9	8
Restricted	12	13
Unrestricted	<u>(9)</u>	<u>(9)</u>
Total net assets	<u>\$12</u>	<u>\$12</u>

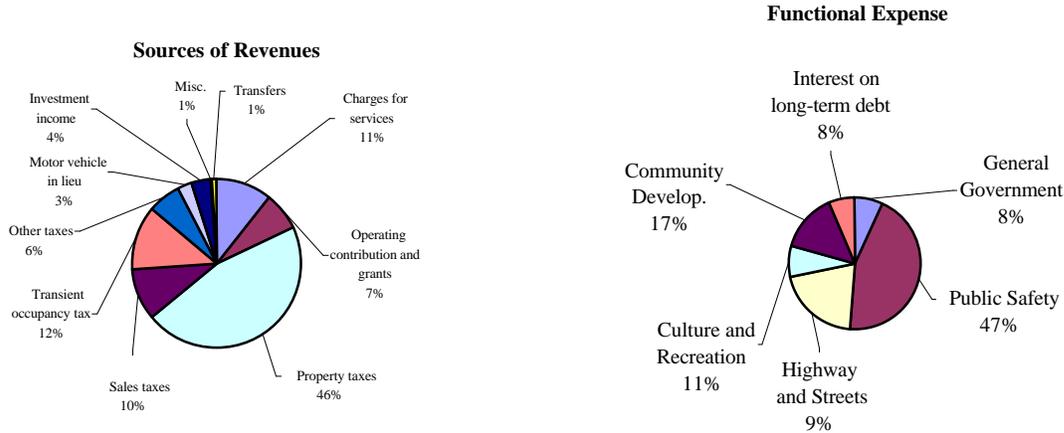
The City's net assets from governmental activities increased with a fraction of \$0.2 million as June 30, 2005. This increase is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

- Cash and investments increased \$1 million from the governmental activities. Although the Library Project funds' cash and investments decreased \$4 million, the Redevelopment funds cash increased \$3.6 million mainly from the new 2005 Bonds Proceeds, the cash transfer from Internal Service funds increased \$1 million, and the rest increases were from Measure A, Gas Taxes, Receptions Special Revenue, and General Fund.
- Other assets remained at the same level of \$12 million as the prior year. The major component of 'other assets' was \$10.7 million of Pre-paid pension obligation. In 2003-04 the City of Millbrae participated and issued the \$11.5 million of Pension Obligation Bonds. The bond proceeds were used to pay off the City of Millbrae's un-funded actuarial liability with the California Public Employees Retirement System.
- The increase in Capital Assets mainly came from the new Library construction, which amounted \$3.4 million in 2004-05.
- Long-Term Debt increased \$3.5 million primarily from the new RDA Bonds debt net of the old bonds. In 2004-05 Millbrae Redevelopment Agency issued \$8.6 million of new bonds and paid off \$5 million for the remaining outstanding amount for the old 1993 bonds.

- The aggregate amount of “Other Liabilities” remained the same as last year with an outstanding balance of \$5 million at the year-end.
- Capital assets totaled \$23 million. Of this amount, \$8.8 million were invested funds net of related debt.
- Restricted net assets totaled \$12 million, which includes \$0.2 million restricted for capital projects, \$2.5 million earmarked for debt service, \$6 million set aside for redevelopment, and \$3.2 million restricted for special revenue programs.
- Unrestricted net assets had a deficit of \$8.6 million primarily due to the long-term debt, thereby not requiring the current assets to be liquidated.

Fiscal Year 2005 Government Activities

(See Table 2)



As the Sources of Revenue Chart above shows, \$8.5 million, or 46% of the City’s Fiscal 2005 revenue, came from Property Taxes revenues. This year a \$1.1 million of Property Taxes came from the new fire assessment tax and \$1.1 million from the Property Tax in Lieu of Vehicle License Fee (the VLF), which was resulted from a method change in distribution of the VLF adjustment amount by the State of California. Sales Taxes and Transient Occupancy Tax accounted for \$1.9 million and \$2.3 million respectively. The total general revenues of \$15.3 million, accounted for 82% of the 2005 Governmental revenues.

The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are now reflected in the City’s capital assets. In Fiscal Year 2005, the City added \$3.1 million in governmental capital assets, as shown in detail at Table 6.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Charges in Governmental Net Assets are summarized below.

Table 2
Changes in Governmental Net Assets
(in Millions)

	Governmental Activities	
	2005	2004
Expenses		
General government	\$ 1.42	\$ 1.34
Public Safety	8.83	8.99
Highway and Streets	1.63	1.75
Culture and Recreation	1.97	1.31
Community Development	3.10	2.60
Interest on long-term debt	1.48	1.64
Total Expenses	\$18.43	\$17.63
Revenues		
Program revenues:		
Charges for services	2.04	3.64
Operating contributions and grants	1.33	1.27
Developmental impact fees and permits	0.0	0.21
Total program revenues	3.37	5.12
General revenues:		
Taxes:		
Property taxes	8.54	5.62
Sales taxes	1.88	1.94
Transient occupancy tax	2.28	2.21
Other taxes	1.17	1.02
Motor vehicle in lieu	0.49	0.98
Investment income	0.72	0.34
Miscellaneous	0.18	1.87
Gain on sale of capital assets	0.01	0.60
Total general revenues	15.27	14.58
Total revenues	18.64	19.70
Change in net assets	\$ 0.21	\$ 2.07

Table 3 presents the net cost of each of the City's largest programs: General Government, Public Safety, Highway and Streets, Culture and Recreation, Community Development, and Interest on long-term debt. Net cost is defined as the total program cost less the revenues generated by those specific activities.

Table 3
Governmental Activities
(in Millions)

	Net (Expense) Revenue	
	From Services	
	2005	2004
General Government	\$ (1.3)	\$ (1.0)
Public Safety	(8.0)	(8.1)
Highway and Streets	(0.4)	(0.5)
Culture and Recreation	(1.3)	(0.5)
Community Development	(2.6)	(0.8)
Interest on Long-term Debt	(1.5)	(1.6)
Totals	\$ (15.1)	\$ (12.5)

- \$8 million of program net expenses over revenues came from Public Safety. The 2004-05 Public Safety net deficit decreased \$0.1 million from 03-04. The expenditure savings of \$0.15 million was partially offset by a \$0.04 million loss in revenues. The Police expenditures decreased \$0.42 million mainly due to three Police Officers and one Lieutenant had been on worker's compensation, who were separated from Millbrae in early 2004-05 and not replaced. The Fire expenditures were up \$0.26 million mainly due to increased overtime to cover Fire Fighters who were on worker's compensation.
- Highway and Streets net expenses over revenues decreased \$0.07 million mainly because the BART Neighborhood Improvement Project was completed in 03-04.
- Culture and Recreation net expenses over revenues increased \$0.8 million. This was a result of a \$0.1 million decrease in revenues and \$0.7 million increase in expenditures. Charge for Services was down \$0.1 million primarily due to a one-time parks in lieu fee that was received in 03-04. Culture and Recreation expenses increased mainly due to transfers from Internal Service Funds, a new Maintenance Worker hired, and the Senior Program Coordinator changed from part-time to full-time status.
- Community Development net expenses over revenues increased \$1.8 million primarily due to \$1.3 million decrease in revenue and \$0.5 million increase in expenses. The revenue decrease resulted from a reduction of \$1.3 million in developer fees/permits from the 03-04 level. The developer fees/permits were one-time in nature and were collected in advance in 03-04. The expenses increased because \$0.2 million payment for the Education Revenue Augmentation Fund (ERAF) and a transfer of the various General Fund departmental costs for the Specific Area projects and for the Library Project to the Community Development programs. The State of California legislatures had required the redevelopment agencies to shift \$250 million in property tax revenues to the K-12 schools and community colleges during 2004-05 and 2005-06 fiscal years.
- The interest on long-term debt decreased due to amortization in the accrual of unpaid interest on long-term debt.

Business-type Activities

Table 4
Business-Type Net Assets
(in Millions)

	<u>Business-Type Activities</u>	
	<u>2005</u>	<u>2004</u>
Cash and investments	\$ 7.25	\$1.78
Other current assets	1.60	1.71
Internal balances	0.59	1.67
Capital assets and other	<u>13.31</u>	<u>12.26</u>
Total assets	\$22.75	\$17.42
Long-term debt outstanding	6.45	1.26
Other liabilities	<u>1.09</u>	<u>0.99</u>
Total liabilities	7.54	2.25
Net assets:		
Invested in capital assets, net of debt	11.19	11.00
Unrestricted	<u>4.03</u>	<u>4.17</u>
Total net assets	\$15.22	\$15.17

Net assets for Business-type Activities increased \$0.05 million. Cash and Investments increased \$5.5 million as a result of a \$1.4 million revenue increase from the Water Fund, \$4.1 million from Sanitation Fund, and a decrease of \$0.1 million from Storm Drain Fund. Water Fund cash increased mainly resulted from \$1.2 million inter-fund receivable payments received. Sanitation Fund cash increased due to a new loan for the Co-Generation project borrowed, net with payoff for the old loan payoff and the first progress payment for the project. Correspondingly the long-term debt outstanding increased \$5.2 million. Inter-fund balances decreased \$1.1 million, mainly due to the \$1.2 million of Water inter-fund payments received. Capital assets increased \$1 million because the first progress payment for the Co-Generation Project was made.

Table 5
Changes in Business-Type Net Assets
(in Millions)

	Business - Type - Activities	
	<u>2005</u>	<u>2004</u>
Net: Revenues from Business-type activities		
Municipal Water System	\$0.13	\$0.47
Waste Water Treatment Facility (Sanitation)	(0.15)	0.11
Storm Drain	<u>(0.10)</u>	<u>(0.11)</u>
Total Business-type Activities	<u>(\$0.12)</u>	<u>\$0.47</u>

The Business-Type net expenses over revenues increased \$0.6 million. Water Fund revenues suffered a loss in revenues close to \$0.4 million in 2004-05, while expenses decreased \$0.03 million from a year ago. The water sales and purchases decreased due to a reduction in consumption, resulting from a wetter than usual spring and cooler summer. Sanitation Fund expenses increased \$0.2 million primarily due to two new Maintenance Workers hired and increased retirement benefit costs. The employer rate for the Miscellaneous group retirement benefits increased to 8.534% from the 3.869% level in 03-04. In order for the City to implement the Sanitary Sewer Overflow (SSO) requirements, two new Maintenance Workers were hired in 2004-05. The U.S. Environment Protection Agency (EPA) proposed Capacity Management and Operations Maintenance provision (CMOM) for the SSOs. The City of Millbrae has developed a Sanitary Sewer Management Plan (SSMP), which is a system-specific management document describing the City's program to minimize the number, volume and impact of SSOs. The Sanitation Fund revenues decreased \$0.05 million due to a reduction in consumption. On the other hand, the Storm Drain Fund expenditures decreased \$0.02 million and the revenues remained at the same level as 03-04.

As shown in the "Statement of Cash Flows," Net Cash Flows increased \$5.5 million. Water Fund cash flow increased \$1.4 million, Sanitation Fund increased \$4.1 million, and Storm Drain Fund decreased almost \$0.1 Million. Water Fund cash flow improved mainly from the inter-fund receivable payments received, the Sanitation Fund cash flow increased as a result of a new loan secured, and the Storm Drain Fund cash flow continued shrink due to revenues that could not fully cover expenditures.

The City's Fund Financial Statements

Governmental Funds

At June 30, 2005, the City's governmental funds reported combined fund balances of \$16.5 million, which was a \$1.5 million increase or 10.4% compared to the prior year. Part of this increase occurred in the General Fund, which accounted for \$1.1 million of the increase. Although the Library Project Fund balance declined by \$3.8 million, a total of a \$4.2 million increase in the Redevelopment Agency Funds and the U.S. 101/Millbrae Avenue Improvement Projects Fund helped to bring a net Fund Balance increase of \$0.4 million, in addition to the \$1.1 million improvement in General Fund balance.

Governmental fund revenues increased \$0.2 million this year to a new total of \$19.4 million mainly from a 2.4 million increase in General Fund and \$0.4 million in Redevelopment Agency funds. Of this amount, a total of \$2.6 million needed to offset the revenue losses in the Library Fund (\$1.7 million) and in the Other Governmental funds (\$0.9 million). Other Governmental funds revenues declined primarily due to \$1 million developer fees/permits revenue that was collected in 03-04 for the Specific Area new developments, which were one-time assessments in nature. Expenditures increased \$1.5 million this year to a new total of \$26 million. The increase in expenditures primarily resulted from a \$0.2 million increase in General Fund and a \$4.8 million increase in Redevelopment funds, which netted out with a \$2.8 million decrease in Library Project Fund and a \$0.7 million reduction in Other Governmental funds. Among the Other Governmental funds, Gas Tax Funds and transportation grants funds expenditures decreased \$0.3 million and the Pension Obligation Fund decreased \$0.3 million due to the Bonds issuance costs incurred in 03-04.

Proprietary Funds

Enterprise Fund net assets totaled \$15.2 million at June 30, 2005, a decrease of \$0.11 million from the prior year. Of which, the Sanitation Fund accounted for a \$0.15 million decrease in net assets and the Storm Drain Fund for a \$0.08 million decrease, although the Water Fund improved \$0.12 million. Operating revenues decreased \$0.4 million primarily resulted from reduction in consumption due a wetter than normal year. Non-Operating expenses over revenues increased primarily due to retirement of old Sanitation loan.

Enterprise Fund operating expenses were \$7.6 million in fiscal 2005, up \$0.2 million from the prior year. Operating expenses increased \$0.2 million mainly from the Sanitation Fund for increased staffing for two new Maintenance Workers.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

General Fund

General Fund revenues increased to \$13.1 million, a \$2.4 million increase over last year. Property taxes increased \$2.4 million mainly, as a result of the \$1.1 million Fire Assessment Tax, a \$1.1 million for the Property Tax in Lieu of Vehicle License Fee, and a \$0.2 million increase for the regular Property Taxes. Transient Occupancy Tax improved 3%, a \$0.07 million increase from the prior year. Sales Taxes suffered a loss of \$0.06 million primarily due to a slow recovery and a method change in the distribution of the Sales Taxes by the State Legislature – commonly referred to as the ‘triple flip’. Under the new ‘triple flip’ revenue ‘swapping’ procedures, 25% of the local share of the 1% Sales Taxes was shifted to the State of California starting 2004-05. In turn, the local loss was to be reimbursed by the County from the County Educational Revenue Augmentation Fund (ERAF). Because of a timing difference, local governments were not fully reimbursed for the current year loss. Use of Money and Property revenues increased \$0.3 million due to fair value adjustments and improvements in interest earnings. Other Taxes increased \$0.15 million. Of this amount, a \$0.14 million was from the refuse and other franchise fees. Miscellaneous Revenues increased \$0.1 million mainly from a reimbursement for the Library Project costs incurred and advanced by the General Fund. License and Permits decreased due to one-time developer fees/permits for the Station Specific Area developments that were collected in advance, primarily in 03-04.

General Fund expenditures were up \$0.16 million from the prior year level. Fire expenditures increased \$0.4 million mainly resulted from increased overtime and worker's compensation costs, Culture and Recreation increased \$0.09 million for a new Maintenance Worker hired and the Senior Program Coordinator changed to full-time in 2004-05, Community Development and Streets increased a total of \$0.04 million, and Capital Outlays increased a fraction. The expenditure savings from the Police Department totaled \$0.35 million and \$0.06 from the General Government funds, which helped to lower the overall General Fund expenditure increases. Police expenditures decreased due to three Police Officers and one Lieutenant were on worker's compensation who were separated from Millbrae in early 2004-05. General Governments expenditure decreased mainly due to the installment payments for the PERS Survival premiums ended in 03-04 around \$0.25 million. Administration and City Attorney departmental expenditures increased \$0.19 million due to new hires of a City Manager and a City Clerk and extensive time required from the City Attorney for resolving three major lawsuits in 2004-05.

The City received a total of \$0.6 million from sale of real property in 03-04. The City Council approved the action as part of a General Fund Budget balancing strategy. The property was sold to the Redevelopment Agency for housing. As a result Proceeds from Sale of Properties decreased \$0.6 million.

"Transfers In" increased \$0.3 million and "Transfers Out" decreased \$0.1 million comparing to 2004. During 2005 the City Council authorized transfer of \$0.3 million from the Developer Permits, the Traveler's Settlements, and the Parks Special Revenue funds to compensate General Fund for costs incurred for the benefit of funds making the transfers; \$0.05 million from the General Liability to fund needed capital improvements and the rest from the Police Station Remodel Project fund. These transfers were one-time in nature. The General Fund Transfers Out decreased \$0.1 million mainly due to a reduction in transfers to the Self-Insurance funds from the \$0.4 million level in 2004 to \$0.3 million in 2005.

At June 30, 2005, the General Fund Balance comprised of \$1.4 million reserved almost entirely for encumbrances and advances to other funds, with a \$0.1 million left for unreserved and undesignated fund balance. The unreserved amount would be increased when the Advance Receivable of \$1.1 million from Redevelopment Agency were to be paid back.

Other Major Governmental Funds

Redevelopment Agency Special Revenue

The tax increment revenues increased 14% over the prior year due to new construction and increases in property assessment value. The Use of Money and Property revenue increased due to fair value adjustments for investment portfolios and improvement in interest rates. The expenditures decreased \$0.6 million because a piece of land was purchased in 03-04 for a total of \$0.6 million. The land was reserved for housing development.

Redevelopment Agency Debt Service

Tax increment revenues increased 14% over the prior year due to new construction and increased assessment valuations. Interest income increased because of fair value adjustments and interest rates improvement. Proceeds from Long-Term Debt increased \$5.5 million. This was due to a portion of the 2005 RDA Bonds proceeds were received for retirement of the 1993 Bonds and the associated bonds issuance and insurance costs. Of this amount, \$5 million was used for retirement of the 1993 Bonds outstanding amount and the rest \$0.5 million used for Bonds issuance and insurance costs. The Millbrae Redevelopment Agency's pass-through expenditures increased \$0.2 million because the State of California legislatures had required local governments to shift \$250 million in property tax revenues to the Education Revenue Augmentation Fund (ERAF) for K -12 schools and community colleges during 2004-05 and 2005-06 fiscal years. The Millbrae RDA required contribution amount was \$0.2 million toward the ERAF fund in 2004-05. At June 30, 2005 the entire RDA Debt Service fund balance was reserved for debt service obligations. The outstanding Advance from Other Funds was \$1.7 million at yearend.

Redevelopment Agency Capital Projects Fund

The Redevelopment Agency Capital Projects Funds are composed of the RDA Administration Operating, the RDA Capital Project and the Housing Capital Project funds. Expenditures decreased \$0.2 million mainly due to the costs incurred in 2004 for the Waste Water Treatment Plant redesign and the Prime Development on El Camino Real. The Agency Board decided to hold on projects due to the increase in required pass through payments. During 2005 fiscal year Millbrae RDA issued \$8.6 million of new Bonds. \$3.1 million of this amount was designated for development opportunities in the redevelopment area. On June 30, 2005, the RDA Capital Projects fund balance increased to \$6.8 million, a \$2.6 million increase over the prior year.

Library Capital Project

The Library Capital Project fund balance declined to \$0.1 million due to the project completion in November 2004. In fiscal year 2005 approximately \$3.6 million was spent on the Library Project. \$3.4 million of this amount was spent on construction and 0.2 million on project management. The project began on April 1, 2003.

Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

Proprietary Funds

Water

Net assets of the Water Fund increased \$0.1 million in the current year to a total of \$7.6 million. Water sales revenue decreased \$0.37 million from a year ago, due to a wetter than normal spring and a cool summer in 2005. Although the increases in personnel and contractual services were higher than the savings in water purchase costs, the Water Fund ended with a net \$0.1 million increase in net assets since the current year revenues fully covered the expenses.

Waste Water Treatment Facility (Sanitation)

The Sanitation Fund's net assets decreased \$0.2 million in Fiscal Year 2005 down to a total of \$6.7 million. Although the total expenditures increased \$0.2 million primarily due to staffing increases, revenues were able to fully cover all the expenses with a net operating income of \$0.05 million. The Sanitation Fund revenues went down slightly from the prior year. Personnel costs increased as a result of the hiring of two new Sewer Collection Maintenance Workers. The increase in staffing levels was needed for the City being able to comply with the U.S. Environment Protection Agency (EPA) proposed Sanitary Sewer Overflow (SSO) requirements, under the Capacity, Management, Operation, and Maintenance (CMOM) provisions. The main goal of CMOM is to prevent SSOs and to provide a plan and schedule for measures to be implemented to prevent SSOs. The City of Millbrae has developed a Sanitary Sewer Management Plan which is a system-specific management document for minimizing the number, volume and impact of SSOs. The net loss of \$0.2 million in Non-Operating transactions further wiped out the Operating Income of \$0.05 million entirely. Sanitation Fund net assets ended with a loss of \$0.15 million for the year.

A total of \$1.6 million of the \$6.7 million Sanitation Fund Net Assets was unrestricted at the fiscal year end.

Storm Drain

The Storm Drain Fund net assets continued to suffer with a decline of \$0.08 million, primarily due to revenues that could not fully cover all the expenses.

Total Invested in Capital Assets Net of Related Debt accounted for \$0.98 Million, which resulted a negative \$0.08 Million for the Unrestricted Net Assets.

CAPITAL ASSETS

At the end of fiscal 2005 the City had \$23 million, net of depreciation, invested in a broad range capital assets used in governmental activities, as shown in Table 6 below (further detail may be found in Note 6 to the financial statements):

Table 6
Capital Assets at Year-end
(in Millions)

	Government Activities	
	2005	2004
<i>Governmental Activities:</i>		
Land	\$1.97	\$1.97
Land improvements	0.86	0.86
Buildings and improvements	19.66	16.34
Equipment	2.84	2.97
Automobiles and Trucks	2.21	2.36
Infrastructure	2.55	2.07
Less accumulated depreciation	(7.09)	(6.68)
 Totals	 \$23.00	 \$19.89
 <i>Business-type Activities</i>		
Land	\$0.00	\$0.00
Land improvements	0.22	0.38
Buildings	5.88	4.88
Equipment	8.28	7.98
Infrastructure	14.92	14.49
Automobiles and Trucks	.05	.05
Less accumulated depreciation	(16.04)	(15.52)
 Totals	 \$13.31	 \$12.26

The City depreciates all its capital assets via a straight-line depreciation method. This means the cost of the asset is divided by its expected useful life in years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. In 2004, the City issued \$11.5 million in Pension Obligation Bonds to payoff the unfounded accrued actuarial liability (the UAAL) with the California Public Employees Retirement System (the CalPERS). This action was taken according to the General Fund balancing plan. The City Council decided to choose the capital appreciation bond option with a 30-year debt term to finance the required amount to payoff the UAAL with CalPERS.

Table 7
Outstanding Debt
(in Millions)

	<u>2005</u>	<u>2004</u>
<i>Governmental activities</i>		
Tax Allocation Bonds (issued by the Redevelopment Agency)	\$ 8.59	\$ 5.02
Certificates of Participation	3.63	3.74
Public Library Project Bonds	10.55	10.58
Pension Obligation Bonds Series A-2	11.66	11.52
Storm Water District #1 Bonds	0.00	0.03
Natural Disaster Assistance Loan	<u>2.69</u>	<u>2.55</u>
	<u>\$37.12</u>	<u>\$33.44</u>
<i>Business-type Activities</i>		
Wastewater Bank Loan – Sanitary Sewer Project	\$6.45	\$1.26
	<u>\$6.45</u>	<u>\$1.26</u>

SPECIAL ASSESSMENT DISTRICT DEBT

At June 30, 2005, the special assessment district debt was fully paid off for the Plaza Bay Special Assessment district. This debt was secured only by special assessments on the real property in the district issuing the debt, and was not the City's responsibility, although the City did act as this District's agent in the collection and remittance of assessments.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to Christine Ma, Financial Services Manager, Finance Division, City of Millbrae, at 621 Magnolia Avenue, Millbrae, California 94030.

CITY OF MILLBRAE

**STATEMENT OF NET ASSETS AND
STATEMENT OF ACTIVITIES**

The Statement of Net Assets and the Statement of Activities summarize the entire City’s financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City’s assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City’s transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City’s total assets and the City’s total liabilities, including all the City’s capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City’s net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City’s Governmental Activities in a single column, and the financial position of all the City’s Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City’s Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City’s Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City’s Business-Type Activities include all its Enterprise Fund activities. The Statement of Activities reports increases and decreases in the City’s net assets. It is also prepared on the full accrual basis, which means it includes all the City’s revenues and all its expenses, regardless of when cash changes hands. This differs from the “modified accrual” basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

Both these Statements include the financial activities of the City, and the City of Millbrae Redevelopment Agency, which is legally separate but are component unit of the City because it is controlled by the City, which is financially accountable for the activities of this entity.

CITY OF MILLBRAE
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$16,142,912	\$7,251,231	\$23,394,143
Cash with fiscal agent (Note 3)	2,413,932		2,413,932
Receivables:			
Taxes	634,164		634,164
Accounts - net	344,115	1,599,974	1,944,089
Accrued interest	141,211		141,211
Due from other governmental agencies	119,453	3,480	122,933
Loans (Note 5)	833,470		833,470
Internal balances (Note 4D)	(594,802)	594,802	
Prepaid items	4,000		4,000
Prepaid pension obligations (Note 7D)	10,696,000		10,696,000
Capital assets, net of accumulated depreciation (Note 6)	22,999,308	13,306,068	36,305,376
Total Assets	53,733,763	22,755,555	76,489,318
LIABILITIES			
Accounts payable	502,986	431,706	934,692
Interest payable		51,349	51,349
Deposits	972,881	381,470	1,354,351
Unearned revenue	187,833		187,833
Noncurrent portion compensated absences (Note 1G)	1,933,804	221,330	2,155,134
Noncurrent portion accrued self-insurance (Note 11)	972,054		972,054
Long-term debt (Note 7)			
Portion due within one year	200,000	200,208	400,208
Portion due in more than one year	36,924,148	6,252,741	43,176,889
Total Liabilities	41,693,706	7,538,804	49,232,510
NET ASSETS (Note 9)			
Invested in capital assets, net of related debt	8,809,308	11,187,573	19,996,881
Restricted for:			
Capital projects	195,614		195,614
Debt service	2,459,513		2,459,513
Redevelopment	5,968,351		5,968,351
Special revenue programs	3,188,181		3,188,181
Total Restricted Net Assets	11,811,659		11,811,659
Unrestricted	(8,580,910)	4,029,178	(4,551,732)
Total Net Assets	\$12,040,057	\$15,216,751	\$27,256,808

See accompanying notes to financial statements

CITY OF MILLBRAE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:						
General government	\$1,417,551	\$106,610		(\$1,310,941)		(\$1,310,941)
Public safety	8,835,583	531,191	274,362	(8,030,030)		(8,030,030)
Highways and streets	1,628,924	221,754	1,001,809	(405,361)		(405,361)
Culture and recreation	1,971,715	668,312	51,408	(1,251,995)		(1,251,995)
Community development	3,099,053	509,239		(2,589,814)		(2,589,814)
Interest on long term debt	1,478,185			(1,478,185)		(1,478,185)
Total Governmental Activities	18,431,011	2,037,106	1,327,579	(15,066,326)		(15,066,326)
Business-type Activities:						
Municipal Water System	3,519,464	3,647,300			\$127,836	127,836
Municipal Waste Water Treatment Facility	3,906,561	3,758,868			(147,693)	(147,693)
Storm Drain	318,489	220,912			(97,577)	(97,577)
Total Business-type Activities	7,744,514	7,627,080			(117,434)	(117,434)
Total	\$26,175,525	\$9,664,186	\$1,327,579	(15,066,326)	(117,434)	(15,183,760)
General revenues:						
Taxes:						
Property taxes				8,028,160		8,028,160
Incremental property tax				514,664		514,664
Sales taxes				1,883,793		1,883,793
Transient occupancy tax				2,281,978		2,281,978
Other taxes				1,167,562		1,167,562
Motor vehicle in lieu				491,468		491,468
Rental income				170,604		170,604
Investment earnings				547,092	91,713	638,805
Miscellaneous				180,949	78,205	259,154
Transfers				7,000	(7,000)	
Total general revenues and transfers				15,273,270	162,918	15,436,188
Change in Net Assets				206,944	45,484	252,428
Net Assets-Beginning				11,833,113	15,171,267	27,004,380
Net Assets-Ending				\$12,040,057	\$15,216,751	\$27,256,808

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2005. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, highway and street, culture and recreation, and community development. This fund accounts for all financial transactions not accounted for in the other funds.

REDEVELOPMENT AGENCY SPECIAL REVENUE FUND

To account for property tax increments received by the Millbrae Redevelopment Agency to use for Low and Moderate Income Housing Programs.

REDEVELOPMENT AGENCY DEBT SERVICE FUND

To account for the accumulation of resources for payment of principal and interest on Millbrae Redevelopment Agency debt. The Agency receives revenues from property tax increments.

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

To account for the Millbrae Redevelopment Agency's resources for administrative costs, capital projects and long-term debt obligation.

LIBRARY CAPITAL PROJECT FUND

To account for project costs funded by proceeds of the 2001 General Obligation Bonds.

CITY OF MILLBRAE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005

	General	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund
ASSETS				
Cash and investments (Note 3)	\$43,071	1,367,236	\$2,672,787	\$6,865,320
Cash with fiscal agent (Note 3)			544,967	
Receivables:				
Taxes	595,332			
Accounts - net	37,401			
Accrued interest	15,166		126,045	
Due from other funds (Note 4A)	502,703			
Due from other governmental agencies	68,154			
Loans (Note 5)		833,470		
Advances to other funds (Note 4B)	1,090,100			
Prepaid items				
Total Assets	<u>\$2,351,927</u>	<u>\$2,200,706</u>	<u>\$3,343,799</u>	<u>\$6,865,320</u>
LIABILITIES				
Accounts payable	\$355,908			\$20,481
Due to other funds (Note 4A)				
Deposits	255,221	\$544		
Deferred revenue	187,833			
Advances from other funds (Note 4B)			\$1,690,100	
Total Liabilities	<u>798,962</u>	<u>544</u>	<u>1,690,100</u>	<u>20,481</u>
FUND BALANCES				
Fund balance (Note 9)				
Reserved for:				
Encumbrances	344,987	10,350		25,896
Debt service			1,653,699	
Capital outlay		1,321,542		
Advances, prepaids and loans receivable	1,090,100	833,470		
Unreserved:				
Designated				
Special Revenue Funds prior year operating budget carryovers				
Special Revenue Funds capital outlay				2,029,991
Undesignated, Reported in:		34,800		
General Fund	117,878			
Special Revenue Funds				
Capital Projects Funds				4,788,952
Total Fund Balances (Deficit)	<u>1,552,965</u>	<u>2,200,162</u>	<u>1,653,699</u>	<u>6,844,839</u>
Total Liabilities and Fund Balances	<u>\$2,351,927</u>	<u>\$2,200,706</u>	<u>\$3,343,799</u>	<u>\$6,865,320</u>

See accompanying notes to financial statements

<u>Library Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$142,930	\$3,119,800 1,868,965	\$14,211,144 2,413,932
	38,832 302,628	634,164 340,029 141,211 502,703
	51,299	119,453 833,470 1,090,100
	4,000	4,000
<u>\$142,930</u>	<u>\$5,385,524</u>	<u>\$20,290,206</u>
\$2,838	\$91,357 502,703 717,116	\$470,584 502,703 972,881 187,833 1,690,100
<u>2,838</u>	<u>1,311,176</u>	<u>3,824,101</u>
3,500	262,680 805,814 4,000	647,413 2,459,513 1,321,542 1,927,570
135,447 1,145	744,163 356,184 843,698 1,057,809	879,610 2,387,320 34,800 117,878 843,698 5,846,761
<u>140,092</u>	<u>4,074,348</u>	<u>16,466,105</u>
<u>\$142,930</u>	<u>\$5,385,524</u>	<u>\$20,290,206</u>

CITY OF MILLBRAE
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

Total fund balances reported on the Governmental Funds Balance Sheet \$16,466,105

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds 22,432,293

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	1,931,768
Accounts receivable	4,086
Internal balances	5,198
Capital assets	567,015
Accounts payable	(32,402)
Compensated absences	(15,565)
Accrued self-insurance	(972,054)

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Prepaid pension obligation	10,696,000
Long-term debt	(37,124,148)
Non-current portion of compensated absences	(1,918,239)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$12,040,057

See accompanying notes to financial statements

CITY OF MILLBRAE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	General	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund
REVENUES				
Property tax	\$5,333,803	\$514,664	\$2,058,660	
Sales tax	1,956,568			
Transient occupancy tax	2,281,978			
Other taxes	1,167,562			
Licenses and permits	298,596			
Charges for services	595,376			
Fines and forfeitures	197,962			
Use of money and property	440,075	32,483	85,214	\$99,115
Grants and intergovernmental	585,565			
Miscellaneous	269,050		535	
Total Revenues	13,126,535	547,147	2,144,409	99,115
EXPENDITURES				
Current:				
General government	1,162,097			
Public safety	8,259,715			
Highways and streets	810,854			
Culture and recreation	707,073			
Community development	474,359	81,897	471,995	541,314
Payments to property tax pass throughs (Note 1F)			1,164,183	
Capital outlay	48,567			4,763
Debt service				
Principal			5,015,000	
Interest and fiscal charges			440,933	
Total Expenditures	11,462,665	81,897	7,092,111	546,077
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,663,870	465,250	(4,947,702)	(446,962)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt (Note 7)			5,513,352	3,076,648
Transfers in (Note 4C)	450,934		115,423	
Transfers (out) (Note 4C)	(982,096)	(115,423)		(5,000)
Total Other Financing Sources (Uses)	(531,162)	(115,423)	5,628,775	3,071,648
NET CHANGE IN FUND BALANCES	1,132,708	349,827	681,073	2,624,686
BEGINNING FUND BALANCES	420,257	1,850,335	972,626	4,220,153
ENDING FUND BALANCES	\$1,552,965	\$2,200,162	\$1,653,699	\$6,844,839

See accompanying notes to financial statements

Library Capital Project	Other Governmental Funds	Total Governmental Funds
	\$635,697	\$8,542,824
		1,956,568
		2,281,978
	342,622	1,510,184
	50,583	349,179
	784,277	1,379,653
	5,261	203,223
(\$21,955)	172,898	807,830
	1,418,631	2,004,196
	99,947	369,532
(21,955)	3,509,916	19,405,167
		1,162,097
	86,407	8,346,122
	525,706	1,336,560
200,165	988,880	1,695,953
	93,262	1,862,992
		1,164,183
3,437,045	418,816	3,909,191
	315,000	5,330,000
	764,177	1,205,110
3,637,210	3,192,248	26,012,208
(3,659,165)	317,668	(6,607,041)
		8,590,000
	949,610	1,515,967
(127,000)	(725,458)	(1,954,977)
(127,000)	224,152	8,150,990
(3,786,165)	541,820	1,543,949
3,926,257	3,532,528	14,922,156
\$140,092	\$4,074,348	\$16,466,105

CITY OF MILLBRAE
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$1,543,949

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance 3,909,191

Depreciation expense is deducted from the fund balance
 (Depreciation expense is net of internal service fund depreciation
 of \$151,949 which has already been allocated to serviced funds) (595,628)

Gain on sale of properties (63,763)

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Proceeds from the issuance of debt are deducted from fund balance (8,590,000)

Repayment of debt principal is added back to fund balance 5,330,000

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Internal balances (159,733)

Deferred revenue (781,927)

Compensated absences (42,262)

Unpaid interest added to long-term debt (273,075)

Amortization of prepaid pension obligation (504,000)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds 434,192

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$206,944

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2005.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

MUNICIPAL WATER SYSTEM FUND

To account for activities related to providing water service to the Millbrae residents.

MUNICIPAL WASTE WATER TREATMENT FACILITY FUND

To account for services of the collection, treatment and administration of the City's sanitation system.

STORM DRAIN FUND

To account for the resources and costs of maintenance and improvements of the City's storm drains.

CITY OF MILLBRAE
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Municipal Water System	Municipal Waste Water Treatment Facility	Storm Drain		
ASSETS					
Current Assets:					
Cash and investments (Note 3)	\$1,637,634	\$5,421,846	\$191,751	\$7,251,231	\$1,931,768
Receivables:					
Accounts - net	714,814	885,160		1,599,974	4,086
Due from other governmental agencies			3,480	3,480	
Total Current Assets	2,352,448	6,307,006	195,231	8,854,685	1,935,854
Total Noncurrent Assets:					
Advances to other funds (Note 4B)	650,000			650,000	
Capital assets, net of accumulated depreciation (Note 6)	5,140,289	7,190,356	975,423	13,306,068	567,015
Total Assets	8,142,737	13,497,362	1,170,654	22,810,753	2,502,869
LIABILITIES					
Current Liabilities:					
Accounts payable	340,504	80,093	11,109	431,706	32,402
Interest payable		51,349		51,349	
Deposits	166,189	18,207	197,074	381,470	
Long-term debt due within one year (Note 7)		200,208		200,208	
Total Current Liabilities	506,693	349,857	208,183	1,064,733	32,402
Noncurrent Liabilities:					
Compensated absences (Note 1G)	35,183	174,077	12,070	221,330	15,565
Advances from other funds (Note 4B)			50,000	50,000	
Accrued self-insurance (Note 11)					972,054
Long-term debt (Note 7)					
Due in more than one year		6,252,741		6,252,741	
Total Liabilities	541,876	6,776,675	270,253	7,588,804	1,020,021
NET ASSETS (Note 9)					
Invested in capital assets, net of related debt	5,140,289	5,071,861	975,423	11,187,573	567,015
Unrestricted	2,460,572	1,648,826	(75,022)	4,034,376	915,833
Total Net Assets	\$7,600,861	\$6,720,687	\$900,401	15,221,949	\$1,482,848
Some amounts reported for business-type activities in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities.				(5,198)	
Net assets business-type activities				<u>\$15,216,751</u>	

See accompanying notes to financial statements

CITY OF MILLBRAE
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Municipal Water System	Municipal Waste Water Treatment Facility	Storm Drain		
OPERATING REVENUES					
Water sales	\$3,647,300			\$3,647,300	
Sewer service fees		\$3,758,868		3,758,868	
Equipment rental					\$606,324
Interdepartmental charges					946,392
Storm drain fees			\$220,912	220,912	
Miscellaneous	6,745	35,062	36,398	78,205	401,846
Total Operating Revenues	3,654,045	3,793,930	257,310	7,705,285	1,954,562
OPERATING EXPENSES					
Personnel services	1,137,148	2,149,954	173,724	3,460,826	396,373
Contractual services	364,408	615,107	97,367	1,076,882	173,524
Materials, supplies and other services	355,798	442,000	24,642	822,440	123,355
Water purchases	1,431,494			1,431,494	
Depreciation	248,513	376,927	39,892	665,332	151,949
Utilities	25,904	155,634	6,758	188,296	924
Insurance premiums and claims					1,140,046
Total Operating Expenses	3,563,265	3,739,622	342,383	7,645,270	1,986,171
Operating Income (Loss)	90,780	54,308	(85,073)	60,015	(31,609)
NONOPERATING REVENUES (EXPENSES)					
Loss on disposal of capital assets		(39,872)		(39,872)	6,878
Interest revenue	36,427	50,083	5,203	91,713	7,715
Interest expense		(213,907)		(213,907)	
Total Nonoperating Revenues (Expenses)	36,427	(203,696)	5,203	(162,066)	14,593
Income (Loss) Before Transfers	127,207	(149,388)	(79,870)	(102,051)	(17,016)
Transfers in (Note 4C)					496,010
Transfers (out) (Note 4C)	(7,000)			(7,000)	(50,000)
Net transfers	(7,000)			(7,000)	446,010
Change in net assets	120,207	(149,388)	(79,870)	(109,051)	428,994
BEGINNING NET ASSETS	7,480,654	6,870,075	980,271		1,053,854
ENDING NET ASSETS	\$7,600,861	\$6,720,687	\$900,401		\$1,482,848
Some amounts reported for business-type activities in the Statement of Activities are different because a portion of the net income of certain internal service funds is reported with the business-type activities which those funds service				154,535	
Change in net assets of business-type activities				\$45,484	

See accompanying notes to financial statements

CITY OF MILLBRAE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Municipal Water System	Municipal Waste Water Treatment Facility	Storm Drain	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$3,778,414	\$3,778,881	\$257,669	\$7,814,964	\$1,950,476
Payments to customers	10,831	1,352		12,183	
Payments to suppliers	(2,157,323)	(1,212,788)	(121,883)	(3,491,994)	(276,925)
Payments to employees	(1,137,911)	(2,124,551)	(170,414)	(3,432,876)	(399,124)
Claims paid					(874,952)
Cash Flows from Operating Activities	<u>494,011</u>	<u>442,894</u>	<u>(34,628)</u>	<u>902,277</u>	<u>399,475</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund payments	1,228,706			1,228,706	
Transfers in					496,010
Transfers (out)	(7,000)			(7,000)	(50,000)
Cash Flows from Noncapital Financing Activities	<u>1,221,706</u>			<u>1,221,706</u>	<u>446,010</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(316,131)	(1,389,832)	(44,860)	(1,750,823)	3,035
Proceeds from long-term debt		6,486,209		6,486,209	
Principal payments on capital debt		(1,361,700)		(1,361,700)	
Debt discounts and issue costs paid		(33,540)		(33,540)	
Interest paid		(78,605)		(78,605)	
Cash Flows from Capital and Related Financing Activities	<u>(316,131)</u>	<u>3,622,532</u>	<u>(44,860)</u>	<u>3,261,541</u>	<u>3,035</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	36,427	50,083	5,203	91,713	7,715
Cash Flows from Investing Activities	<u>36,427</u>	<u>50,083</u>	<u>5,203</u>	<u>91,713</u>	<u>7,715</u>
Net Cash Flows	<u>1,436,013</u>	<u>4,115,509</u>	<u>(74,285)</u>	<u>5,477,237</u>	<u>856,235</u>
Cash and investments at beginning of period	<u>201,621</u>	<u>1,306,337</u>	<u>266,036</u>	<u>1,773,994</u>	<u>1,075,533</u>
Cash and investments at end of period	<u>\$1,637,634</u>	<u>\$5,421,846</u>	<u>\$191,751</u>	<u>\$7,251,231</u>	<u>\$1,931,768</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:					
Operating income (loss)	\$90,780	\$54,308	(\$85,073)	\$60,015	(\$31,609)
Adjustments to reconcile operating income (Loss) to cash flows from operating activities:					
Depreciation	248,513	376,927	39,892	665,332	151,949
Change in assets and liabilities:					
Receivables, net	124,369	(15,049)	3,839	113,159	(4,086)
Due from other governmental agencies			(3,480)	(3,480)	
Accounts payable and other accrued expenses	20,281	(47)	6,884	27,118	20,878
Other accrued expenses	(763)	25,403	3,310	27,950	262,343
Refundable deposits	10,831	1,352		12,183	
Cash Flows from Operating Activities	<u>\$494,011</u>	<u>\$442,894</u>	<u>(\$34,628)</u>	<u>\$902,277</u>	<u>\$399,475</u>

See accompanying notes to financial statements

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Millbrae was incorporated as a general law city in 1948. The City operates under the Council-Administrator form of government and provides the following services: public safety (police and fire), highways and streets, sewer, water, recreation, public improvements, planning and zoning, building inspections, general administration services, and redevelopment.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. *Reporting Entity*

The financial statements of the City of Millbrae include the financial activities of the City and the **Millbrae Redevelopment Agency**.

The Millbrae Redevelopment Agency is a separate government entity created in 1988 under the provisions of the Community Redevelopment Law (California Health and Safety Code) to assist in revitalizing of areas within the City of Millbrae which are determined to be in a declining condition. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The Redevelopment Agency's financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements. Specifically they are included the Redevelopment Agency Housing Special Revenue Fund, the Redevelopment Agency Capital Project Fund, the Redevelopment Agency Debt Service Fund.

Financial statements for the Agency may be obtained from the City of Millbrae at 621 Magnolia Avenue, Millbrae, California, 94030.

B. *Basis of Presentation*

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including blended component units. Separate statements for each fund category—*governmental and proprietary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

GENERAL FUND - The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, highway and street, culture and recreation, and community development. This fund accounts for all financial transactions not accounted for in the other funds.

REDEVELOPMENT AGENCY SPECIAL REVENUE FUND- To account for property tax increments received by the Millbrae Redevelopment Agency to use for Low and Moderate Income Housing Programs.

REDEVELOPMENT AGENCY DEBT SERVICE FUND - To account for the accumulation of resources for payment of principal and interest on Millbrae Redevelopment Agency debt. The Agency receives revenues from **property tax increments**.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND - To account for the Millbrae Redevelopment Agency's resources for administrative costs, capital projects and long-term debt obligation.

LIBRARY CAPITAL PROJECT FUND - To account for project costs funded by proceeds of the 2001 General Obligation Bonds.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

MUNICIPAL WATER SYSTEM FUND - To account for activities related to providing water service to the Millbrae residents.

MUNICIPAL WASTE WATER TREATMENT FACILITY FUND - To account for services of the collection, treatment and administration of the City's sanitation system

STORM DRAIN FUND - To account for the resources and costs of maintenance and improvements of the City's storm drains

The City also reports the following fund types:

Internal Service Funds. The funds account for garage services, worker's compensation, general liability and unemployment insurance; all of which are provided to other departments on a cost-reimbursement basis.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales, transient occupancy and franchise taxes, special assessments, licenses for services and interest revenue. Fines, permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City’s policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. Revenue Recognition for Water and Sewer Enterprise Funds

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are accrued.

F. Property Tax

State Constitution Article 13 provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. At the time of transfer of ownership, assessed value is calculated at 100% of market value as defined by the above-referenced Article 13; otherwise assessed value is calculated as the lesser of 100% of market value or 2% over the prior year assessed value. The State Legislature has determined the method of distribution of receipts from a \$1.00 tax levy among the counties, cities, school districts and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter-approved debt.

The County of San Mateo assesses properties and bills for and collects property taxes on behalf of the City on the schedule that follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation Dates	March 1	March 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	August 31
Delinquent as of	December 10 April 10	August 31

The term “unsecured” refers to taxes on personal property not secured by liens on real property.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax revenues are recognized in the fiscal year, for which the taxes have been levied, provided they become available. Available means due, or past-due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, usually within 60-days of year end.

The Redevelopment Agency has property tax pass-through agreements executed in 1991 with the County of San Mateo, San Mateo County Office of Education, San Mateo County Community College District, San Mateo Union High School District, and Millbrae Elementary School District, the taxing agencies in existence when the Plan Area was formed. Under these agreements, the Agency passes through to these agencies a portion of the property tax increments it would otherwise have received. Increments totaling \$1,164,183 have been passed through to these agencies during fiscal 2004-2005.

G. *Compensated Absences*

Compensated absences comprise unpaid vacation and the vested portion of sick leave which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be permanently liquidated are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

The changes of the compensated absences were as follows:

	Governmental Activities	Business- Type	Total
Beginning Balance	\$1,894,293	\$193,380	\$2,087,673
Additions	153,858	59,910	213,768
Payments	(114,347)	(31,960)	(146,307)
Ending Balance	<u>\$1,933,804</u>	<u>\$221,330</u>	<u>\$2,155,134</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

H. *Change of Fund*

During fiscal 2005, the City renamed the Anne Loftus Capital Project Fund the Park Capital Improvement Capital Project Fund and the Storm Relief Grant Special Revenue Fund the Hillcrest Slide Maintenance Special Revenue Fund to better reflect the financial activities recorded in these funds.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgeting Procedures*

In even numbered years, the City Administrator submits to the City Council a proposed biennial operating budget for the ensuing two fiscal years. The operating budget includes proposed expenditures and the means of financing them and is subjected to public hearings where comments are obtained for consideration. Council adopts the budget through passage of a budget resolution at which time the proposed expenditures become appropriations to the various City departments. The City Council controls the budget at the fund level. The budget is effective the following July 1 and may be amended by subsequent Council resolutions. The City Administrator is authorized to transfer appropriations between line items within any department. Inter-fund transfers in excess of \$20,000 must be approved by the City Council. Expenditures may not exceed appropriations at the fund level. All appropriations lapse at year end. Supplemental appropriations were adopted by City Council and have been included in the budget versus actual statements.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds, except for Capital Project Funds, (which are budgeted on project length basis) and Enterprise Funds.

B. *Encumbrances*

The City uses an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

C. *Excess of Expenditures over Appropriations*

During fiscal 2005, the following funds incurred expenditures in excess of budget.

Fund/Department	Amount in Excess of Appropriations
Plaza Bay Assessment District Fund	
Debt Service: Interest and fiscal charges	\$5,413

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS

The City invests all funds, except cash with fiscal agents, in investment pools. The goal is to invest at the maximum yield, consistent with safety and liquidity, while individual funds can process payments for expenditures at any time. The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The City's cash and investments consist of the following at June 30, 2005:

	Cash and Investments		Total
	Available for Operations	With Fiscal Agents	
Investments:			
U.S. Government Agency Securities		\$861,280	\$861,280
Local Agency Investment Fund	\$5,757,109		5,757,109
San Mateo County Investment Fund	17,154,751		17,154,751
Money Market Funds	109,454	1,552,652	1,662,106
Petty Cash	1,500		1,500
Cash in banks and on hand	371,329		371,329
Total cash and investments	<u>\$23,394,143</u>	<u>\$2,413,932</u>	<u>25,808,075</u>

The City does not allocate investments by fund. Each proprietary fund's portion of Cash and Investments Available for Operations is in substance a demand deposit available to finance operations, and is considered a cash equivalent in preparing the statement of cash flows.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

A. *Authorized Investments by the City*

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings are acceptable of the issuers are acceptable to the City. The following also identifies certain provisions of the City and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This does not address the City's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the Entity's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Allowed in Portfolio	Maximum Investment in One Issuer
California Local Agency Investment Fund	N/A	N/A	\$15 million	None
San Mateo County Pool	N/A	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Government Agency Obligations	5 years	N/A	None	None
Bankers Acceptances	180 days	N/A	40%	30%
Collateralized Certificates of Deposit with Banks or Savings & Loans	2 years	AA	30%	None
Negotiable Certificates of Deposit	2 years	N/A	30%	None
Commercial Paper	270 days	A1	25%	10%
Government Securities Fund	2 years	N/A	None	None
Repurchase Agreements	30 days	N/A	None	None
Money Market Funds	N/A	N/A	None	None

The City did not enter into any reverse repurchase agreements during the year ended June 30, 2005.

B. *Authorized Investments by Debt Agreements*

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinances, bond indentures or State statutes. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
		Two highest rating category
Local Agency Municipal Bonds	N/A	
U.S. Treasury Obligations	N/A	N/A
State of California Obligations	N/A	A2/A
CA Local Agency Obligations	N/A	N/A
U.S. Agency Securities	N/A	N/A
Bankers Acceptances	1 year	A1
Commercial Paper	270 days	A1
Short-Term Certificates of Deposit	1 year	A-1
Repurchase Agreements	30 days	A
Money Market Mutual Funds	N/A	AA-M
Collateralized Bank Deposits	N/A	N/A
California Local Agency Investment Fund	N/A	N/A
Unsecured CD's, deposit accounts, time deposits, bankers acceptances	30 days	A-1
Special Revenue Bonds	N/A	AA
Prefunded Municipal Obligations	N/A	AAA
FDIC insured deposit	N/A	N/A

There are no restrictions on the maximum amount invested in each security type or a maximum that can be invested in any one issuer.

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the City's investments by maturity:

	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Government Agency Securities		\$317,299	\$543,981	\$861,280
Local Agency Investment Fund	\$5,757,109			5,757,109
San Mateo County Investment Fund	17,154,751			17,154,751
Money Market Funds	1,662,106			1,662,106
Petty Cash	1,500			1,500
City-wide cash and investment pool	371,329			371,329
Total Cash and Investments	<u>\$24,946,795</u>	<u>\$317,299</u>	<u>\$543,981</u>	<u>\$25,808,075</u>

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2005 for each investment type:

Investment Type	AAA	Total
U.S. Government Agency Securities	\$861,280	\$861,280
Totals		
<i>Not rated:</i>		
Local Agency Investment Fund		5,757,109
San Mateo County Investment Fund		17,154,751
Money Market Funds		1,662,106
Cash in banks and on hand		\$371,329
Petty Cash		1,500
Total Cash and Investments		\$25,808,075

E. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, 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. At June 30, 2005, these investments matured in an average of 151 days.

G. San Mateo County Investment Fund

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2005, these investments matured in an average of 1.4 years.

Money Market Funds are available for withdrawal on demand.

NOTE 4 - INTERFUND TRANSACTIONS

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2005 interfund balances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Non-Major Governmental	\$502,703

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Advances (Long-term interfund receivable/payables)

The City has an agreement with the Agency under which the City has agreed to advance up to \$3,000,000 to the Agency to be used to fund legal services, special reports, public hearings, and general administrative expenditures of the Agency. Advances bear annual interest at the higher of 6% or the rate interest is earned on the City's investment in the Local Agency Investment Fund. Advances from the General Fund, Municipal Water System Enterprise Fund to the Redevelopment Agency and from the General Fund to the Storm Drain Enterprise Fund amounted to \$1,690,000 and \$50,000, respectively, as of June 30, 2005. The agreements do not specify a due date for repayment of advances.

At June 30, 2005 outstanding balances from the above advances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Redevelopment Agency Debt Service	\$1,040,100
General Fund	Storm Drain Enterprise Fund	50,000
Municipal Water System Enterprise Fund	Redevelopment Agency Debt Service	650,000
		\$1,740,100

C. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2005 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Non-Major Governmental Funds	273,934 C
	Library Fund	127,000 A
	Internal Service Funds	50,000 C
Non-Major Governmental Funds	General Fund	667,096 A, B
	Redevelopment Agency Capital Project	5,000 A
	Non Major Governmental Funds	270,514 A, B
	Municipal Water System	7,000 A
Internal Service Funds	General Fund	315,000 D
	Non Major Governmental Funds	181,010 D
Redevelopment Agency Debt Service	Redevelopment Agency Special Revenue	115,423 B
	Total Interfund Transfers	\$2,011,977

The reasons for these transfers are set forth below:

- A To fund development activities.
- B To fund debt service payments.
- C To reimburse the General Fund for costs incurred for the benefit of funds making the transfer.
- D To reimburse the fund receiving the transfer for costs incurred for the benefit of funds making the transfer.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

D. Internal Balances

Internal balances are presented in the Entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 - LOANS RECEIVABLE

The Low and Moderate Income First Time Home Buyer Program was established to provide mortgages for up to 20 employees of School Districts located within the City. In order to qualify participants must be employees of these Districts and they must be home buyers in low and moderate income housing developments who do not qualify for a home purchase without down payment assistance. These loans bear no interest nor require payments for the first ten years of the loan or until the participant ceases employment with the District, whichever is earlier. After that date the loans bear a negotiated interest rate and require monthly interest payments. The loans are secured by second deeds of trust, require the principal balance to be paid at the end of the thirty year term and must be repaid in full if the property is sold to a unqualified buyer. At June 30, 2005, First Time Home Buyer Loans in the amount of \$883,470 were outstanding.

NOTE 6 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets as those assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years.

Since the City implemented GASB Statement 34 in fiscal year 2003, the City has until fiscal year 2007 to record all its infrastructure assets. Historical values for infrastructure assets will be recorded in fiscal year 2006.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Water and Waste Water Mains, Lines and Trunks	15-20 years
Buildings and Improvements	50-65 years
Furniture, Fixtures and Equipment	5-20 years
Automobiles and Trucks	2-10 years
Infrastructure	65 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Changes in fixed assets during the year ended June 30, 2005 comprise:

	Balance at June 30, 2004	Additions	Retirements	Balance at June 30, 2005
Governmental activities				
Capital assets not being depreciated:				
Land	\$1,967,619			\$1,967,619
Total capital assets not being depreciated	1,967,619			1,967,619
Capital assets being depreciated:				
Land Improvements	862,675		(\$3,465)	859,210
Building and Improvements	16,348,214	\$3,356,640	(44,478)	19,660,376
Furniture, Fixtures and Equipment	2,969,627	68,508	(197,790)	2,840,345
Automobiles and Trucks	2,358,691	8,905	(155,948)	2,211,648
Infrastructure	2,071,738	478,980		2,550,718
Total capital assets being depreciated	24,610,945	3,913,033	(401,681)	28,122,297
Less accumulated depreciation for:				
Land Improvements	547,492	20,772	(3,445)	564,819
Building and Improvements	1,932,212	345,925	(8,756)	2,269,381
Furniture, Fixtures and Equipment	1,792,555	172,831	(169,770)	1,795,616
Automobiles and Trucks	1,807,631	144,032	(155,948)	1,795,715
Infrastructure	601,060	64,017		665,077
Total accumulated depreciation	6,680,950	747,577	(337,919)	7,090,608
Net capital assets being depreciated	17,929,995	3,165,456	(63,762)	21,031,689
Governmental activity capital assets, net	\$19,897,614	\$3,165,456	(\$63,762)	\$22,999,308

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS (Continued)

	Balance at June 30, 2004	Additions	Retirements	Balance at June 30, 2005
Business-type activities				
Capital assets, being depreciated:				
Land Improvements	\$382,108		(\$167,296)	\$214,812
Building and Improvements	4,882,841	\$994,516		5,877,357
Furniture, Fixtures and Equipment	7,982,298	316,789	(14,971)	8,284,116
Infrastructure	14,483,771	439,521		14,923,292
Automobiles and Trucks	50,057			50,057
	<u>27,781,075</u>	<u>1,750,826</u>	<u>(182,267)</u>	<u>29,349,634</u>
Total capital assets being depreciated				
Less accumulated depreciation for:				
Land Improvements	198,932	16,569	(127,423)	88,078
Building and Improvements	2,461,571	92,637		2,554,208
Furniture, Fixtures and Equipment	4,625,150	352,633	(14,969)	4,962,814
Automobiles and Trucks	27,193	6,176		33,369
Infrastructure	8,207,780	197,317		8,405,097
	<u>15,520,626</u>	<u>665,332</u>	<u>(142,392)</u>	<u>16,043,566</u>
Total accumulated depreciation				
	<u>12,260,449</u>	<u>1,085,494</u>	<u>(39,875)</u>	<u>13,306,068</u>
Net capital assets being depreciated				
Business-type activity capital assets, net	<u>\$12,260,449</u>	<u>\$1,085,494</u>	<u>(\$39,875)</u>	<u>\$13,306,068</u>

At June 30, 2005, the Co-Generation Wastewater Project remaining costs are estimated to be approximately \$4.3 million.

A. Capital Asset Contributions

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities

General Government	\$76,335
Public Safety	211,521
Highways and Streets	69,591
Culture and Recreation	32,549
Community Development	205,632
Capital assets held by the City's Internal Service Funds	<u>151,949</u>
Total Governmental Activities	<u><u>\$747,577</u></u>

Business-Type Activities

Municipal Water System	\$248,513
Municipal Wastewater Treatment Facility	376,927
Storm Drain	<u>39,892</u>
Total Business-Type Activities	<u><u>\$665,332</u></u>

NOTE 7 - LONG TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 7 - LONG TERM DEBT (Continued)

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
Governmental Activity Debt:						
General Obligation Bonds						
Storm Water District #1, 1.0%, repaid 6/1/2005	\$675,000	\$30,000		\$30,000		
Public Library Project 5.12%-8.5%, due 8/1/2036	10,600,000	10,580,000		25,000	\$10,555,000	\$35,000
Pension Obligation Bonds Series A-2 4.35%-6.58%, due 6/1/2034	11,521,630	11,521,630	\$135,660		11,657,290	
1999 Certificates of Participation 4.5-5.875%, due 3/1/2024	4,105,000	3,745,000		110,000	3,635,000	115,000
Natural Disaster Assistance Loan 5.39%, due 6/9/2011	2,161,121	2,549,443	137,415		2,686,858	
1993 Redevelopment Agency Tax Allocation Bonds 4.7-6.0%, repaid 3/1/05	6,500,000	5,015,000		5,015,000		
2005 Redevelopment Agency Tax Allocation Bonds 3.0-4.5%, due 8/1/2035	8,590,000		8,590,000		8,590,000	50,000
Total Governmental Activity Debt		<u>\$33,441,073</u>	<u>\$8,863,075</u>	<u>\$5,180,000</u>	<u>\$37,124,148</u>	<u>\$200,000</u>
Business-Type Activity Debt:						
Enterprise Funds:						
1997 Bank Loan - Sanitary Sewer Project, 5.56%, due 9/1/2008	2,743,700	\$1,361,700		\$1,361,700		
2005 Bank Loan -Cogeneration Project 4.75%, due 4/27/2025	6,486,209		\$6,486,209		\$6,486,209	\$200,208
Discounts and loss on refunding, net of amortization		(99,704)	(33,540)	99,984	(33,260)	
Total Business-Type Activity Debt		<u>\$1,261,996</u>	<u>\$6,452,669</u>	<u>\$1,461,684</u>	<u>\$6,452,949</u>	<u>\$200,208</u>

B. Storm Water District No. 1 General Obligation Bonds

The City issued City of Millbrae Municipal Storm Water District No. 1 Bonds in the principal amount of \$675,000 in 1965. These bonds were issued to pay for the acquisition, construction and completion of the storm water improvements. Semi-annual interest payments due December 1 and June 1 and annual principal payments due June 1 are repayable from property taxes levied for that purposes.

C. Public Library Project General Obligation Bonds

On August 7, 2001, the City issued 2001 General Obligation Bonds in the amount of \$10,600,000. The Bond proceeds will be used to renovate, and construct an expansion area of the Millbrae Public Library. Semi-annual interest payments are due each February 1 and August 1, and principal will be due on August 1 repayable from General Fund revenues until August 1, 2036. These bonds are repayable from a voter-approved tax levied for that purpose.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 7 - LONG TERM DEBT (Continued)

D. 2004 Pension Obligation Bonds

On June 29, 2004, the California Statewide Communities Development Authority issued the 2004 Series A-2 Capital Appreciation Bonds in the amount of \$18,529,195, of which \$11,521,630 is the City's portion. The bond proceeds were used to prepay the unfunded liability of the Miscellaneous and Safety Pension Plans through the California Public Employees' Retirement System.

The Bonds unaccrued discount totaled \$11,657,290 at June 30, 2005. The Bonds do not pay periodic interest. Interest on the Bonds will accrete in value at the rates of 4.35% to 6.58%. Repayments of the accreted principal will commence June 1, 2008.

E. 1999 Certificates of Participation

On December 21, 1999 the City issued Certificates of Participation (COPs) in the amount of \$4,105,000. COPs proceeds were used for financing the expansion and renovation of the police department, construction of a community room, funding a reserve fund, and payment for costs of issuing the COPs.

Interest payments due on March 1 and September 1 of each year and principal due on March 1 are repayable from General Fund revenue.

F. Natural Disaster Assistance Loan Agreement

On June 9, 2001, the City obtained a loan from the Governor's Office of Emergency Services. The loan was used to repair and restore public facilities as a result of a landslide. Interest on the loan is 5.39% compounded annually. Principal and interest payments are deferred for 3 years with annual interest payments to commence June 9, 2004. In fiscal 2004-2005, the loan agreement was amended to defer repayment until May 2007. During fiscal 2004-2005, \$137,415 of accumulated unpaid interest was added to principal.

G. 1993 Redevelopment Agency Tax Allocation Bonds

On August 20, 1993 the Redevelopment Agency issued 1993 Tax Allocation Bonds. The proceeds were used for general redevelopment purposes to benefit the Redevelopment project area including certain downtown street and landscape improvements, affordable housing programs, the funding of a reserve fund, and the payment of costs of issuing the Bonds. During fiscal year 2005, the Bonds were fully repaid with the proceeds of the 2005 Redevelopment Agency Tax Allocation Bonds.

H. 2005 Redevelopment Agency Tax Allocation Bonds

On January 13, 2005, the Redevelopment Agency issued 2005 Tax Allocation Bonds in the original principal amount of \$8,590,000. The proceeds were used to repay the 1993 Tax Allocation Bonds and to finance redevelopment activities in the project area. As a result, the 1993 Bonds were called on March 1, 2005.

Interest payments due on February 1 and August 1 of each year and principal due commencing August 1, 2005 are repayable from tax increment revenues allocated to the Redevelopment Agency and certain other sources.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 7 - LONG TERM DEBT (Continued)

I. 1997 Bank Loan

The City of Millbrae previously financed the acquisition and construction of certain sanitary sewer system improvements through a Certificate of Participation (1989 COP) issued on August 1, 1989 in the original principal amount of \$4,025,000.

On May 1, 1997 the City obtained a 1997 Bank Loan in the principal amount \$2,743,700. Proceeds from the loan were used to purchase US government securities which were placed in an irrevocable trust to provide for all future principal and interest on the 1989 COPs. The 1989 COPs were retired on September 1, 1998.

During fiscal year 2005 the Loan was fully repaid with proceeds from the 2005 Bank Loan.

J. 2005 Bank Loan

On April 27, 2005 the City obtained a 2005 Bank Loan in the principal amount of \$6,486,209. Proceeds from the loan were used to repay the outstanding 1997 Bank Loan and to provide funding for the Wastewater System Cogeneration Project.

Under the 2005 Bank Loan, principal and interest is due each April 27 and October 27.

K. Debt Service Requirements

Annual debt service requirements are shown below:

Year ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$200,000	\$1,162,059	\$200,208	\$305,745
2007	240,000	1,240,308	209,830	296,123
2008	932,260	1,342,591	219,915	286,037
2009	917,011	1,373,854	230,485	275,467
2010	924,429	1,398,384	241,564	264,389
2011-2015	7,821,904	6,874,156	1,393,548	1,136,216
2016-2020	5,564,163	7,423,171	1,762,224	767,541
2021-2025	6,028,946	7,927,603	2,228,435	301,331
2026-2030	5,751,752	8,494,885		
2031-2035	6,633,683	7,392,294		
2036-2040	2,110,000	94,985		
Total	\$37,124,148	\$44,724,290	\$6,486,209	\$3,632,849

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 7 - LONG TERM DEBT (Continued)

L. Debt with No City Commitment

On September 1, 1997 the City sponsored the issuance of the City of Millbrae Residential Facility Revenue Bonds, Series 1997A which were issued in the aggregate principal amount of \$30,000,000 to assist a developer in financing the cost of site acquisition, demolition and construction of a 158 unit assisted living facility and parking garage. The Bonds are payable solely out of the revenues from operating the facility and the project is pledged as security for the Bonds. The City has no legal or moral liability with respect to the payment of this debt. The outstanding principal balance at June 30, 2005 was \$28,835,000.

NOTE 8 - SPECIAL ASSESSMENT DEBT

The Plaza Bay Reassessment District exists in the City to provide improvements to properties located in the District. These improvements included street and traffic, sanitary sewer and water system improvements, and for acquisition of necessary rights of way and easements. Properties are assessed for the cost of improvements and these assessments are payable over the term of the debt issued to finance the improvements. The total amount of the assessment is recorded as a receivable and deferred revenue at the time the related debt is issued, and reduced as assessments are collected. The City is obligated to be the purchaser of last resort to repay this debt in the event of default by the district. At June 30, 2005 the District was in compliance with the repayment and other requirements of the debt issue.

On August 4, 1986 the District issued Refunding Improvement Bonds in the aggregate principal amount of \$1,638,000. Interest on the Bonds, varying between 4.75% and 7.75%, is payable March 2 and September 2 of each year, and principal is payable each September 2 until 2004. During the year ended June 30, 2005, the District retired the outstanding principal of \$150,000.

NOTE 9 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balance

Fund balances and retained earnings consist of reserved and unreserved amounts. Reserved fund balances and retained earnings represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remainder is unreserved.

Portions of unreserved fund balance may be designated by the City Council or management for tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned. Such plans or intent are subject to change, have not been legally authorized, and may not result in expenditures.

Grants and transfers restricted for use as proprietary fund type capital expenditures are reflected as contributed capital upon expenditure of funds for capital assets.

C. Reservations

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long-term obligations.

Reserve for **capital outlay** is the portion of fund balance or retained earnings legally restricted for use on capital outlay projects.

Reserves for **advances to other funds, prepaids, and loans receivable** are the portions of fund balance that are not available for appropriation.

D. Designations

Designated for **prior year operating budget carryovers** is the portion of fund balance to be used for 2003-2004 spent appropriations which have been approved by Council.

Designated for **capital outlay** is the portion of fund balance to be used for budgeted future capital outlay projects.

E. Fund Balance Deficits

The Other Special Revenue Fund and Workers Compensation Internal Service Fund had deficit fund balances of \$169,455 and \$124,133, respectively, at June 30, 2005. Future revenues are expected to eliminate these deficits.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 10 - RETIREMENT BENEFITS

A. CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2005, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.000%-2.700%	1.426%-2.418%
Required employee contribution rates	9.000%	7.000%
Required employer contribution rates	13.451%	8.534%

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. The City's labor contracts require it to pay the employees contributions as well as its own. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost.

Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over 20 years. Investment gains and losses are accumulated as they are realized and 10 percent of the net balance is amortized annually.

Actuarially required contributions for fiscal years 2005, 2004 and 2003 were, \$1,566,622, \$1,059,066, and \$1,346,316, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 10 - RETIREMENT BENEFITS (Continued)

The City prepaid its pension contributions with proceeds from the Pension Obligation Bonds (See Note 7). These prepaid contributions are reflected in the accompanying financial statements as Prepaid Pension Obligations which amounted to \$10,696,000 at June 30, 2005. During fiscal 2004-2005, the amortization of the prepayment increased the actuarially required contributions by \$504,000 to arrive at Annual Pension Costs of \$1,566,622. For years prior to fiscal 2004-2005, Annual Pension Costs equal the Actuarially Required Contributions disclosed above.

The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available is set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2001	\$35,585,118	\$35,296,226	\$288,892	99.2%	\$4,260,148	6.781%
2002	38,704,016	33,432,123	5,271,893	86.4%	4,805,935	109.695%
2003	40,590,727	33,730,019	6,860,708	83.1%	4,708,290	145.715%

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2001	\$20,945,166	\$23,826,947	(\$2,881,781)	113.8%	\$5,554,057	(51.886%)
2002	22,898,788	22,476,784	422,004	98.2%	6,270,104	6.730%
2003	26,363,785	22,714,033	3,649,752	86.2%	5,751,501	63.457%

PERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 2003, the most recent available:

	Safety	Miscellaneous
Beginning Balance, June 30, 2002	\$33,432,123	\$22,476,784
Contributions Received	857,615	485,508
Benefits and Refunds Paid	(1,700,537)	(1,004,478)
Transfers and Miscellaneous Adjustments Paid During Fiscal 2002-2003	4,796	9,356
Expected Investment Earnings Credited	2,724,263	1,833,730
Expected Actuarial Value of Assets, June 30, 2003	\$35,318,260	\$23,800,900
Market Value of Assets, June 30, 2003	\$30,663,654	\$20,649,121
Actuarial Value of Assets, June 30, 2003	\$33,730,019	\$22,714,033

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 10 - RETIREMENT BENEFITS (Continued)

Audited annual financial statements and ten year statistical comparison are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

B. *Postemployment Health Care Benefits*

The City pays a portion of insurance premiums to provide health care benefits for retired employees as required by bargaining unit agreements. City employees who retire after reaching age 50 with five years or more of service are eligible for benefits. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. During the year ended June 30, 2005 the City paid \$248,442 on behalf of 47 retirees who were participating in the plan.

C. *Deferred Compensation Plan*

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

NOTE 11 - RISK MANAGEMENT

A. *Insurance Coverage*

The City participates in Association of Bay Area Governments (ABAG) Plan Corporation, a non profit benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$10,000,000 of general liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. For the year ended June 30, 2005, the City paid ABAG Plan \$272,010 in premiums and did not receive a refund of premiums paid in prior years. ABAG Plan has not determined the value of the City's interest in its net assets. Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94694-2050.

The City has also purchased excess coverage insurance for worker's compensation claims from an independent commercial insurance company with \$1,000,000 deductible. For the past three fiscal years, the amount of settlements did not exceed insurance coverage.

B. *Liability for Uninsured Claims*

The City provides for the uninsured portion of claims and judgments in the Workers' Compensation and General Liability Internal Service Funds. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 11 - RISK MANAGEMENT (Continued)

The City's liability for uninsured claims is limited to workers' compensation and general liability claims, as discussed above, and was estimated by management based on prior years claims experience as follows:

	Fiscal 2004-2005			Fiscal 2003-2004 Totals
	Workers' Compensation Claims	General Liability Claims	Total	
Balance, beginning of year	\$579,887	\$127,073	\$706,960	\$400,754
Net change in:				
Liability for current fiscal year claims	343,887	11,218	355,105	260,127
Liability for prior fiscal year claims and claims incurred but not reported (IBNR)	2,731	687,163	689,894	682,788
Claims paid	(344,605)	(435,300)	(779,905)	(636,709)
Balance, end of year	<u>\$581,900</u>	<u>\$390,154</u>	<u>\$972,054</u>	<u>\$706,960</u>

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

The City participates in the joint ventures discussed below through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

A. *City/County Association of Governments of San Mateo County (C/CAG)*

City/County Association of Governments of San Mateo County was formed in 1990 between the County and various cities in San Mateo County to prepare, adopt, monitor and enforce state mandated plans for the management of traffic congestion, integrated solid waste, airport land use and hazardous waste. The City's contribution to C/CAG was \$53,432 for the year ended June 30, 2005. Financial statements may be obtained by mailing a request to the City of San Carlos, 666 Elm Street, San Carlos, CA 94070.

B. *Transportation System Management*

Transportation Systems Management (TSM) was established in 1991 by the Cities of South San Francisco, Brisbane, Colma, Daly City, Half Moon Bay, Millbrae, Pacifica and San Bruno for the purpose of mitigating traffic congestion. Financial statements for TSM may be obtained from Sam Trans, 401 Marina Boulevard, South San Francisco, CA 94080.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

A. *Contingent Liabilities*

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

The City participates in Federal and State grant programs. These programs have been audited by the City's independent auditors in accordance with the provisions of the Federal Single Audit Act of 1984 including 1996 amendments and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

**MAJOR GOVERNMENTAL FUNDS, BUDGET VERSUS ACTUAL-GENERAL FUND AND
SPECIAL REVENUE FUNDS**

General Fund - The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, highway and street, culture and recreation, and community development. This fund accounts for all financial transactions not accounted for in the other funds.

Redevelopment Agency Special Revenue Fund- To account for property tax increments received by the Millbrae Redevelopment Agency to use for Low and Moderate Income Housing Programs.

CITY OF MILLBRAE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property tax	\$4,153,552	\$4,426,552	\$5,333,803	\$907,251
Sales tax	2,097,844	1,937,844	1,956,568	18,724
Transient occupancy tax	2,290,531	2,290,531	2,281,978	(8,553)
Other taxes	995,521	1,110,521	1,167,562	57,041
Licenses and permits	372,189	372,189	298,596	(73,593)
Charges for services	580,885	627,427	595,376	(32,051)
Fines and forfeitures	232,748	232,748	197,962	(34,786)
Use of money and property	225,654	265,654	440,075	174,421
Grants and intergovernmental	1,023,777	1,338,777	585,565	(753,212)
Miscellaneous	439,103	236,601	269,050	32,449
Total Revenues	12,411,804	12,838,844	13,126,535	287,691
EXPENDITURES:				
Current:				
General government	841,560	1,439,284	1,162,097	277,187
Public safety	8,670,508	8,384,588	8,259,715	124,873
Highways and streets	917,864	943,174	810,854	132,320
Culture and recreation	893,836	773,440	707,073	66,367
Community development	561,282	523,030	474,359	48,671
Capital outlay	6,564	71,564	48,567	22,997
Total Expenditures	11,891,615	12,135,080	11,462,665	672,415
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	520,189	703,764	1,663,870	960,106
OTHER FINANCING SOURCES (USES)				
Transfers in		450,550	450,934	384
Transfers (out)	(663,634)	(982,096)	(982,096)	
Total other financing sources (uses)	(663,634)	(531,546)	(531,162)	384
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$143,445)	\$172,218	1,132,708	\$960,490
BEGINNING FUND BALANCE			420,257	
ENDING FUND BALANCE			\$1,552,965	

CITY OF MILLBRAE
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget		Actual	Positive (Negative)
	Original	Final		
GOVERNMENTAL REVENUES				
Property tax	\$330,000	\$330,000	\$514,664	\$184,664
Use of money and property	40,000	40,000	32,483	(7,517)
Total Revenues	<u>370,000</u>	<u>370,000</u>	<u>547,147</u>	<u>177,147</u>
EXPENDITURES				
Community development		126,987	81,897	45,090
Total Expenditures		<u>126,987</u>	<u>81,897</u>	<u>45,090</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>370,000</u>	<u>243,013</u>	<u>465,250</u>	<u>222,237</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(115,423)	(115,423)	(115,423)	
Total Other Financing Sources (Uses)	<u>(115,423)</u>	<u>(115,423)</u>	<u>(115,423)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$254,577</u>	<u>\$127,590</u>	349,827	<u>\$222,237</u>
BEGINNING FUND BALANCE			<u>1,850,335</u>	
ENDING FUND BALANCE			<u>\$2,200,162</u>	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

In even numbered years, the City Administrator submits to the City Council a proposed biennial operating budget for the ensuing two fiscal years. The operating budget includes proposed expenditures and the means of financing them and is subjected to public hearings where comments are obtained for consideration. Council adopts the budget through passage of a budget resolution at which time the proposed expenditures become appropriations to the various City departments. The City Council controls the budget at the fund level. The budget is effective the following July 1 and may be amended by subsequent Council resolutions. The City Administrator is authorized to transfer appropriations between line items within any department. Inter-fund transfers in excess of \$20,000 must be approved by the City Council. Expenditures may not exceed appropriations at the fund level. All appropriations lapse at year end. Supplemental appropriations were adopted by City Council and have been included in the budget versus actual statements.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds.

OTHER SUPPLEMENTARY INFORMATION

<p style="text-align: center;">MAJOR GOVERNMENTAL FUNDS, OTHER THAN GENERAL FUND AND SPECIAL REVENUE FUNDS</p>

Redevelopment Agency Debt Service Fund-To account for the accumulation of resources for payment of principal and interest on the Millbrae Redevelopment Agency debt. The Agency receives revenues from property tax increment.

CITY OF MILLBRAE
REDEVELOPMENT AGENCY DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Positive (Negative)
GOVERNMENTAL REVENUES			
Property tax	\$2,057,000	\$2,058,660	\$1,660
Use of money and property	50,000	85,214	35,214
Miscellaneous		535	535
	<u>2,107,000</u>	<u>2,144,409</u>	<u>37,409</u>
EXPENDITURES			
Community development	350,000	471,995	(121,995)
Payments to property tax pass throughs	1,130,000	1,164,183	(34,183)
Debt service:			
Principal	180,000	5,015,000	(4,835,000)
Interest and fiscal charges	399,286	440,933	(41,647)
	<u>2,059,286</u>	<u>7,092,111</u>	<u>(5,032,825)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>47,714</u>	<u>(4,947,702)</u>	<u>(4,995,416)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long term debt		5,513,352	5,513,352
Transfers in	115,423	115,423	
	<u>115,423</u>	<u>5,628,775</u>	<u>5,513,352</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$163,137</u>	<u>681,073</u>	<u>\$517,936</u>
BEGINNING FUND BALANCE		<u>972,626</u>	
ENDING FUND BALANCE		<u>\$1,653,699</u>	

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

COPS & Other Grants - To account for federal moneys received for public safety programs.

Measure A - To account for additional sales tax imposed to provide resources for street and highway improvements.

Noise Insulation Grant - To account for grants received from Federal Aviation Administration and City and County of San Francisco for an airport noise abatement program.

Gas Tax - To account for gasoline tax allocated by State for street and highway maintenance and improvements.

AB2928 Grant – To account for grants received from AB2928.

Hillcrest Slide Maintenance - To account for grant moneys received due to the 1996 Storm.

Redevelopment Housing - To account for property tax increments received by the Millbrae Redevelopment Agency to use for Low and Moderate Income Housing Programs.

Special Recreation - To account for fees and charges and expenditures for recreation and leisure programs.

Parking In Lieu - To account for moneys received for business district parking improvements.

Integrated Waste Management - To account for moneys to be reimbursed by fee charges for integrated waste management program.

Other - To account for moneys received from the Asset Forfeitures Grants, BART Impact Study grant, Department of Urban Forestry Grant, San Mateo County for Older American Act Grant and Senior Wing Furniture Donations.

Schultz Park - To account for resources donated by the Schultz family to maintain the Schultz Park.

Sister City Trust - To account for resources received from two sister cities, Malta and La Serena, which are used for activities relation to these two sister cities.

Park Trust - To account for resources received from sale of park property, which can be used only for park improvements purposes.

Millbrae Station Area Developer Fee - Operating - To account for the fees collected from the developers for the operation of the Millbrae Station Area development project.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

Debt Service Funds

Storm Drain Bonds - To account for the accumulation of resources for, and payment of principal and interest on, the City's general obligation bond issued for Storm Water District #1.

Fire Facility Bonds - To account for the accumulation of resources for, and payment of, principal and interest on, the City's 1975 Fire Facility general obligation bonds.

Plaza Bay Assessment District - To account for the accumulation of resources for, and payment of, the Plaza Bay Special Assessment Bond principal and interest. Special assessments are levied to the benefited property owners.

1999 Certificates of Participation - To account for the accumulation of resources for, and payment of, the 1999 Certificates of Participation principal and interest.

Library Bonds - To account for the accumulation of resources for, and payment of principal and interest on, the City's 2001 general obligation bond issued for the Millbrae Public Library Project.

Capital Project Funds

Capital Improvements - To account for resources for streets and sidewalks maintenance costs.

Street Pavement Project Grants - To account for resources for street resurfacing and overlay project.

Special Assessment District - To account for Plaza Bay Special Assessment District resources.

Police Department Improvements - To account for project costs funded by proceeds of the 1999 COPS.

Park Capital Improvement - To account for the donations received to be used for park development.

Millbrae Station Area Developer Fee – Capital – To account for the fees collected from the developers for the Millbrae Station Area development capital project.

US 101/Millbrae Ave- To account for grant moneys received for the US 101/Millbrae Avenue interchanged improvement project.

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2005

SPECIAL REVENUE FUNDS

	COPs & Other Grants	Measure A	Noise Insulation Grant	Gas Tax	AB2928 Grant
ASSETS					
Cash and investments	\$66,311	\$908,123	\$38,806	\$416,671	
Cash with fiscal agent					
Receivables:					
Taxes		38,832			
Accounts - net					
Due from other governmental agencies					
Prepaid items					
Total Assets	<u>\$66,311</u>	<u>\$946,955</u>	<u>\$38,806</u>	<u>\$416,671</u>	
LIABILITIES					
Accounts payable				\$9,988	
Due to other funds	\$1,789				
Deposits					
Deferred revenue					
Total Liabilities	<u>1,789</u>			<u>9,988</u>	
EQUITY AND OTHER CREDITS					
Fund balances:					
Reserved for					
Encumbrances	13,007	\$37,902		50,499	\$9,511
Debt service					
Capital outlay					
Prepays					
Unreserved:					
Designated for:					
Prior year operating budget carryovers		625,611			
Capital outlay				356,184	
Undesignated	51,515	283,442	\$38,806		(9,511)
Total Fund Balances	<u>64,522</u>	<u>946,955</u>	<u>38,806</u>	<u>406,683</u>	
Total Liabilities and Fund Balances	<u>\$66,311</u>	<u>\$946,955</u>	<u>\$38,806</u>	<u>\$416,671</u>	

SPECIAL REVENUE FUNDS

Hillcrest Slide Maintenance	Special Recreation	Parking In Lieu	Integrated Waste Management	Other	Shultz Park
\$75,000	\$159,197 1,670	\$1,593	\$145,139	\$45,604	\$13,484
	990		28,490	\$273,148 15,887	
	4,000				
<u>\$75,000</u>	<u>\$165,857</u>	<u>\$1,593</u>	<u>\$173,629</u>	<u>\$334,639</u>	<u>\$13,484</u>
	\$38,549		\$1,161	\$38,470 465,502	
	11,319		5,550	122	
	49,868		6,711	504,094	
	13,742			5,433	
	4,000		16,059		
<u>\$75,000</u>	<u>98,247</u>	<u>\$1,593</u>	<u>150,859</u>	<u>(174,888)</u>	<u>\$13,484</u>
<u>75,000</u>	<u>115,989</u>	<u>1,593</u>	<u>166,918</u>	<u>(169,455)</u>	<u>13,484</u>
<u>\$75,000</u>	<u>\$165,857</u>	<u>\$1,593</u>	<u>\$173,629</u>	<u>\$334,639</u>	<u>\$13,484</u>

(Continued)

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2005

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUND
	Sister City Trust	Park Improvement	Millbrae Station Area Developer Fee - Operating	Storm Drain Bonds
ASSETS				
Cash and investments	\$8,821	\$37,261	\$370,042	\$2,917
Cash with fiscal agent		204,962		
Receivables:				
Taxes				
Accounts - net				
Due from other governmental agencies				
Prepaid items				
Total Assets	<u>\$8,821</u>	<u>\$242,223</u>	<u>\$370,042</u>	<u>\$2,917</u>
LIABILITIES				
Accounts payable	\$330	\$1,584	\$1,275	
Due to other funds				
Deposits		11,588	137,038	
Deferred revenue				
Total Liabilities	<u>330</u>	<u>13,172</u>	<u>138,313</u>	
EQUITY AND OTHER CREDITS				
Fund balances:				
Reserved for				
Encumbrances		5,120	46,507	
Debt service				\$2,917
Capital outlay				
Prepays				
Unreserved:				
Designated for:				
Prior year operating budget carryovers			102,493	
Capital outlay				
Undesignated	\$8,491	223,931	82,729	
Total Fund Balances	<u>8,491</u>	<u>229,051</u>	<u>231,729</u>	<u>2,917</u>
Total Liabilities and Fund Balances	<u>\$8,821</u>	<u>\$242,223</u>	<u>\$370,042</u>	<u>\$2,917</u>

DEBT SERVICE FUNDS

Fire Facility Bonds	Plaza Bay Assessment District	1999 COPS	Library Bonds	Street Pavement Project Grants
\$4,373		\$23,530 325,219	\$449,775	
				\$35,412
<u>\$4,373</u>		<u>\$348,749</u>	<u>\$449,775</u>	<u>\$35,412</u>
				\$35,412
				<u>35,412</u>
\$4,373		\$348,749	\$449,775	
<u>4,373</u>		<u>348,749</u>	<u>449,775</u>	
<u>\$4,373</u>		<u>\$348,749</u>	<u>\$449,775</u>	<u>\$35,412</u>

(Continued)

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2005

CAPITAL PROJECTS FUNDS

	Special Assessment District	Police Department Improvements	Park Capital Improvement	Millbrae Station Area Developer Fee - Capital	US 101 Millbrae Ave	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$51,415		\$4,107	\$172,800	\$124,831	\$3,119,800
Cash with fiscal agent				1,337,114		1,868,965
Receivables:						
Taxes						38,832
Accounts - net						302,628
Due from other governmental agencies						51,299
Prepaid items						4,000
Total Assets	<u>\$51,415</u>		<u>\$4,107</u>	<u>\$1,509,914</u>	<u>\$124,831</u>	<u>\$5,385,524</u>
LIABILITIES						
Accounts payable						\$91,357
Due to other funds						502,703
Deposits				\$451,499	\$100,000	717,116
Deferred revenue						
Total Liabilities				<u>451,499</u>	<u>100,000</u>	<u>1,311,176</u>
EQUITY AND OTHER CREDITS						
Fund balances:						
Reserved for						
Encumbrances					80,959	262,680
Debt service						805,814
Capital outlay						
Prepays						4,000
Unreserved:						
Designated for:						
Prior year operating budget carryovers						744,163
Capital outlay						356,184
Undesignated	51,415		\$4,107	1,058,415	(56,128)	1,901,507
Total Fund Balances	<u>51,415</u>		<u>4,107</u>	<u>1,058,415</u>	<u>24,831</u>	<u>4,074,348</u>
Total Liabilities and Fund Balances	<u>\$51,415</u>		<u>\$4,107</u>	<u>\$1,509,914</u>	<u>\$124,831</u>	<u>\$5,385,524</u>

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE FUNDS				
	COPs & Other Grants	Measure A	Noise Insulation Grant	Gas Tax	AB2928 Grant
GOVERNMENTAL REVENUES					
Property tax					
Other taxes		\$342,622			
Licenses and permits					
Charges for services					
Fines and forfeitures					
Use of money and property	\$1,174	12,606	\$714	\$5,465	
Grants and intergovernmental	105,286			411,121	
Miscellaneous					
Total Revenues	<u>106,460</u>	<u>355,228</u>	<u>714</u>	<u>416,586</u>	
EXPENDITURES					
Public safety	86,407				
Highways and streets				313,942	
Culture and recreation					
Community development		65,397	1,710		\$4,895
Capital outlay		74,683		37,607	
Debt service:					
Principal					
Interest and fiscal charges					
Total Expenditures	<u>86,407</u>	<u>140,080</u>	<u>1,710</u>	<u>351,549</u>	<u>4,895</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>20,053</u>	<u>215,148</u>	<u>(996)</u>	<u>65,037</u>	<u>(4,895)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)					
Total Other Financing Sources (Uses)					
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>20,053</u>	<u>215,148</u>	<u>(996)</u>	<u>65,037</u>	<u>(4,895)</u>
BEGINNING FUND BALANCES	<u>44,469</u>	<u>731,807</u>	<u>39,802</u>	<u>341,646</u>	<u>4,895</u>
ENDING FUND BALANCES (DEFICITS)	<u>\$64,522</u>	<u>\$946,955</u>	<u>\$38,806</u>	<u>\$406,683</u>	

SPECIAL REVENUE FUNDS

Hillcrest Slide Maintenance	Special Recreation	Parking In Lieu	Integrated Waste Management	Other
	\$540,469		\$199,625	
\$177	97,895		25	
	23,810		5,748	\$85,930
75,000	1,547		2,500	14,989
<u>75,177</u>	<u>663,721</u>		<u>207,898</u>	<u>100,919</u>
			185,517	26,247
	955,476			104,916
	<u>955,476</u>		<u>185,517</u>	<u>131,163</u>
75,177	(291,755)		22,381	(30,244)
(181,010)	350,434			13,362
				(7,900)
(181,010)	350,434			5,462
(105,833)	58,679		22,381	(24,782)
180,833	57,310	\$1,593	144,537	(144,673)
<u>\$75,000</u>	<u>\$115,989</u>	<u>\$1,593</u>	<u>\$166,918</u>	<u>(\$169,455)</u>

(Continued)

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE FUNDS			
	Shultz Park	Sister City Trust	Park Improvement	Millbrae Station Area Developer Fee - Operating
GOVERNMENTAL REVENUES				
Property tax				
Other taxes				
Licenses and permits				\$50,583
Charges for services			\$30,000	14,183
Fines and forfeitures				5,261
Use of money and property		\$94	12,440	
Grants and intergovernmental				
Miscellaneous		3,411	2,500	
Total Revenues		3,505	44,940	70,027
EXPENDITURES				
Public safety				
Highways and streets				
Culture and recreation		5,526	27,878	
Community development				20,810
Capital outlay			8,905	
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures		5,526	36,783	20,810
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(2,021)	8,157	49,217
OTHER FINANCING SOURCES (USES)				
Transfers in		1,100	209,962	
Transfers (out)			(345,462)	(105,000)
Total Other Financing Sources (Uses)		1,100	(135,500)	(105,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		(921)	(127,343)	(55,783)
BEGINNING FUND BALANCES	\$13,484	9,412	356,394	287,512
ENDING FUND BALANCES (DEFICITS)	\$13,484	\$8,491	\$229,051	\$231,729

DEBT SERVICE FUNDS

Storm Drain Bonds	Fire Facility Bonds	Plaza Bay Assessment District	1999 COPS	Library Bonds
\$13,856				\$621,841
(665)		872	\$5,837	9,680
13,191		872	5,837	631,521
30,000		150,000	110,000	25,000
300		5,813	209,803	548,261
30,300		155,813	319,803	573,261
(17,109)		(154,941)	(313,966)	58,260
		54,752	320,000	
		54,752	320,000	
(17,109)		(100,189)	6,034	58,260
20,026	\$4,373	100,189	342,715	391,515
\$2,917	\$4,373		\$348,749	\$449,775

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	CAPITAL PROJECT FUNDS			
	Street Pavement Project Grants	Special Assessment District	Police Department Improvements	Park Capital Improvement
GOVERNMENTAL REVENUES				
Property tax				
Other taxes				
Licenses and permits				
Charges for services				
Fines and forfeitures				
Use of money and property	\$26	(\$60)	\$260	
Grants and intergovernmental	235,412			
Miscellaneous				
Total Revenues	235,438	(60)	260	
EXPENDITURES				
Public safety				
Highways and streets				
Culture and recreation				
Community development				
Capital outlay	35,412			
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	35,412			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	200,026	(60)	260	
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)	(2,900)	(54,752)	(28,434)	
Total Other Financing Sources (Uses)	(2,900)	(54,752)	(28,434)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	197,126	(54,812)	(28,174)	
BEGINNING FUND BALANCES	(197,126)	106,227	28,174	\$4,107
ENDING FUND BALANCES (DEFICITS)		\$51,415		\$4,107

<u>Millbrae Station Area Developer Fee - Capital</u>	<u>US 101 Millbrae Ave</u>	<u>Total Nonmajor Governmental Funds</u>
		\$635,697
		342,622
		50,583
		784,277
		5,261
\$26,358		172,898
	\$551,324	1,418,631
		99,947
<u>26,358</u>	<u>551,324</u>	<u>3,509,916</u>
		86,407
		525,706
		988,880
	450	93,262
	157,293	418,816
		315,000
		764,177
	<u>157,743</u>	<u>3,192,248</u>
<u>26,358</u>	<u>393,581</u>	<u>317,668</u>
		949,610
		(725,458)
		224,152
26,358	393,581	541,820
<u>1,032,057</u>	<u>(368,750)</u>	<u>3,532,528</u>
<u>\$1,058,415</u>	<u>\$24,831</u>	<u>\$4,074,348</u>

CITY OF MILLBRAE
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SPECIAL REVENUE FUNDS

	COPS & OTHER GRANTS					
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Other taxes				\$300,000	\$342,622	\$42,622
Special assessments						
Charges for services						
Fines and forfeitures						
Use of money and property		\$1,174	\$1,174	7,000	12,606	5,606
Grants and intergovernmental	\$100,000	105,286	5,286			
Miscellaneous						
Total Revenues	<u>100,000</u>	<u>106,460</u>	<u>6,460</u>	<u>307,000</u>	<u>355,228</u>	<u>48,228</u>
EXPENDITURES						
Public safety	150,472	86,407	64,065			
Highways and streets						
Culture and recreation						
Community development				106,666	65,397	41,269
Capital outlay				684,977	74,683	610,294
Debt service:						
Principal						
Interest and fiscal charges						
Total Expenditures	<u>150,472</u>	<u>86,407</u>	<u>64,065</u>	<u>791,643</u>	<u>140,080</u>	<u>651,563</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(50,472)</u>	<u>20,053</u>	<u>70,525</u>	<u>(484,643)</u>	<u>215,148</u>	<u>699,791</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u><u>(\$50,472)</u></u>	<u>20,053</u>	<u><u>\$70,525</u></u>	<u><u>(\$484,643)</u></u>	<u>215,148</u>	<u><u>\$699,791</u></u>
BEGINNING FUND BALANCES (DEFICITS)		<u>44,469</u>			<u>731,807</u>	
ENDING FUND BALANCES (DEFICITS)		<u><u>\$64,522</u></u>			<u><u>\$946,955</u></u>	

SPECIAL REVENUE FUNDS

NOISE INSULATION GRANT			GAS TAX			AB2928 GRANT		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
	\$714	\$714	\$5,500	\$5,465	(\$35)			
			441,200	411,121	(30,079)			
	<u>714</u>	<u>714</u>	<u>446,700</u>	<u>416,586</u>	<u>(30,114)</u>			
			382,044	313,942	68,102			
\$29,163	1,710	27,453	58,395	37,607	20,788	\$14,862	\$4,895	\$9,967
<u>29,163</u>	<u>1,710</u>	<u>27,453</u>	<u>440,439</u>	<u>351,549</u>	<u>88,890</u>	<u>14,862</u>	<u>4,895</u>	<u>9,967</u>
<u>(29,163)</u>	<u>(996)</u>	<u>28,167</u>	<u>6,261</u>	<u>65,037</u>	<u>58,776</u>	<u>(14,862)</u>	<u>(4,895)</u>	<u>9,967</u>
<u>(\$29,163)</u>	<u>(996)</u>	<u>\$28,167</u>	<u>\$6,261</u>	<u>65,037</u>	<u>\$58,776</u>	<u>(\$14,862)</u>	<u>(4,895)</u>	<u>\$9,967</u>
	<u>39,802</u>			<u>341,646</u>			<u>4,895</u>	
	<u>\$38,806</u>			<u>\$406,683</u>				

(Continued)

CITY OF MILLBRAE
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SPECIAL REVENUE FUNDS

	HILLCREST SLIDE MAINTENANCE			SPECIAL RECREATION		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Other taxes						
Special assessments						
Charges for services				\$599,500	\$540,469	(\$59,031)
Fines and forfeitures						
Use of money and property		\$177	177	85,000	97,895	12,895
Grants and intergovernmental				32,700	23,810	(8,890)
Miscellaneous		75,000	75,000	4,000	1,547	(2,453)
Total Revenues		75,177	75,177	721,200	663,721	(57,479)
EXPENDITURES						
Public safety						
Highways and streets						
Culture and recreation				1,042,396	955,476	86,920
Community development						
Capital outlay						
Debt service:						
Principal						
Interest and fiscal charges						
Total Expenditures				1,042,396	955,476	86,920
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		75,177	75,177	(321,196)	(291,755)	29,441
OTHER FINANCING SOURCES (USES)						
Transfers in				350,434	350,434	
Transfers (out)		(181,010)	(181,010)			
Total Other Financing Sources (Uses)		(181,010)	(181,010)	350,434	350,434	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		(105,833)	(\$105,833)	\$29,238	58,679	\$29,441
BEGINNING FUND BALANCES (DEFICITS)		180,833			57,310	
ENDING FUND BALANCES (DEFICITS)		\$75,000			\$115,989	

SPECIAL REVENUE FUNDS

INTEGRATED WASTE MANAGEMENT			OTHER			SISTER CITY TRUST		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$200,000	\$199,625	(\$375)	\$61,000		(\$61,000)			
	25	25					\$94	\$94
	5,748	5,748	232,864	\$85,930	(146,934)			
	2,500	2,500		14,989	14,989	\$4,000	3,411	(589)
<u>200,000</u>	<u>207,898</u>	<u>7,898</u>	<u>293,864</u>	<u>100,919</u>	<u>(192,945)</u>	<u>4,000</u>	<u>3,505</u>	<u>(495)</u>
199,300	185,517	13,783	52,998	26,247	26,751			
						6,460	5,526	934
53,000		53,000	130,037	104,916	25,121			
<u>252,300</u>	<u>185,517</u>	<u>66,783</u>	<u>183,035</u>	<u>131,163</u>	<u>51,872</u>	<u>6,460</u>	<u>5,526</u>	<u>934</u>
(52,300)	22,381	74,681	110,829	(30,244)	(141,073)	(2,460)	(2,021)	439
			13,342	13,362	20	1,100	1,100	
			(7,900)	(7,900)				
			5,442	5,462	20	1,100	1,100	
<u>(\$52,300)</u>	<u>22,381</u>	<u>\$74,681</u>	<u>\$116,271</u>	<u>(24,782)</u>	<u>(\$141,053)</u>	<u>(\$1,360)</u>	<u>(921)</u>	<u>\$439</u>
	144,537			(144,673)			9,412	
	<u>\$166,918</u>			<u>(\$169,455)</u>			<u>\$8,491</u>	

(Continued)

CITY OF MILLBRAE
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SPECIAL REVENUE FUNDS

	PARK IMPROVEMENT			MILLBRAE STATION AREA DEVELOPER FEE - OPERATING		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Other taxes						
Special assessments						
Charges for services	\$50,000	\$30,000	(\$20,000)	146,200	50,583	(95,617)
Fines and forfeitures				125,000	14,183	(110,817)
Use of money and property	10,000	12,440	2,440	135,000	5,261	(129,739)
Grants and intergovernmental						
Miscellaneous	6,000	2,500	(3,500)			
Total Revenues	<u>66,000</u>	<u>44,940</u>	<u>(21,060)</u>	<u>406,200</u>	<u>70,027</u>	<u>(336,173)</u>
EXPENDITURES						
Public safety						
Highways and streets						
Culture and recreation	43,094	27,878	15,216			
Community development				267,313	20,810	246,503
Capital outlay	8,906	8,905	1			
Debt service:						
Principal						
Interest and fiscal charges						
Total Expenditures	<u>52,000</u>	<u>36,783</u>	<u>15,217</u>	<u>267,313</u>	<u>20,810</u>	<u>246,503</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>14,000</u>	<u>8,157</u>	<u>(5,843)</u>	<u>138,887</u>	<u>49,217</u>	<u>(89,670)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	5,000	209,962	204,962			
Transfers (out)	(140,500)	(345,462)	(204,962)		(105,000)	(105,000)
Total Other Financing Sources (Uses)	<u>(135,500)</u>	<u>(135,500)</u>			<u>(105,000)</u>	<u>(105,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(\$121,500)</u>	<u>(127,343)</u>	<u>(\$5,843)</u>	<u>\$138,887</u>	<u>(55,783)</u>	<u>(\$194,670)</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>356,394</u>			<u>287,512</u>	
ENDING FUND BALANCES (DEFICITS)		<u>\$229,051</u>			<u>\$231,729</u>	

DEBT SERVICE FUNDS

STORM DRAIN BONDS			PLAZA BAY ASSESSMENT DISTRICT			1999 COPS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$33,000	\$13,856	(\$19,144)						
			\$175,000		(\$175,000)			
	(665)	(665)	1,500	\$872	(628)	\$10,000	\$5,837	(\$4,163)
<u>33,000</u>	<u>13,191</u>	<u>(19,809)</u>	<u>176,500</u>	<u>872</u>	<u>(175,628)</u>	<u>10,000</u>	<u>5,837</u>	<u>(4,163)</u>
30,000	30,000		155,450	150,000	5,450	110,000	110,000	
1,020	300	720	400	5,813	(5,413)	212,008	209,803	2,205
<u>31,020</u>	<u>30,300</u>	<u>720</u>	<u>155,850</u>	<u>155,813</u>	<u>37</u>	<u>322,008</u>	<u>319,803</u>	<u>2,205</u>
1,980	(17,109)	(19,089)	20,650	(154,941)	(175,591)	(312,008)	(313,966)	(1,958)
			55,300	54,752	(548)	320,000	320,000	
			55,300	54,752	(548)	320,000	320,000	
<u>\$1,980</u>	(17,109)	<u>(\$19,089)</u>	<u>\$75,950</u>	(100,189)	<u>(\$176,139)</u>	<u>\$7,992</u>	6,034	<u>(\$1,958)</u>
	<u>20,026</u>			<u>100,189</u>			<u>342,715</u>	
	<u>\$2,917</u>						<u>\$348,749</u>	

(Continued)

CITY OF MILLBRAE
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	DEBT SERVICE FUNDS		
	LIBRARY BOND		
	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES			
Property tax	\$583,000	\$621,841	\$38,841
Other taxes			
Special assessments			
Charges for services			
Fines and forfeitures			
Use of money and property	5,000	9,680	4,680
Grants and intergovernmental			
Miscellaneous			
Total Revenues	588,000	631,521	43,521
EXPENDITURES			
Public safety			
Highways and streets			
Culture and recreation			
Community development			
Capital outlay			
Debt service:			
Principal	25,000	25,000	
Interest and fiscal charges	548,262	548,261	1
Total Expenditures	573,262	573,261	1
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,738	58,260	43,522
OTHER FINANCING SOURCES (USES)			
Transfers in			
Transfers (out)			
Total Other Financing Sources (Uses)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$14,738	58,260	\$43,522
BEGINNING FUND BALANCES (DEFICITS)		391,515	
ENDING FUND BALANCES (DEFICITS)		\$449,775	

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

The City's Internal Service Funds are as follows:

Municipal Garage - To account for the purchase and maintenance of all motor vehicles, except fire engines, provided as a service to City departments.

Unemployment Insurance - To account for the accumulation of the payment of resources for unemployment claims against the City.

Worker's Compensation - To account for the resources and uses for the payment of worker's compensation claims against the City.

General Liability - To account for resources and uses for the payment of liability insurance premiums and claims against the City.

CITY OF MILLBRAE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2005

	Municipal Garage	Unemployment Insurance	Workers Compensation	General Liability	Total
ASSETS					
Current Assets:					
Cash and investments	\$472,095	\$18,153	\$459,377	\$982,143	\$1,931,768
Accounts receivable, net				4,086	4,086
Total Current Assets	<u>472,095</u>	<u>18,153</u>	<u>459,377</u>	<u>986,229</u>	<u>1,935,854</u>
Noncurrent Assets:					
Capital assets	2,183,792				2,183,792
Less accumulated depreciation	<u>(1,616,777)</u>				<u>(1,616,777)</u>
Total Assets	<u>1,039,110</u>	<u>18,153</u>	<u>459,377</u>	<u>986,229</u>	<u>2,502,869</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	15,285		1,610	15,507	32,402
Total Current Liabilities	<u>15,285</u>		<u>1,610</u>	<u>15,507</u>	<u>32,402</u>
Noncurrent Liabilities:					
Compensated absences	15,565				15,565
Accrued self-insurance			581,900	390,154	972,054
Total Liabilities	<u>30,850</u>		<u>583,510</u>	<u>405,661</u>	<u>1,020,021</u>
NET ASSETS					
Invested in capital assets, net of related debt	567,015				567,015
Unrestricted	<u>441,245</u>	<u>18,153</u>	<u>(124,133)</u>	<u>580,568</u>	<u>915,833</u>
Total Net Assets (Deficits)	<u>\$1,008,260</u>	<u>\$18,153</u>	<u>(\$124,133)</u>	<u>\$580,568</u>	<u>\$1,482,848</u>

CITY OF MILLBRAE
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	Municipal Garage	Unemployment Insurance	Worker's Compensation	General Liability	Total
OPERATING REVENUES					
Equipment rental	\$606,324				\$606,324
Interdepartmental charges		\$11,589	\$538,215	\$396,588	946,392
Miscellaneous	1,223		623	400,000	401,846
Total Operating Revenues	607,547	11,589	538,838	796,588	1,954,562
OPERATING EXPENSES					
Personnel services	257,842		74,244	64,287	396,373
Contractual services	63,707		51,547	58,270	173,524
Materials, supplies and other services	119,268			4,087	123,355
Depreciation	151,949				151,949
Utilities	924				924
Insurance premiums and claims	14,016	2,905	415,815	707,310	1,140,046
Total Operating Expenses	607,706	2,905	541,606	833,954	1,986,171
Operating Income (Loss)	(159)	8,684	(2,768)	(37,366)	(31,609)
NONOPERATING REVENUES (EXPENSES)					
Gain on disposal of capital assets	6,878				6,878
Interest revenue	5,882		61	1,772	7,715
Total Nonoperating Revenues (Expenses)	12,760		61	1,772	14,593
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,601	8,684	(2,707)	(35,594)	(17,016)
TRANSFERS					
Transfers in				496,010	496,010
Transfers (out)				(50,000)	(50,000)
Transfers, net				446,010	446,010
Change in Net Assets	12,601	8,684	(2,707)	410,416	428,994
BEGINNING NET ASSETS (DEFICIT)	995,659	9,469	(121,426)	170,152	1,053,854
ENDING NET ASSETS (DEFICIT)	\$1,008,260	\$18,153	(\$124,133)	\$580,568	\$1,482,848

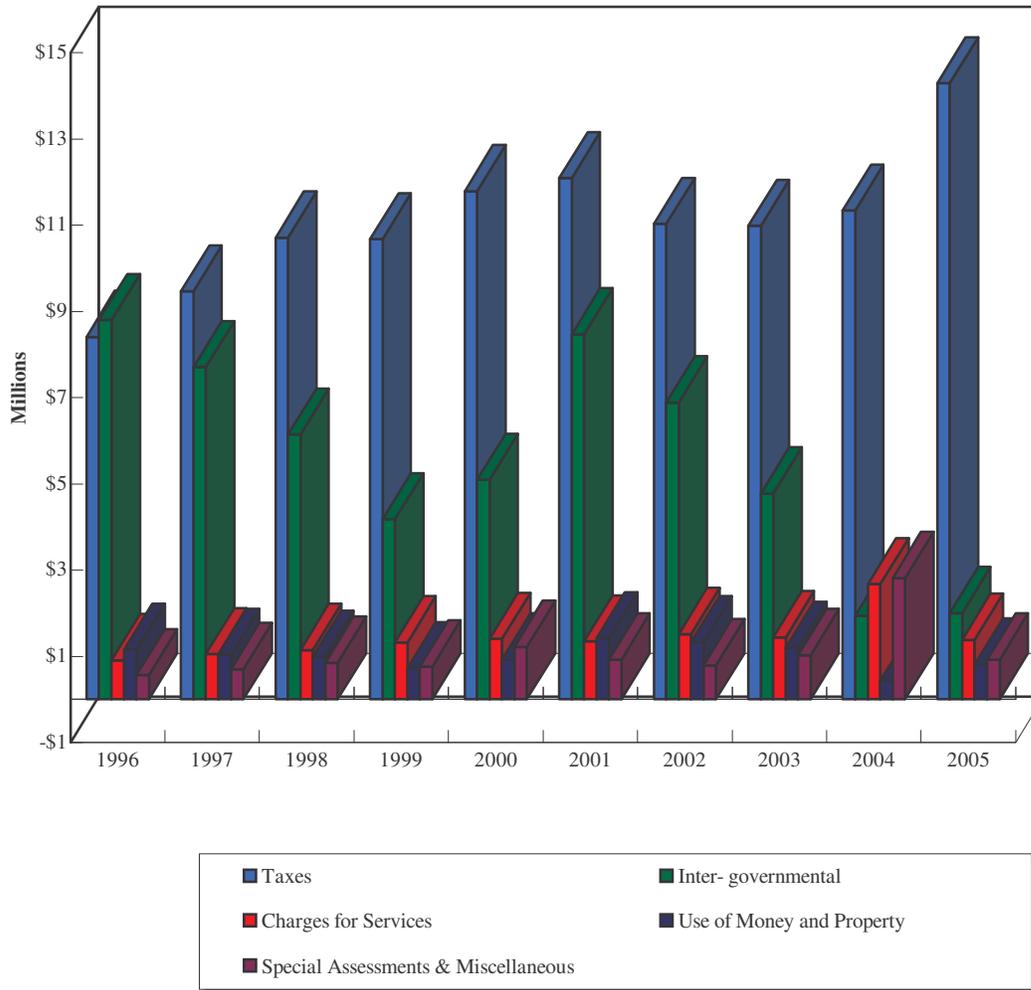
CITY OF MILLBRAE
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	Municipal Garage	Unemployment Insurance	Worker's Compensation	General Liability	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$607,547	\$11,589	\$538,838	\$792,502	\$1,950,476
Payments to suppliers	(179,702)		(49,937)	(47,286)	(276,925)
Payments to employees	(260,593)		(74,244)	(64,287)	(399,124)
Claims paid	(14,016)	(2,905)	(413,802)	(444,229)	(874,952)
Cash Flows from Operating Activities	153,236	8,684	855	236,700	399,475
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in				496,010	496,010
Transfers out				(50,000)	(50,000)
Cash Flows from Noncapital Financing Activities				446,010	446,010
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	3,035				3,035
Cash Flows from Capital and Related Financing Activities	3,035				3,035
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest revenue	5,882		61	1,772	7,715
Cash Flows from Investing Activities	5,882		61	1,772	7,715
Net Cash Flows	162,153	8,684	916	684,482	856,235
Cash and investments at beginning of period	309,942	9,469	458,461	297,661	1,075,533
Cash and investments at end of period	\$472,095	\$18,153	\$459,377	\$982,143	\$1,931,768
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income (loss)	(\$159)	\$8,684	(\$2,768)	(\$37,366)	(\$31,609)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	151,949				151,949
Change in assets and liabilities:					
Accounts receivable				(4,086)	(4,086)
Accounts and other payables	4,197		1,610	15,071	20,878
Other accrued expenses	(2,751)		2,013	263,081	262,343
Cash Flows from Operating Activities	\$153,236	\$8,684	\$855	\$236,700	\$399,475

STATISTICAL TABLES (UNAUDITED)

Statistical Tables (unaudited) are included to provide detailed data on the physical, economic, social, and political characteristics of the reporting government. They are intended to provide the user with a broader and more complete understanding of the City and its financial affairs than is possible from the Basic Financial Statements and supporting schedules included in the Financial Section.

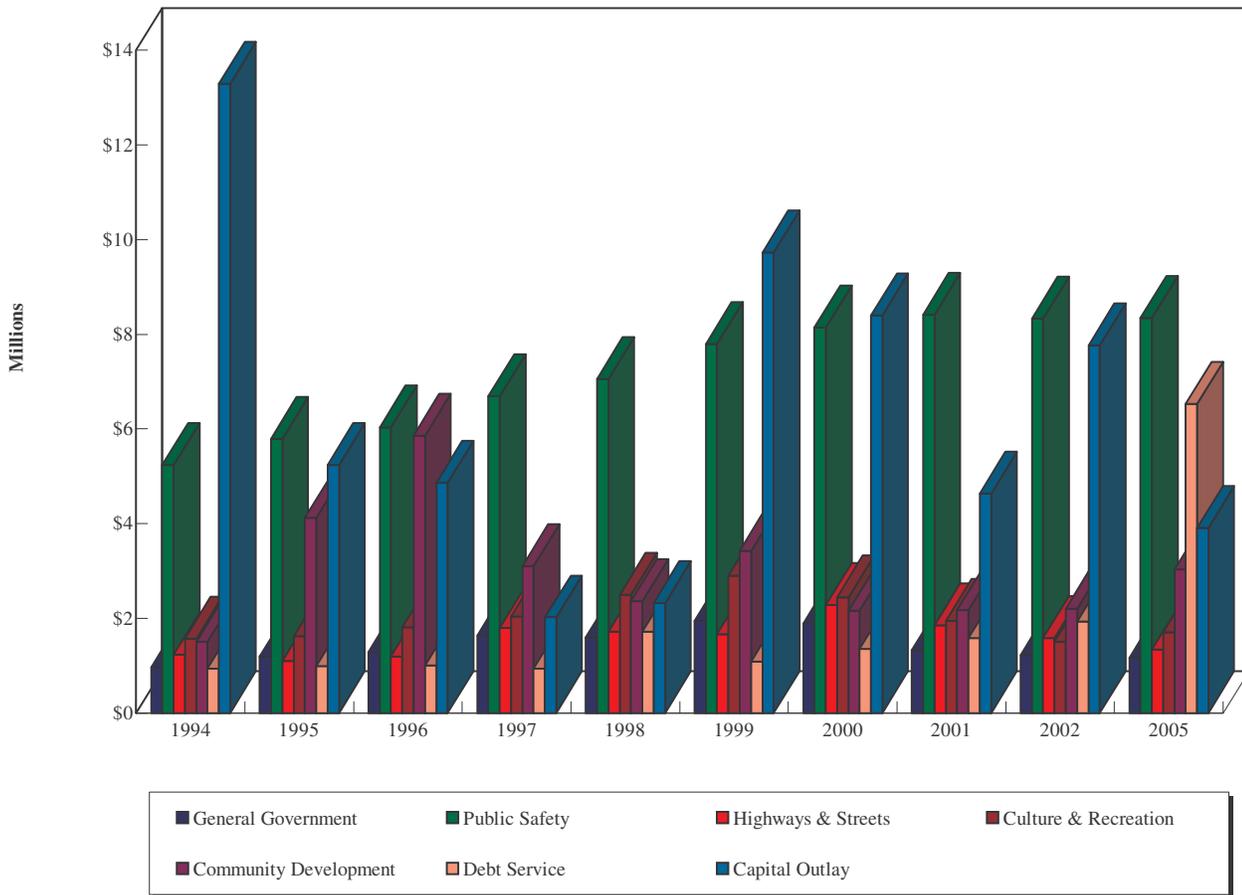
CITY OF MILLBRAE
 GENERAL GOVERNMENTAL REVENUES BY SOURCE
 ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
 LAST TEN FISCAL YEARS



Fiscal Year	Taxes	Inter-governmental	Charges for Services	Use of Money and Property	Special Assessments & Miscellaneous	Total
1996	\$8,412,581	\$8,800,629	\$908,873	\$1,148,725	\$560,065	\$19,830,873
1997	9,469,226	7,707,696	1,051,563	1,032,394	703,554	19,964,433
1998	10,714,804	6,140,745	1,147,421	989,498	848,926	19,841,394
1999	10,678,131	4,181,994	1,320,763	727,970	758,976	17,667,834
2000	11,789,763	5,094,670	1,401,500	923,482	1,221,330	20,430,745
2001	12,090,514	8,468,454	1,343,763	1,419,444	921,589	24,243,764
2002	11,029,412	6,889,858	1,512,160	1,327,625	793,033	21,552,088
2003	10,990,862	4,774,880	1,442,871	1,200,849	1,024,263	19,433,725
2004	11,338,355	1,940,142	2,674,024	426,685	2,815,056	19,194,262
2005	14,291,554	2,004,196	1,379,653	807,830	921,934	19,405,167

Source: City of Millbrae Comprehensive Annual Financial Reports

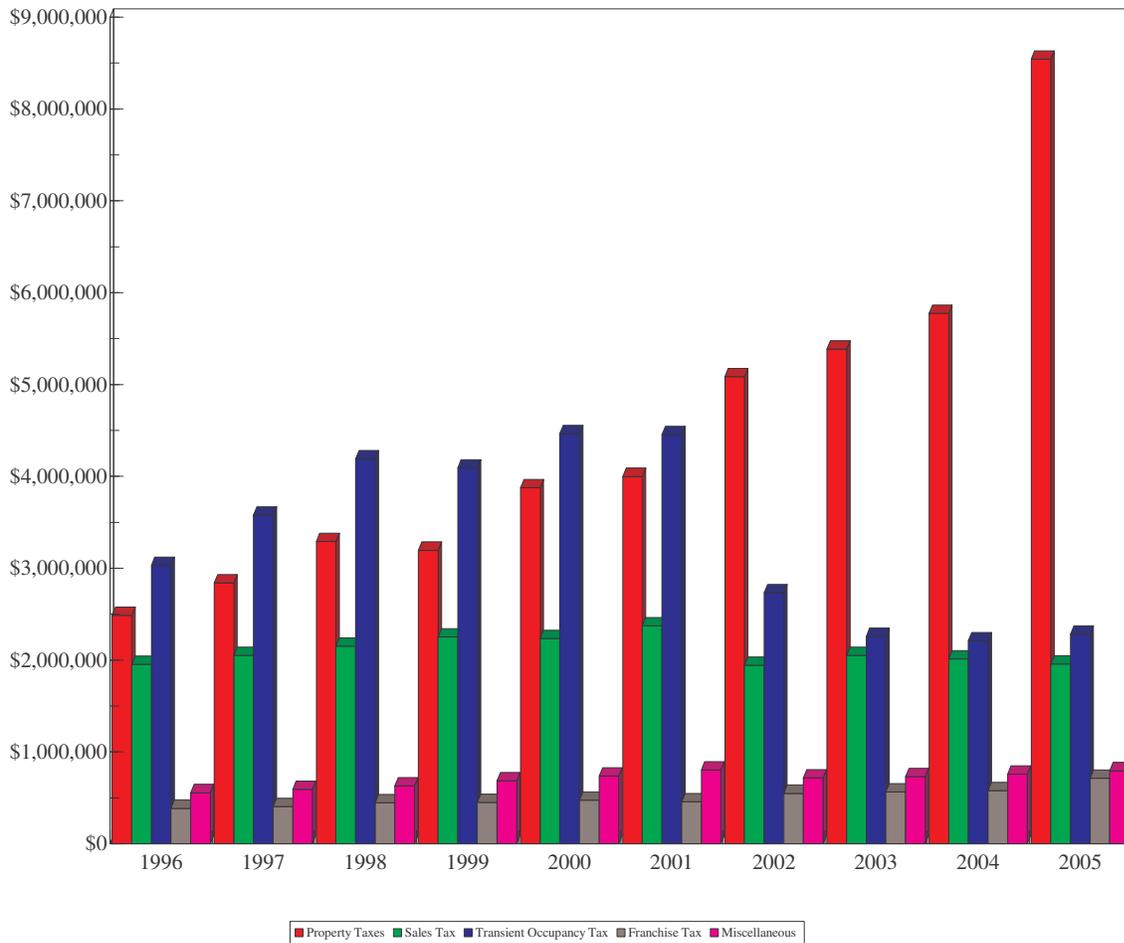
CITY OF MILLBRAE
 GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 LAST TEN FISCAL YEARS



Fiscal Year	General Government	Public Safety	Highways & Streets	Parks, Culture & Recreation	Community Development	Debt Service	Capital Outlay	Total
1996	\$961,681	\$5,232,116	\$1,234,227	\$1,572,119	\$1,503,020	\$933,100	\$13,293,313	\$17,229,184
1997	1,190,014	5,793,646	1,091,858	1,617,458	4,123,398	985,241	5,244,257	24,729,576
1998	1,279,407	6,028,503	1,189,064	1,804,948	5,854,084	995,183	4,858,977	20,045,872
1999	1,632,976	6,693,460	1,790,276	2,039,148	3,105,854	929,601	2,017,984	22,010,166
2000	1,596,499	7,050,614	1,716,087	2,498,675	2,362,097	1,720,442	2,320,605	18,209,299
2001	1,937,360	7,789,589	1,661,043	2,898,167	3,417,641	1,087,905	9,727,417	19,265,019
2002	1,886,046	8,147,357	2,281,965	2,445,562	2,159,940	1,346,752	8,398,219	28,519,122
2003	1,331,146	8,410,205	1,853,430	1,941,713	2,177,272	1,581,210	4,635,161	21,930,137
2004	1,216,074	8,333,506	1,575,042	1,497,215	2,205,659	1,930,795	7,767,178	24,525,469
2005	1,162,097	8,346,122	1,336,560	1,695,953	3,027,175	6,535,110	3,909,191	26,012,208

Source: City of Millbrae Comprehensive Annual Financial Reports

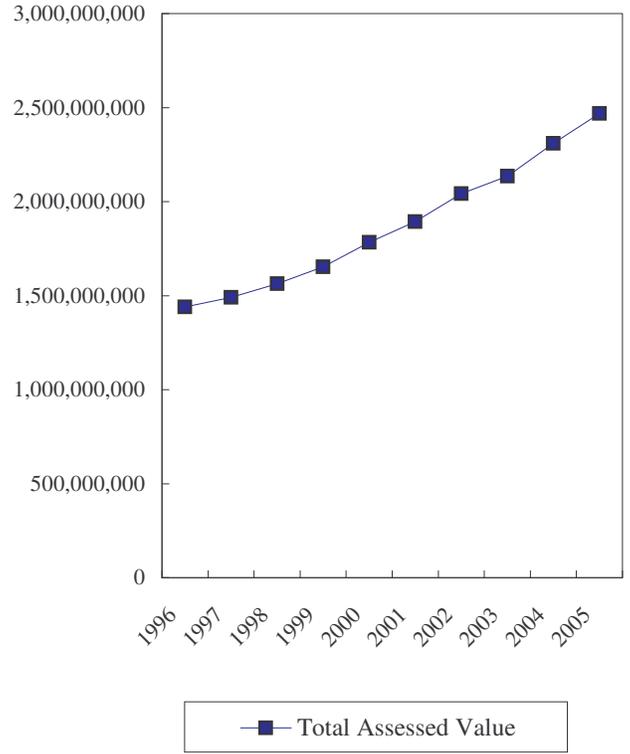
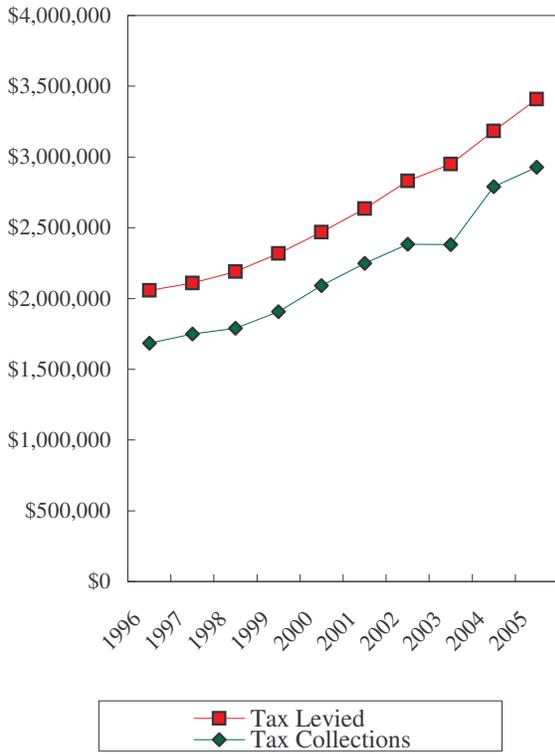
CITY OF MILLBRAE
 GENERAL GOVERNMENTAL TAX REVENUES
 ALL GOVERNMENTAL FUND TYPES
 LAST TEN FISCAL YEARS



Fiscal Year	Property Taxes	Sales Tax	Transient Occupancy Tax	Franchise Tax	Miscellaneous	Total
1996	2,486,206	1,954,296	3,029,936	386,164	555,979	8,412,581
1997	2,841,885	2,051,039	3,578,980	404,489	592,833	9,469,226
1998	3,292,529	2,152,711	4,192,641	445,826	631,097	10,714,804
1999	3,196,030	2,252,941	4,092,825	450,388	685,947	10,678,131
2000	3,875,754	2,233,688	4,467,074	475,233	738,014	10,678,131
2001	3,999,412	2,372,604	4,456,257	458,358	803,883	12,090,514
2002	5,086,046	1,942,563	2,734,678	549,041	717,084	11,029,412
2003	5,386,423	2,051,229	2,260,087	563,159	729,964	10,990,862
2004	5,775,912	2,013,270	2,209,894	579,086	760,193	11,338,355
2005	8,542,824	1,956,568	2,281,978	715,049	795,135	14,291,554

Source: City of Millbrae Comprehensive Annual Financial Reports

CITY OF MILLBRAE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

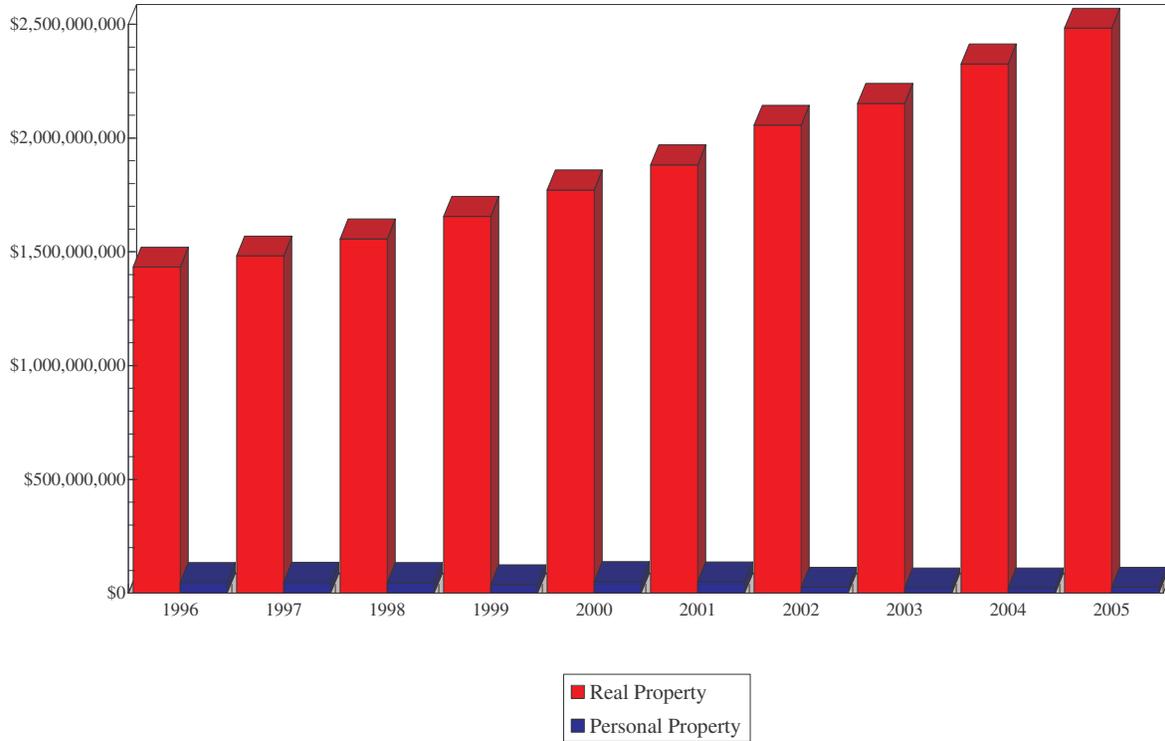


Fiscal Year	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Total Assessed Value
1996	2,057,090	1,676,832	81.51%	7,582	1,684,414	81.88%	1,440,606,637
1997	2,110,055	1,739,999	82.46%	10,017	1,750,016	82.94%	1,490,852,004
1998	2,189,538	1,786,581	81.60%	2,736	1,789,317	81.72%	1,563,714,591
1999	2,318,067	1,891,759	81.61%	15,585	1,907,344	82.28%	1,653,208,711
2000	2,469,184	2,036,108	82.46%	55,515	2,091,623	84.71%	1,783,637,217
2001	2,634,125	2,167,317	82.28%	80,350	2,247,667	85.33%	1,893,259,139
2002	2,829,892	2,336,584	82.57%	46,414	2,382,998	84.21%	2,042,876,533
2003	2,950,755	2,383,880	80.79%	(3,194)	2,380,686	80.68%	2,135,894,129
2004	3,182,827	2,623,965	82.44%	165,925	2,789,890	87.65%	2,309,065,144
2005	3,408,015	2,812,240	82.52%	114,656	2,926,896	85.88%	2,469,440,186

Note: (1) Levies include real and personal property

Source: County of San Mateo Controller's Office publication and City of Millbrae financial records.

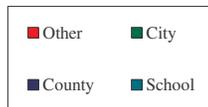
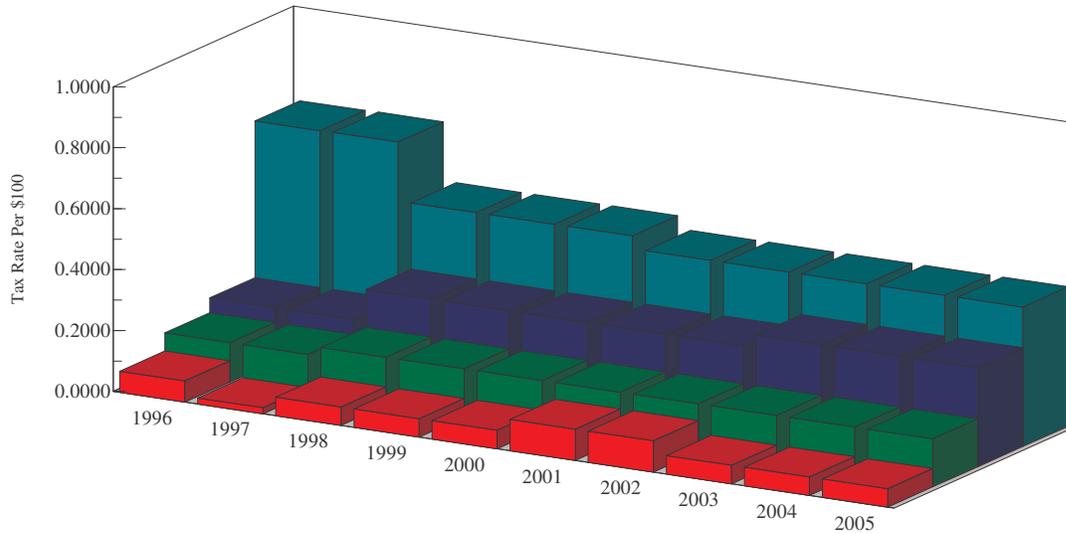
CITY OF MILLBRAE
 ASSESSED VALUE OF PROPERTY
 LAST TEN FISCAL YEARS



	Real Property	Personal Property	Total Assessed Value	Exemptions	Assessed Value net of Exemptions
1996	1,433,296,880	47,126,257	1,480,423,137	39,816,500	1,440,606,637
1997	1,482,226,608	47,965,616	1,530,192,224	39,340,220	1,490,852,004
1998	1,556,722,226	46,389,508	1,603,111,734	39,397,143	1,563,714,591
1999	1,656,053,215	36,738,926	1,692,792,141	39,583,430	1,653,208,711
2000	1,772,366,061	50,713,394	1,823,079,455	39,442,238	1,783,637,217
2001	1,882,952,677	50,228,952	1,933,181,629	39,922,490	1,893,259,139
2002	2,056,556,063	26,365,362	2,082,921,425	40,044,892	2,042,876,533
2003	2,152,859,191	22,731,894	2,175,591,085	39,696,956	2,135,894,129
2004	2,326,197,852	23,541,644	2,349,739,496	40,674,352	2,309,065,144
2005	2,483,722,903	26,086,586	2,509,809,489	40,369,303	2,469,440,186

Source: County of San Mateo Controller's Office Publication

CITY OF MILLBRAE
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

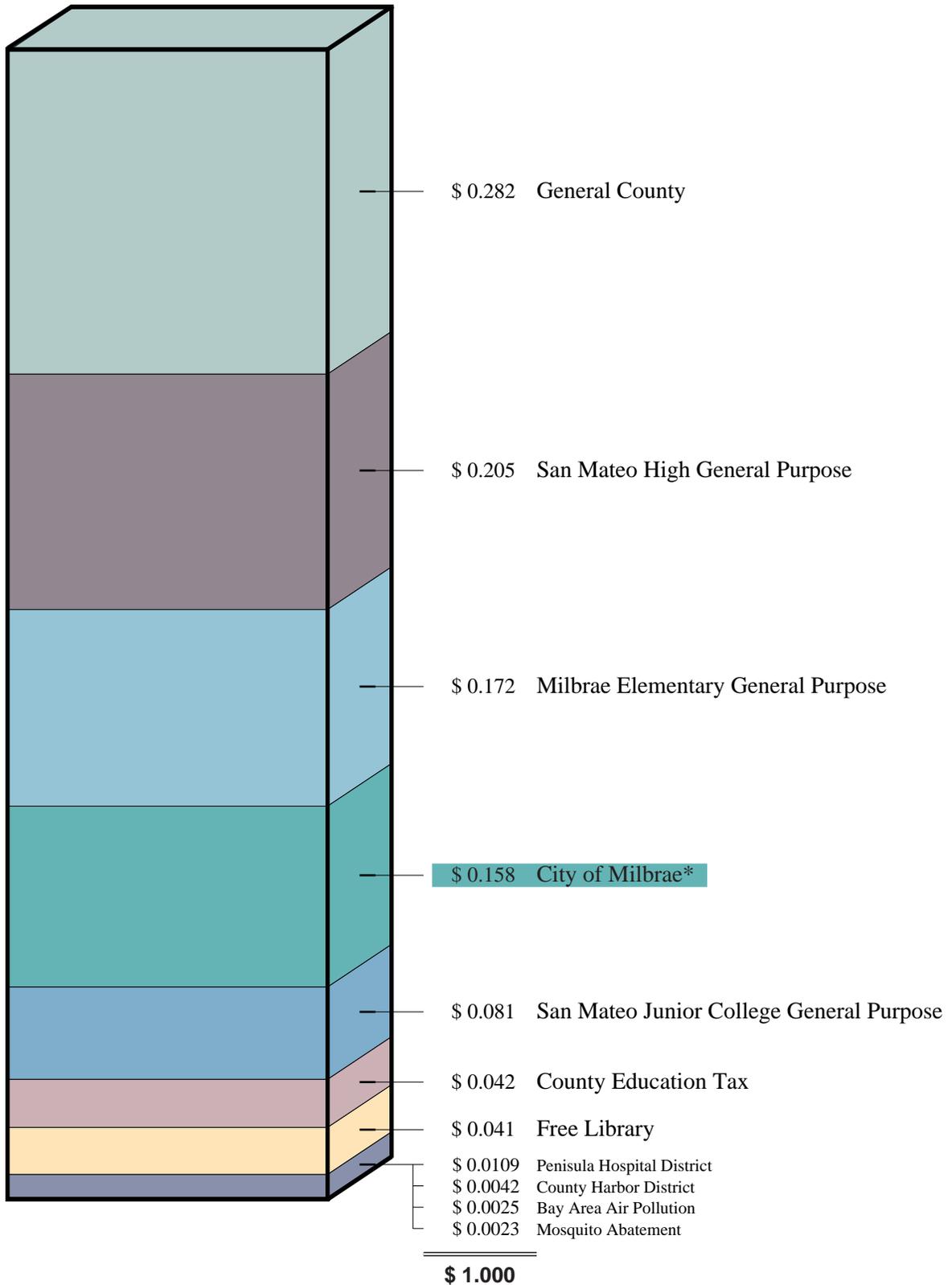


Fiscal Year	Schools	County	City	Other	Total
1996	0.6921	0.1776	0.1291	0.0697	1.0685
1997	0.6935	0.1776	0.1290	0.0203	1.0204
1998	0.5000	0.2820	0.1580	0.0609	1.0009
1999	0.5000	0.2820	0.1580	0.0609	1.0009
2000	0.5000	0.2820	0.1580	0.0609	1.0009
2001	0.4580	0.2820	0.1580	0.1029	1.0009
2002	0.4580	0.2820	0.1580	0.1029	1.0009
2003	0.4580	0.3240	0.1580	0.0609	1.0009
2004	0.4580	0.3240	0.1580	0.0609	1.0009
2005	0.4580	0.3240	0.1580	0.0609	1.0009

Source: HDL Coren & Cone, San Mateo County Assessor Annual Tax Increment Tables

THE CITY OF MILLBRAE

PROPERTY TAX DOLLAR BREAKDOWN



ATI (Annual Tax Increment) Ratios For Tax Rate Area 014-001, Excluding Redevelopment Factors & Additional Debt Service

*ERAF (Educational Revenue Augmentation Fund) general fund tax shifts are not included in tax ratio figures.

Source: HdL Coren & Cone, San Mateo County Assessor 2004/05 Annual Tax Increment Tables

NC507201436 Page 1

This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone.

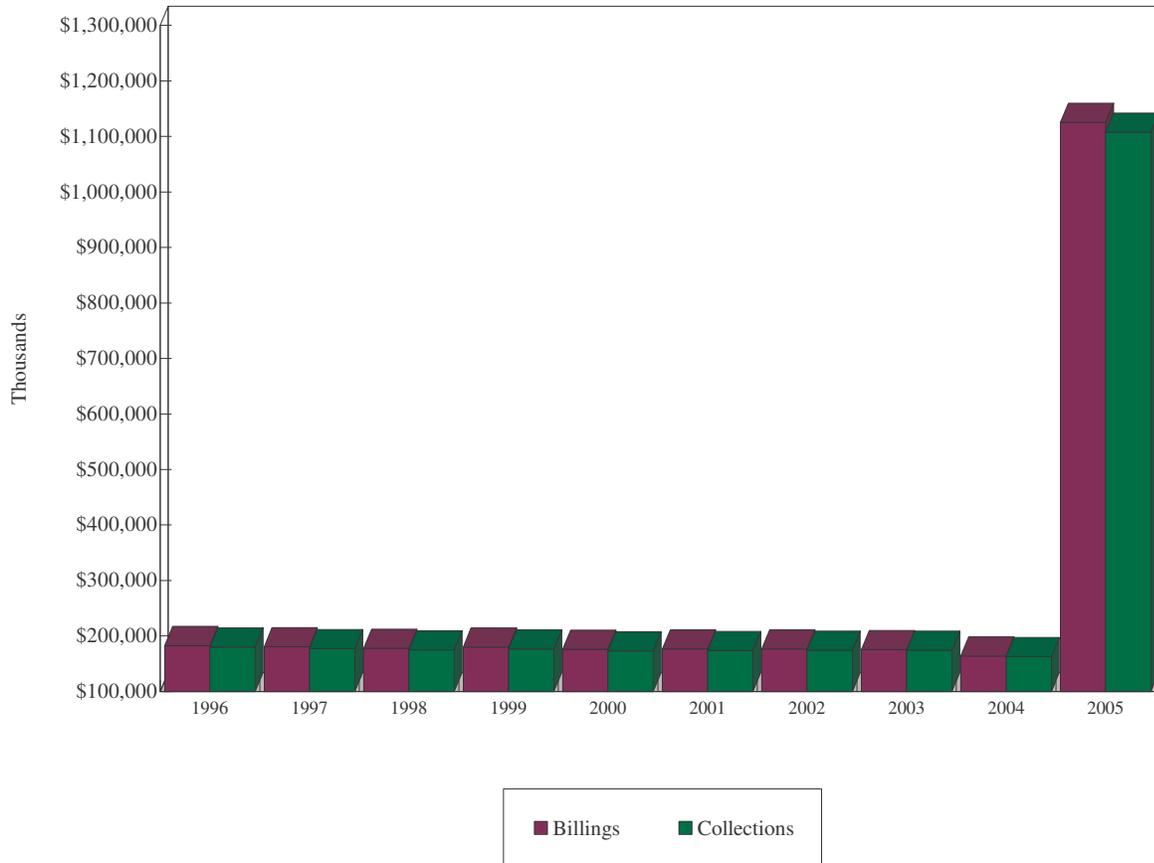
THE CITY OF MILLBRAE

2004/05 TOP TEN PROPERTY OWNERS

Top Property Owners Based On Gross Assessed Values

Owner	Secured			Unsecured			Combined		Primary Use & Primary Agency
	Parcels	Value	Portion Of City	Parcels	Value	Portion Of City	Value	Portion Of City	
1) Westin Bay Hotel Company	1	\$ 41,558,775	1.69%				\$ 41,558,775	1.66%	Commercial MILLBRAE RDA
2) SLT Realty Limited Partnership	1	\$ 32,056,096	1.30%				\$ 32,056,096	1.28%	Commercial MILLBRAE RDA
3) Magnolia of Millbrae Inc.	1	\$ 24,195,867	0.98%	3	\$ 931,965	1.75%	\$ 25,127,832	1.00%	Residential MILLBRAE RDA
4) Marymount Greenhills LLC	1	\$ 18,944,358	0.77%				\$ 18,944,358	0.75%	Residential MILLBRAE RDA
5) Glenborough Pauls Millbrae LLC	1	\$ 14,193,305	0.58%				\$ 14,193,305	0.57%	Recreational MILLBRAE RDA
6) Williams Portfolio I	71	\$ 11,438,596	0.47%				\$ 11,438,596	0.46%	Residential MILLBRAE RDA
7) Townsquare Associates	1	\$ 9,838,715	0.40%				\$ 9,838,715	0.39%	Residential TAX DISTRICT #1
8) American Store Properties Inc.	1	\$ 9,317,314	0.38%				\$ 9,317,314	0.37%	Commercial MILLBRAE RDA
9) OSH Acquisition Corporation				1	\$ 8,893,000	16.68%	\$ 8,893,000	0.35%	Unsecured MILLBRAE RDA
10) John Wilms	7	\$ 8,437,782	0.34%				\$ 8,437,782	0.34%	Residential MILLBRAE RDA
Top Ten Totals	85	\$ 169,980,808	6.92%	4	\$ 9,824,965	18.42%	\$ 179,805,773	7.16%	
City Totals		\$ 2,456,539,188			\$ 53,325,681		\$ 2,509,864,869		

CITY OF MILLBRAE
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS



Fiscal Year	Current Assessment Billings	Current Assessment Collections	Ratio of Collections to Amounts Due
1996	182,801	180,096	98.5%
1997	180,644	177,283	98.1%
1998	178,005	175,283	98.5%
1999	180,002	177,009	98.3%
2000	176,089	173,560	98.6%
2001	176,800	173,905	98.4%
2002	176,724	174,703	98.9%
2003	175,861	174,448	99.2%
2004	164,062	162,813	99.2%
2005	1,125,000	1,107,719	98.5%

Source: City of Millbrae financial statements

CITY OF MILLBRAE
 COMPUTATION OF LEGAL DEBT MARGIN
 AS OF JUNE 30, 2005

ASSESSSED VALUATION		
Assessed value		\$2,469,440,186
Add back : exempt real property		<u>40,369,303</u>
Total assessed value		<u><u>\$2,509,809,489</u></u>
LEGAL DEBT MARGIN		
Debt limitation - 3.75% of total assessed value		\$94,117,856
Debt applicable to limitation:		
Total Bonded debt	\$22,212,290	
LESS: Pension obligation bonds	11,657,290	
Amount available for repayment of general obligation bonds	<u>457,065</u>	
Total debt applicable to limitation		<u>10,097,935</u>
LEGAL DEBT MARGIN		<u><u>\$84,019,921</u></u>

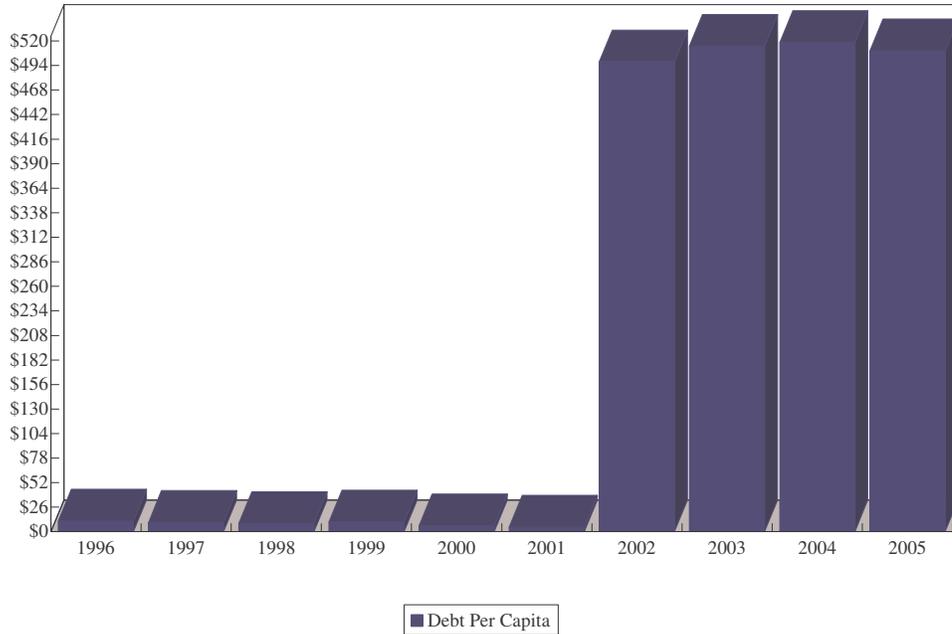
SOURCE: California State Department of Finance publication
 County of San Mateo Controller's Office publication
 City of Millbrae financial records

**CITY OF MILLBRAE
SCHEDULE OF DIRECT AND
OVERLAPPING BONDED DEBT
JUNE 30, 2005**

<u>JURISDICTION</u>	<u>NET DEBT OUTSTANDING</u>	<u>PERCENTAGE APPLICABLE TO CITIZENS OF THE CITY</u>	<u>AMOUNT APPLICABLE TO CITIZENS OF THE CITY</u>
Millbrae Municipal Storm Water District	\$10,555,000	100.000%	\$10,555,000
San Mateo Union High School District	8,732,630	6.558%	572,686
Millbrae School District Maintenance Assessment District	233,030	46.606%	108,606
City of Millbrae	3,635,000	100.000%	3,635,000
City of Millbrae Pension Obligations	11,521,630	100.000%	11,521,630
San Mateo County General Fund Obligations	9,760,584	2.343%	228,690
San Mateo County Board of Education Certificate of Participation	107,427	2.343%	2,517
City of Millbrae School District Certificates of Participation	1,908,516	46.606%	889,483
San Mateo Community College District Certificate of Participation	723,636	2.343%	16,955
San Mateo County Mosquito Abatement Certificates of Participation	48,408	3.238%	1,567
San Mateo Community College District	3,774,122	2.343%	88,428
TOTAL GROSS DEBT			<u><u>\$27,620,562</u></u>
Ratio to Assessed Valuation:			
Direct Debt	0.42%		
Total Debt	0.93%		

Source: City of Millbrae financial records

CITY OF MILLBRAE
 RATIO OF NET GENERAL OBLIGATION BONDED DEBT
 TO ASSESSED VALUE AND NET GENERAL OBLIGATION
 BONDED DEBT PER CAPITA
 LAST TEN FISCAL YEARS

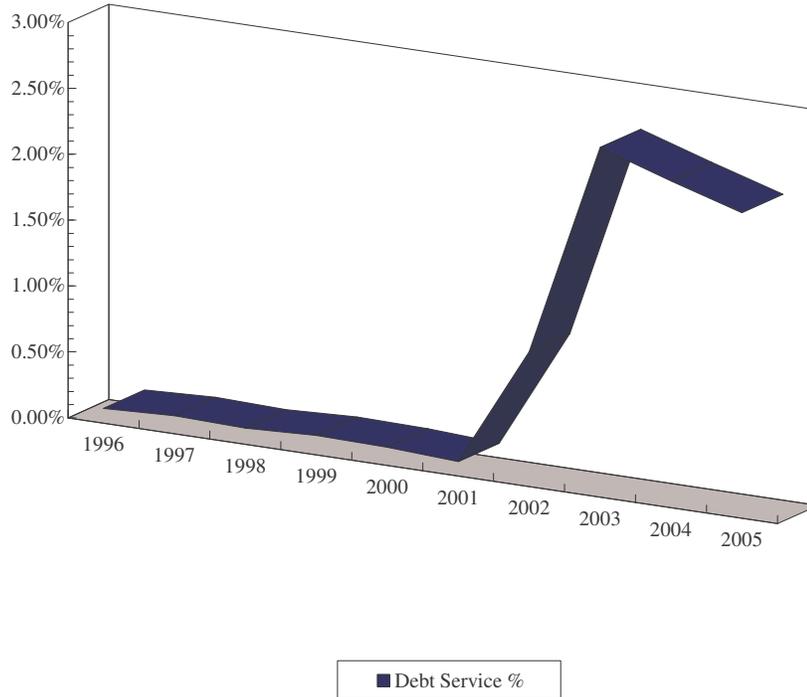


Fiscal Year	Population	Assessed Value	Gross Bonded Debt (1)	Less: Debt Service Funds	Debt payable from Enterprise Revenues	Net General Bonded Debt	Bonded Debt to Assessed Valuation	Bonded Debt Per Capita
1996	21,255	1,440,606,637	3,415,000	9,385	3,165,000	240,615	0.017%	11.32
1997	21,447	1,490,852,004	2,968,700	10,021	2,743,700	214,979	0.014%	10.02
1998	21,779	1,563,714,591	3,766,477	7,085	3,566,477	192,915	0.012%	8.86
1999	21,597	1,653,208,711	3,442,287	9,393	3,211,558	221,336	0.013%	10.25
2000	21,600	1,893,259,139	2,987,752	12,669	2,837,752	137,331	0.007%	6.36
2001	20,979	2,042,876,533	2,564,002	14,684	2,444,002	105,316	0.005%	5.02
2002	20,814	2,135,894,129	12,571,759	324,981	1,881,759	10,365,019	0.485%	497.98
2003	20,714	2,135,894,129	12,128,968	384,049	1,468,968	10,660,000	0.499%	514.53
2004	20,465	2,309,065,144	23,393,626	415,914	1,261,996	10,610,000	0.459%	518.45
2005	20,708	2,469,440,186	17,007,949	457,065	6,452,949	10,555,000	0.427%	509.71

Note: (1) Includes all debt obligations except special assessment bonds, redevelopment tax allocation bonds, certificates of participation, and pension obligation bonds.

Sources: California State Department of Finance publication.
 County of San Mateo Controller's Office publication.
 City of Millbrae financial records

CITY OF MILLBRAE
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL BONDED DEBT (1) TO
TOTAL GOVERNMENTAL FUND TYPE EXPENDITURES
LAST TEN FISCAL YEARS



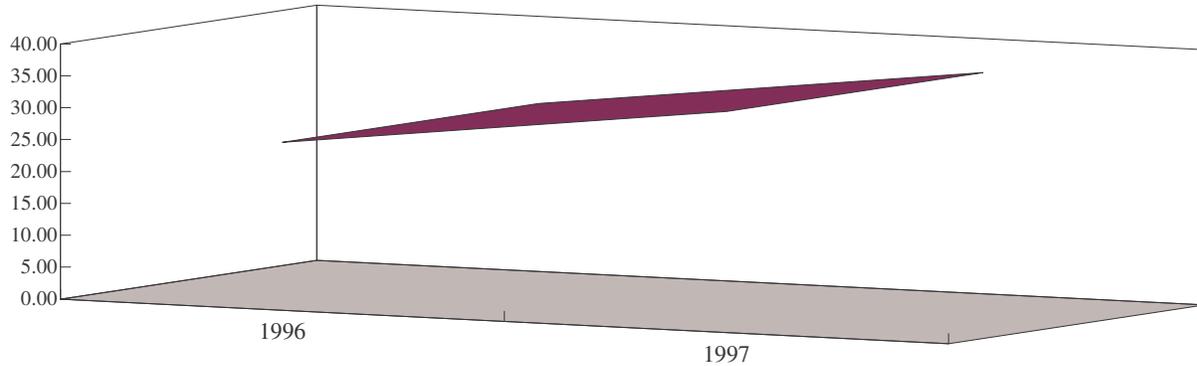
Fiscal Year	Principal	Interest	Total Debt Service	Total Governmental Fund Type Expenditures (2)	Debt Service as Percent of General Expenditures
1996	25,000	2,750	27,750	24,729,576	0.11%
1997	25,000	2,500	27,500	20,045,872	0.14%
1998	25,000	2,250	27,250	22,010,166	0.12%
1999	25,000	2,000	27,000	18,209,299	0.15%
2000	25,000	1,750	26,750	19,265,019	0.14%
2001	30,000	1,500	31,500	28,519,968	0.11%
2002	30,000	243,038	273,038	26,665,841	1.02%
2003	30,000	551,924	581,924	21,930,137	2.65%
2004	50,000	550,774	600,774	24,203,839	2.48%
2005	55,000	548,562	603,562	26,012,208	2.32%

Notes:

- (1) General obligation bonds reported in the enterprise funds, special assessment debt with government commitment and certificates of participation have been excluded.
- (2) Excludes bond issuance and other cost.

Source: City of Millbrae financial records

CITY OF MILLBRAE
SEWER FUND REVENUE BOND COVERAGE
SEWER AUTHORITY
LAST TEN FISCAL YEARS



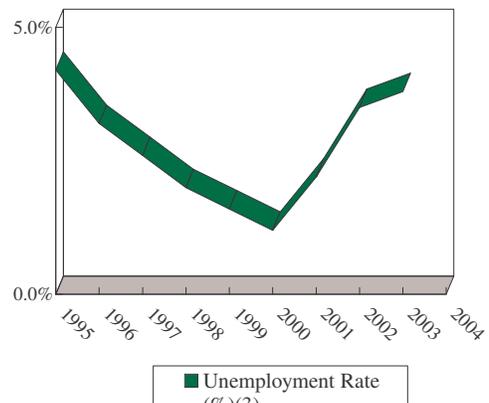
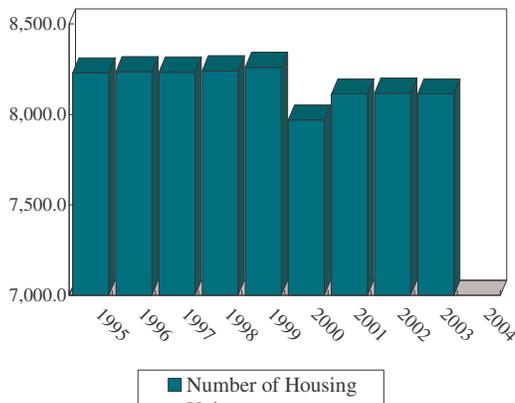
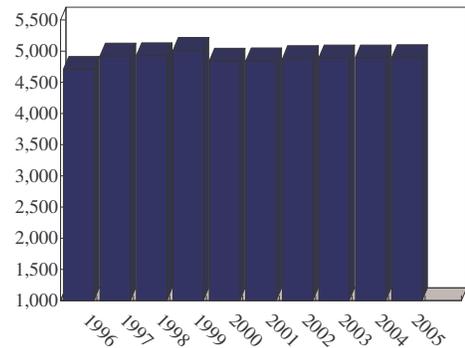
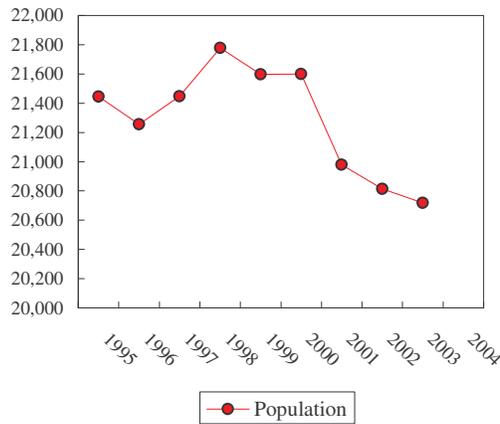
■ Net Revenue Coverage

Fiscal Year	Operating Revenues & Interest	Operating Expenses Excluding Depreciation	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
1996	\$2,996,417	\$1,982,791	\$1,013,626	\$35,000	\$3,500	\$38,500	26.33
1997	3,233,201	1,959,329	1,273,872	35,000	1,750	36,750	34.66
1998	2,969,407	2,064,133	905,274	0	0	0	0.00
1999	3,100,313	2,085,853	1,014,460	0	0	0	0
2000	3,271,657	2,241,865	1,029,792	0	0	0	0
2001	3,302,898	2,298,546	1,004,352	0	0	0	0
2002	3,711,320	2,663,157	1,048,163	0	0	0	0
2003	3,796,303	2,922,565	873,738	0	0	0	0
2004	3,840,717	3,270,262	570,455	0	0	0	0
2005	3,844,013	3,576,602	267,411	0	0	0	0

Source: City of Millbrae financial records

Includes principal and interest of revenue bonds only. It does not include the bank loan reported in the sewer authority fund or debt defeasance transactions. Debt was defeased in fiscal 1996-97.

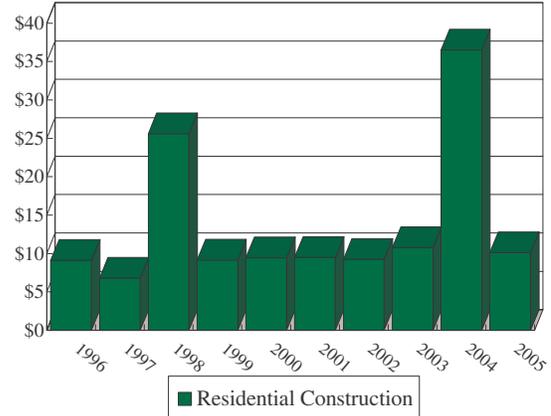
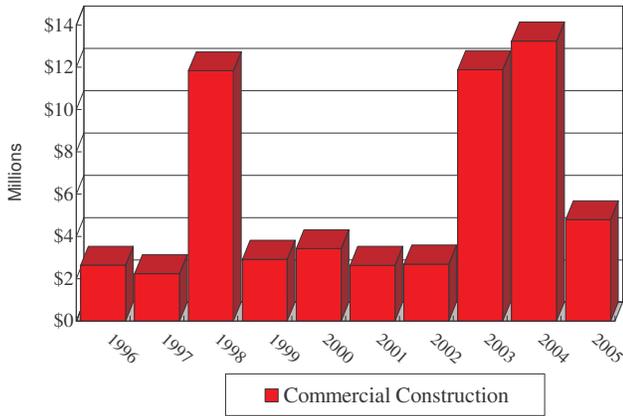
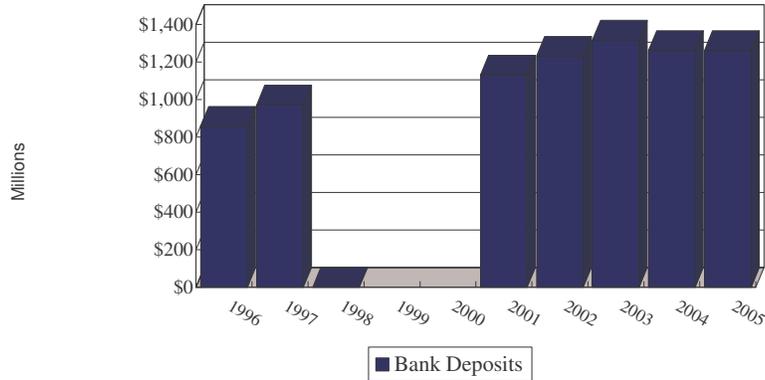
CITY OF MILLBRAE
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS



Fiscal Year	Population	Number of Housing Units (1)	School Enrollment (2)	Unemployment Rate (%) (3)
1996	21,255	8,236	4,710	3.2%
1997	21,447	8,234	4,923	2.6%
1998	21,779	8,241	4,929	2.0%
1999	21,597	8,260	5,013	1.6%
2000	21,600	7,969	4,844	1.2%
2001	20,979	8,113	4,846	2.2%
2002	20,814	8,118	4,880	3.5%
2003	20,718	8,113	4,893	3.8%
2004	20,465	8,119	4,895	2.8%
2005	20,708	8,122	4,898	2.4%

Sources: (1) State of California, Department of Finance.
 (2) San Mateo Union School CBEDS Reports.
 (3) State of California, Employment Development Department; rate is based upon the San Mateo County rate using a factor determined from the 1980 Census as the adjustment for the City.

CITY OF MILLBRAE
CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS



Fiscal Year	Commercial Construction		Residential Construction		Total Value of Construction (1)	Bank Deposits (2)
	Number of Permits	Value	Number of Permits	Value		
1996	70	2,644,211	641	9,136,864	11,781,075	857,315,000
1997	88	2,243,360	599	6,799,999	9,043,359	971,228,000
1998	99	11,838,387	542	25,620,371	37,458,758	N/A(2)
1999	92	2,924,275	614	9,157,644	12,081,919	N/A(2)
2000	59	3,429,319	628	9,446,365	12,875,684	1,101,710,000
2001	50	2,639,537	536	9,486,855	12,373,192	1,131,337,000
2002	104	2,694,588	516	9,237,698	11,932,286	1,231,290,000
2003	109	11,886,007	604	10,772,998	22,659,005	1,317,015,000
2004	133	13,242,850	600	36,503,607	49,746,457	1,261,355,000
2005	118	4,793,130	539	10,124,826	14,917,956	1,260,342,000

Source: (1) California Building Inspector's Report which includes all permits issued.
 (2) California State Banking Department, includes all Commercial Banks, and S&Ls.
 Data for 1998 and 1999 is not available.

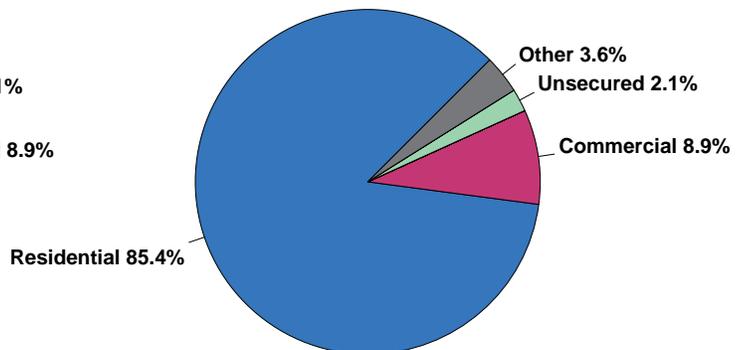
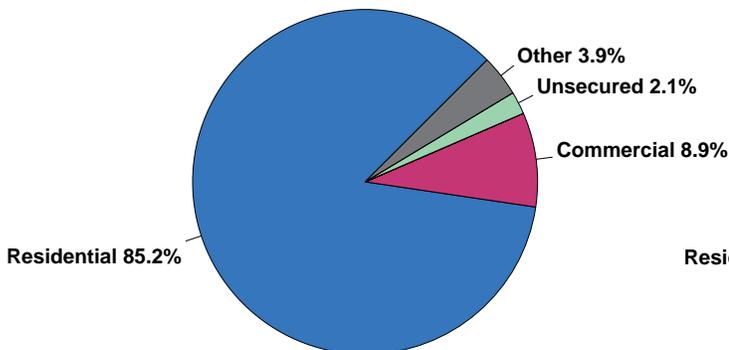
THE CITY OF MILLBRAE

USE CATEGORY SUMMARY, 2004/05

<i>BASIC PROPERTY VALUE TABLE</i>					
CATEGORY	PARCELS	ASSESSED VALUE		NET TAXABLE VALUE	
Residential	6,084	\$ 2,137,358,614	85.2%	\$ 2,136,349,237	85.4%
Commercial	184	\$ 222,231,374	8.9%	\$ 222,231,374	8.9%
Industrial	16	\$ 24,110,680	1.0%	\$ 24,110,680	1.0%
Irrigated	1	\$ 382,542	0.0%	\$ 382,542	0.0%
Dry Farm	1	\$ 263,920	0.0%	\$ 263,920	0.0%
Recreational	5	\$ 29,108,602	1.2%	\$ 29,108,602	1.2%
Institutional	17	\$ 15,086,937	0.6%	\$ 7,695,224	0.3%
Government	9	\$ 1,946,066	0.1%	\$ 1,946,066	0.1%
Miscellaneous	17	\$ 1,940,446	0.1%	\$ 1,940,446	0.1%
Vacant Land	49	\$ 10,576,870	0.4%	\$ 10,576,870	0.4%
Exempt	100	\$ 0	0.0%	\$ 0	0.0%
SBE Nonunitary	[10]	\$ 7,317,062	0.3%	\$ 7,317,062	0.3%
Unsecured	[366]	\$ 53,325,681	2.1%	\$ 53,266,268	2.1%
Unknown	10	\$ 6,216,075	0.2%	\$ 6,216,075	0.2%
TOTALS	6,493	\$ 2,509,864,869		\$ 2,501,404,366	

ASSESSED VALUE

NET TAXABLE VALUE



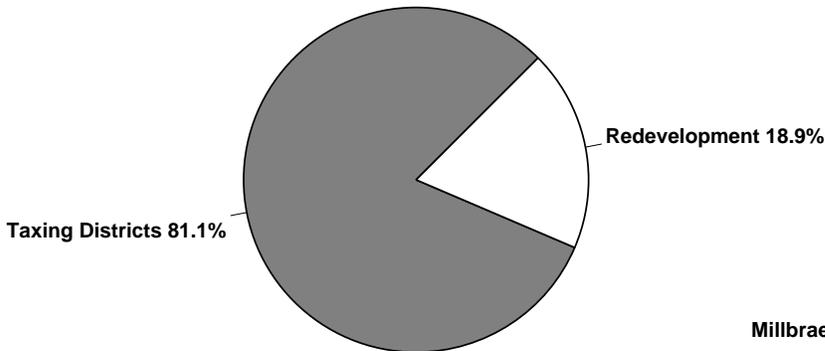
THE CITY OF MILLBRAE

2004/05 GROWTH SUMMARY BY AGENCY

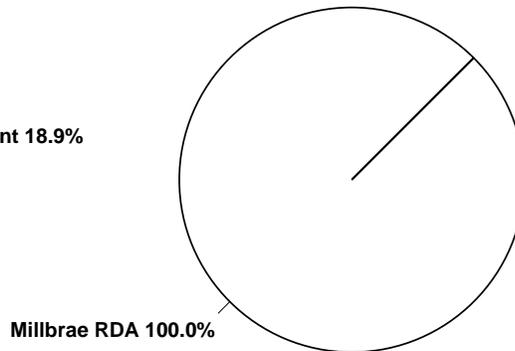
Percentage Growth Of Assessed Values By Agency Between 2003/04 And 2004/05

	County	City	Tax District #1	Millbrae RDA
Secured				
Land	+8.3%	+8.2%	+8.8%	+5.6%
Improvements	+5.7%	+6.2%	+6.6%	+4.6%
Personal Prop.	-4.2%	+5.5%	-10.1%	+9.2%
Exemptions	-2.1%	+1.1%	+1.0%	+1.8%
Net Total	+6.9%	+7.1%	+7.5%	+5.1%
SBE Nonunitary				
Land	+0.0%	+1.5%	0.0%	+24.8%
Improvements	+0.0%	+24.8%	0.0%	+24.8%
Personal Prop.	+0.0%	+24.8%	0.0%	+24.8%
Exemptions	0.0%	0.0%	0.0%	0.0%
Net Total	+0.0%	+3.0%	0.0%	+24.8%
Unsecured				
Land	-2.6%	-0.6%	-0.3%	-0.8%
Improvements	-9.3%	-2.3%	+135.8%	-9.3%
Personal Prop.	-19.4%	+12.5%	+34.3%	+5.8%
Exemptions	-0.4%	0.0%	0.0%	0.0%
Net Total	-16.2%	+3.3%	+36.1%	-3.1%
Combined				
Land	+8.3%	+8.1%	+8.7%	+5.4%
Improvements	+4.7%	+6.1%	+6.7%	+3.4%
Personal Prop.	-17.2%	+11.1%	+26.1%	+6.8%
Exemptions	-1.6%	+1.1%	+1.0%	+1.8%
Net Total AV	+4.7%	+7.0%	+7.6%	+4.3%
Net Taxable AV	+4.7%	+7.0%	+7.6%	+4.3%

2004/05 Total Net AV



2004/05 Redevelopment Net AV



THE CITY OF MILLBRAE

2004 TOP PROPERTY TAXPAYERS

Owner (Number of Parcels)	Assessed Value
1 Westin Bay Hotel Company (1)	\$ 41,558,775
2 SLT Realty Limited Partnership (1)	\$ 32,056,096
3 Magnolia of Millbrae Inc. (4)	\$ 25,127,832
4 Marymount Greenhills LLC (1)	\$ 18,944,358
5 Glenborough Pauls Millbrae LLC (1)	\$ 14,193,305
6 Williams Portfolio I (71)	\$ 11,438,596
7 American Store Properties Inc. (1)	\$ 9,317,314
8 John Wilms (7)	\$ 8,437,782
9 Millbrae Hotel Suites LLC (1)	\$ 7,392,498
10 World Journal Inc. (3)	\$ 6,199,580
11 OSH Acquisition Corporation (1)	\$ 8,893,000
12 Millbrae Square Company (3)	\$ 5,864,039
13 Ramkabir LLC (1)	\$ 5,530,211
14 EMJP Partners Limited Partnership (2)	\$ 5,457,510
15 Paul D. Wright (1)	\$ 4,961,884
16 Real Property Storage LLC (1)	\$ 4,545,643
17 Poplar Apartments LLC (1)	\$ 4,457,564
18 California Lucky Man Enterprises (2)	\$ 4,393,799
19 Millbrae Paradise LLC (1)	\$ 4,239,296
20 Joseph T. Fitzpatrick Trust (1)	\$ 3,459,538
21 Steve H. Lin (1)	\$ 3,418,185
22 Great Western Savings (1)	\$ 3,353,785
23 Bruno Fatica (2)	\$ 3,686,526
24 Sky Chiefs Inc. (1)	\$ 3,221,034
25 D C Lee Third Limited Partnership (2)	\$ 3,142,595

**THE CITY OF MILLBRAE
TOP 25 SALES TAX PRODUCERS
FOR THE FISCAL YEAR 2004/2005**

Business Name	Business Category
Albertsons	Grocery Stores Liquor
Bay Meadows Chevron	Service Stations
Daland Nissan	New Motor Vehicle Dealers
Flower Lounge	Restaurants Liquor
Fook Yuen Seafood	Restaurants Beer And Wine
Garratt Callahan	Drugs/Chemicals
Green Hills Country Club	Clubs/Amusement-With Liquor
Hotel Clarion	Hotels-Liquor
Kelly Moore Paint	Paint/Glass/Wallpaper
Mc Donalds	Fast Food
Mervyns	Department Stores
Millbrae 76	Service Stations
Millbrae Furniture & Appliance	Home Furnishings
Millbrae Gas & Food	Service Stations
Millbrae Lumber	Lumber/Building Materials
Millbrae Pancake House	Fast Food
Millbrae Square Chevron	Service Stations
Office Depot	Office Supplies/Furniture
Orchard Supply Hardware	Hardware Stores
Safeway	Grocery Stores Liquor
Skyline Chevron	Service Stations
Specialty Door	Lumber/Building Materials
Trader Joes	Grocery Stores Liquor
Walgreen	Drug Stores
Westin Bay Hotel	Hotels-Liquor

Percent of Fiscal Year Total Paid By Top 25 Accounts = 67.88%

* Firms Listed Alphabetically

Period: April 2004 Thru March 2005

Source: Hinderliter, de Llamas & Associates, State Board of Equalization

Printed 06/28/2005

CITY OF MILLBRAE
SUMMARY OF PROPERTY USE BY CATEGORY
FISCAL YEAR ENDED JUNE 30, 2005

Category	Parcels	Assessed Value	
		Value	% of Total
Residential	6,084	\$2,137,358,614	85.2%
Commercial	184	222,231,374	8.9%
Industrial	16	24,110,680	1.0%
Irrigated	1	382,542	0.0%
Dry Farm	1	263,920	0.0%
Recreational	5	29,108,602	1.2%
Institutional	17	15,086,937	0.6%
Governmental	9	1,946,066	0.1%
Miscellaneous	17	1,940,446	0.1%
Vacant Land	49	10,576,870	0.4%
Exempt	100	0	0.0%
SBE Nonunitary	(-10)	7,317,062	0.3%
Unsecured	(-366)	53,325,681	2.1%
Unknown	10	6,216,075	0.2%
Totals		<u>\$2,509,864,869</u>	<u>100.0%</u>

Source: HDL Coren & Cone, San Mateo County Assessor 2004/2005
combined Tax Rolls.

THE CITY OF MILLBRAE

2004 TOP PROPERTY OWNER SUMMARY

Owner (Number of Parcels)	Assessed Value
1 Westin Bay Hotel Company (1)	\$ 41,558,775
2 SLT Realty Limited Partnership (1)	\$ 32,056,096
3 Magnolia of Millbrae Inc. (4)	\$ 25,127,832
4 Marymount Greenhills LLC (1)	\$ 18,944,358
5 Glenborough Pauls Millbrae LLC (1)	\$ 14,193,305
6 Williams Portfolio I (71)	\$ 11,438,596
7 Townsquare Associates (1)	\$ 9,838,715
8 American Store Properties Inc. (1)	\$ 9,317,314
9 OSH Acquisition Corporation (1)	\$ 8,893,000
10 John Wilms (7)	\$ 8,437,782
11 Hills Country Club Green (5)	\$ 7,776,885
12 Millbrae Hotel Suites LLC (1)	\$ 7,392,498
13 Comcast of California IX Inc. (2)	\$ 7,081,480
14 World Journal Inc. (3)	\$ 6,199,580
15 Millbrae Square Company (3)	\$ 5,864,039
16 Ramkabir LLC (1)	\$ 5,530,211
17 EMJP Partners Limited Partnership (2)	\$ 5,457,510
18 Roman Catholic Archbishop of San Francisco (3)	\$ 5,173,720
19 Paul D. Wright (1)	\$ 4,961,884
20 Real Property Storage LLC (1)	\$ 4,545,643
21 Poplar Apartments LLC (1)	\$ 4,457,564
22 Craig D. Rogers Trust (3)	\$ 4,432,628
23 California Lucky Man Enterprises (2)	\$ 4,393,799
24 Millbrae Paradise LLC (1)	\$ 4,239,296
25 Nan Hai U S A Company Inc. (3)	\$ 4,174,238

CITY OF MILLBRAE
MISCELLANEOUS STATISTICS
JUNE 30, 2005

Date of incorporation:	1948		
Form of government:	Council/Administrator		
Number of employees (excluding police and fire)			
Classified	44		
Exempt	28		
Area in square miles:	3.2		
Miles of streets:	261 miles		
Number of street lights	1,250		
<i>Culture and Recreation:</i>		<i>Sewer System:</i>	
Community centers	1	Miles of sanitary sewers	56
Parks	14	Miles of storm sewers	20.7
Park acreage	104	Number of treatment plants	1
Tennis courts	4	Number of service connections	6,334
		Daily average treatment in gallons	2,200,000
<i>Fire Protection:</i>		Maximum daily capacity of treatment plant in gallons (average design flow)	3,000,000
Number of stations	2	<i>Water System:</i>	
Number of fire personnel and officers	25	Miles of water mains	69.7
Number of calls answered	2,216	Number of service connections	6,345
Number of inspections conducted	297	Number of fire hydrants	545
		Daily average consumption in gallons	2,725,000
<i>Police Protection:</i>		Maximum tank capacity	2,360,000
Number of stations	1	Facility and services not included in the reporting entity:	
Number of police personnel and officers	34	<i>Education:</i>	
Number of patrol units	12	Number of elementary schools	4
Number of law violations:		Number of elementary school instructors	73
Physical arrest	675	Number of secondary schools	1
Traffic violations	2,295	Number of secondary school instructors	45
Parking violations	4,443		

Source: City of Millbrae