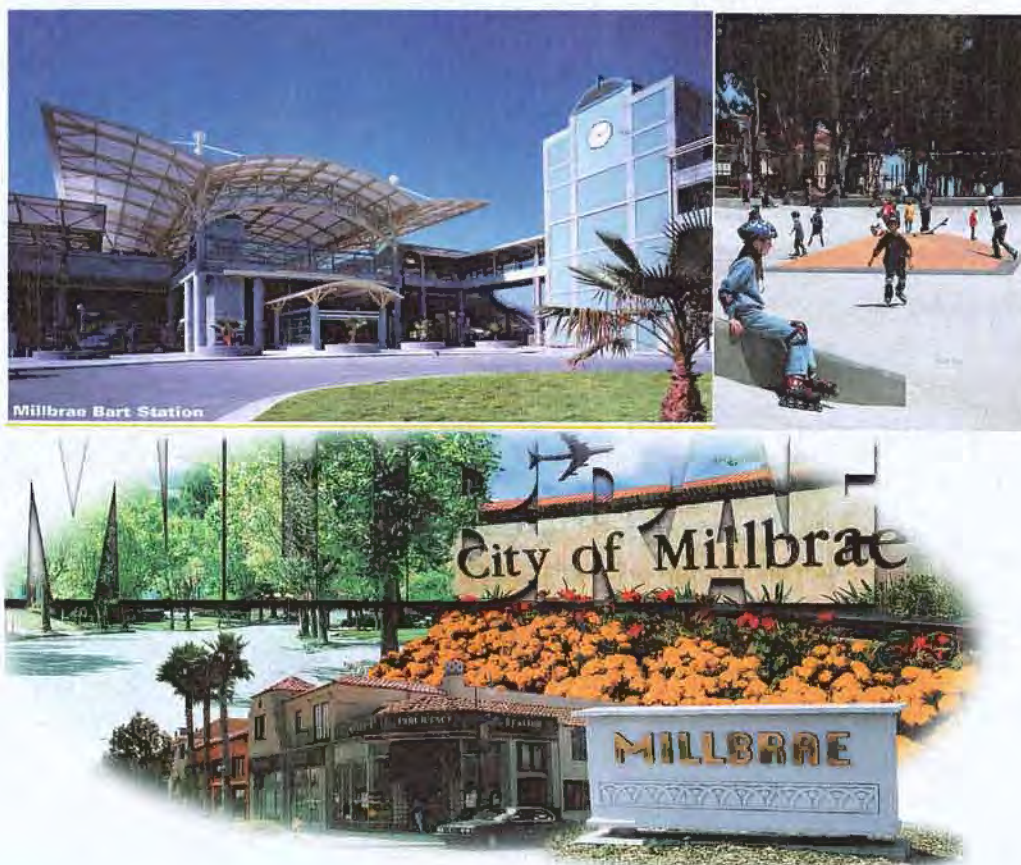




City of Millbrae California

Comprehensive Annual Financial Report



For the year ended
June 30, 2006

CITY OF MILLBRAE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006

Prepared by
FINANCE DIVISION,
DEPARTMENT OF GENERAL SERVICES

CITY OF MILLBRAE
Comprehensive Annual Financial Report
For the Year Ended June 30, 2006

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City of Millbrae

621 Magnolia Avenue, Millbrae, CA 94030

November 6, 2006

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

ROBERT G. GOTTSCHALK
Mayor

MARC HERSHMAN
Vice Mayor

NADIA V. HOLOBER
Councilwoman

LINDA T. LARSON
Councilwoman

GINA PAPAN
Councilwoman

MARY VELLA TRESELER
Treasurer

Dear Mayor and Council Members:

The comprehensive annual financial report of the City of Millbrae for the year ended June 30, 2006, 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 the management of the City of Millbrae. 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 also 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. In Fiscal Year 2006, the aggregate amount of federal financial assistance is less than \$500,000, and the City is thereby not subject to a Single Audit for this fiscal period.

City Council/City Manager
(650) 259-2334

Personnel
(650) 259-2334

City Clerk
(650) 259-2334

Finance/Water
(650) 259-2350

Public Works/Engineering
(650) 259-2339

Community Development
(650) 259-2341

Recreation
(650) 259-2360

Building Division
(650) 259-2330

Police Department
(650) 259-2300

Fire Department
(650) 259-2400

Honorable Mayor, City Council Members and Citizens of the City of Millbrae
November 6, 2006
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, the City Manager and 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: 20,718; Incorporated: January 14, 1948; San Mateo County Seat Established: 1856; Registered Voters: 10,547 (10/06); 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

The cooling housing market had predictable effects on the California economy during the first eight months of 2006. Several industries closely tied to real estate slowed significantly. However, a broader economic slowdown did not emerge.

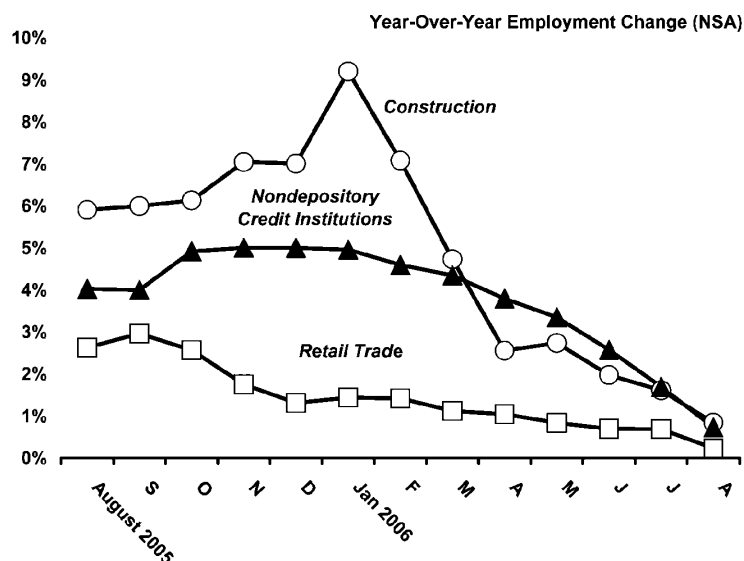
- Home building stabilized in August following a dramatic drop in July. The pace of residential permitting rose to 158,000 units (seasonally-adjusted annual rate) based on a strong pickup (31 percent) in multi-family permitting. Single-family construction declined for the second consecutive month.

- In the first eight months of 2006, the pace of homebuilding was down nearly 16 percent from the same months of 2005. Single-family permitting was down over 24 percent, while multi-family was up 7.4 percent. Construction slowed in nearly all major metropolitan areas of California, with the Sacramento, San Diego, and Stockton regions experiencing the sharpest declines of 42, 39, and 42 percent, respectively. Orange County was the only area which permitted more units.

- In contrast, nonresidential construction sped up significantly during the first eight months of 2006 compared to a year earlier. The value of nonresidential construction permits issued was up 20 percent, led by strong gains in office, hotel/motel, and parking garage construction. Permitting accelerated in most major metropolitan areas. The strongest acceleration occurred in Orange County and the Riverside-San Bernardino, San Francisco, and San Diego regions. Activity slowed only in the Los Angeles and Stockton areas, down 2 percent and 26 percent, respectively.

- Home sales in California slowed in August for the fifth consecutive month. Sales of existing single-family homes slipped to a seasonally adjusted annual rate of 442,200 units. This was 30 percent lower than a year earlier and was the slowest sales pace since June 1997. Overall, existing home sales during the first eight months of 2006 were down 23 percent from the same months of 2005.

Employment Gains Slow from Weaker Housing



- California's median single-family home price reached \$576,360 in August, an all-time record according to the California Association of Realtors. This stretches the upper bounds of the \$540,000-\$570,000 range that California home prices have been in since June 2005. On a year-over-year basis, however, home prices were nearly stagnant in August. The statewide median price was up only 1.6 percent from a year earlier. This was the slowest annual increase since March 1997.

- The falloff in real estate activity in 2006 had a predictable impact on California's labor markets. After growing an average of 6.4 percent in 2004 and 2005, construction employment expanded only 3.7 percent during the first eight months of 2006 compared to the same months of 2005. While growth slowed in all but one construction sub-sector, residential building slowed the most dramatically.

- Retail trade employment was also affected. Its 0.9-percent growth was less than half its 2005 pace. The slowdown was most pronounced at traditional department stores and building materials and supply stores.

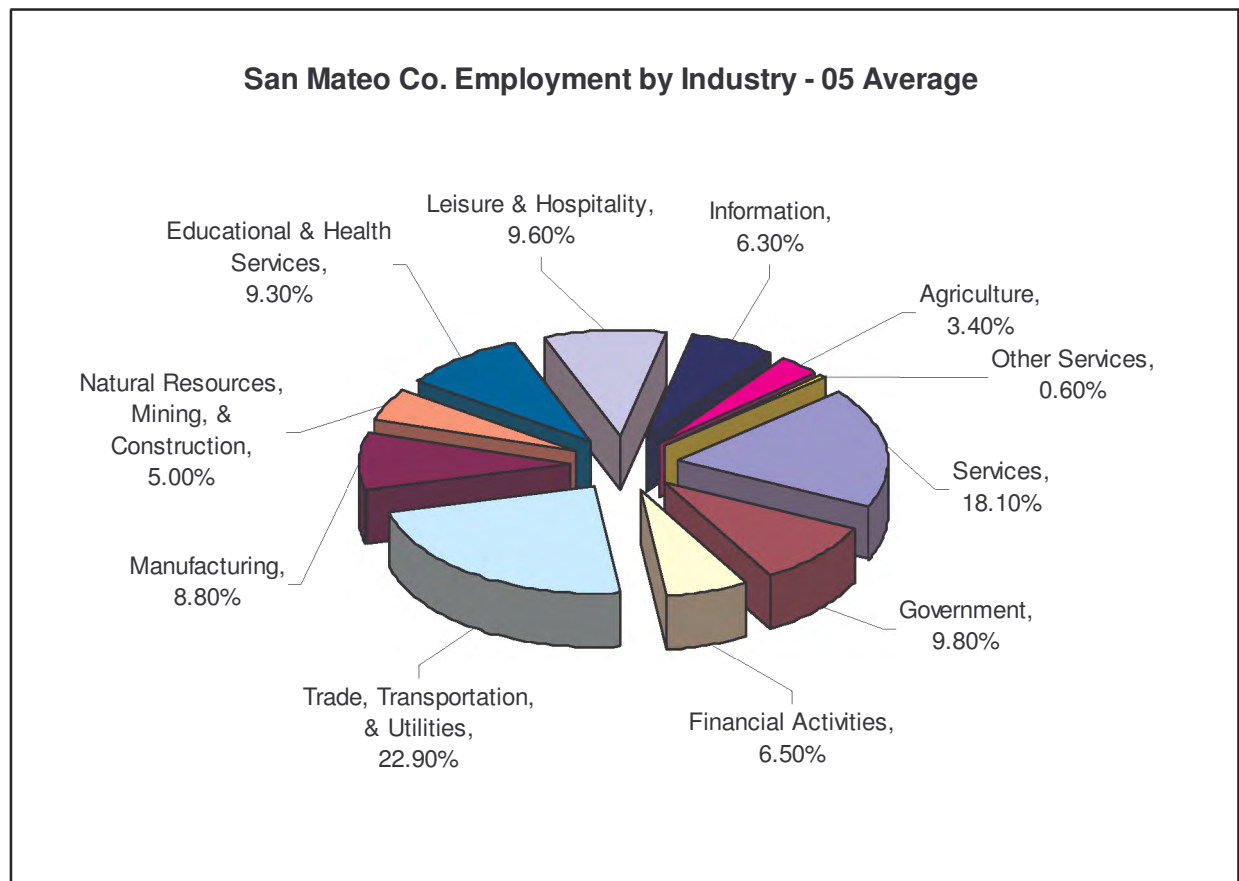
- Finance and real estate industries appear to have been affected more than retail trade. Mortgage lending activity exploded from 2001 to 2003, as long-term interest rates declined steadily, but

then slowed when interest rates bottomed out between 2004 and 2005. Year-over-year employment growth at non-depository credit intermediation firms (which includes mortgage lenders) slowed to only 3.2 percent during the first eight months of 2006. The growth rate of real estate agents and brokers in 2006 started out strong and but then faded quickly.

(Source: State of California Department of Finance)

San Mateo County Economy

One of several counties significantly contributing to the economy of the San Francisco Bay Area, 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 724,000. By the year 2020, the county is projected to exceed 786,000 residents.



Labor Force - San Mateo County's labor force declined by 700 in 2005 to 363,800; since 2001, the labor force has cumulatively declined 7.4 percent or 29,000. San Mateo's 2005 unemployment rate was down to 4.3 percent after peaking at 5.9 percent in 2003.

Industry Employment - After several years of decline, industry employment in San Mateo increased by 200 to total 328,000 in 2005. Since 2001, the county's industry employment has cumulatively decreased by 11.5 percent (42,600 jobs). Despite the overall decline, three industries

recorded employment gains during the years 2001–2005: educational and health services; leisure and hospitality; and other services. In educational and health services, both major sectors recorded job gains: health care and social assistance (up 800); and educational services (up 600). Leisure and hospitality growth was concentrated in amusement, gambling, and recreation (up 500). Other services gained 200 jobs. Other services totals generally include employment in establishments such as equipment and machinery repairing; religious activities, grant-making, and advocacy; and dry cleaning and laundry services, among others.

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. Although FY 06 Hotel Tax revenue increased 13.9%, future Hotel Tax growth is projected at the rate of 5% annually. The hotel/travel industry has the greatest impact on the local economy and the City's revenue base. Sales Tax had declined in previous years, but growth in FY 06 was 15% and future growth is now projected at the rate of 3% annually.

Property Tax increases are stronger with a five to 10 year perspective. General Fund Property Tax increased 7.24% in Fiscal Year 2005, 11% in Fiscal Year 2006, and is projected to increase 7% to 3% 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 \$1.104 million annually in fire assessment revenue. However, this revenue is schedule to sunset in the 2008-09 Fiscal Year. 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

Central Park Renovation. After being closed all summer for renovation, Central Park recently reopened in early November. Among the improvements are a full re-grading of the main open area of the park to create informal turf play areas, new drainage to protect the turf and keep it playable year-round, removal of outdated play equipment, and improved accessibility to the playground and Community Center. Further, space is being set aside to include a bocce ball court and horseshoe pit. The east entry to the park will be enhanced with a new pathway, stairway, seat wall, and sign, creating a link between the Millbrae Library and Central Park. Last September, the City Council approved an expanded project scope to strengthen the link between Central Park, the Library, and the Civic Center by repaving Lansdale Avenue.

Parking Tax. The City Council of the City of Millbrae approved placing before the voters a ballot measure to implement a parking tax. The measure was approved in November 2005 by the voters. The measure implemented a 10% tax on all parking revenue if the parking was not affiliated with a hotel stay. The measure is expected to provide the City of Millbrae \$50,000 annually in General Fund revenue.

Shared Services. As a small city, sharing services with neighboring cities is a key strategy for keeping costs down while maintaining high quality service delivery. Over the past year, the City succeeded in arranging for the following shared services.

1. Police Communications Services are now provided by San Mateo County saving Millbrae taxpayers \$300,000 a year without reducing service levels.
2. The fire department shares a Battalion Chief with San Bruno, which reduces overtime costs and provides incident command coverage for major emergencies.
3. The City just recently implemented an agreement with three neighboring agencies to share a fire training division chief. This saves the City \$100,000 annually and provides for more consistent training among agencies.
4. While the Recreation Department no longer shares a Director with Burlingame, Millbrae shares several recreation programs such as adult softball, teen trips, and golf classes to name a few, with other cities and organizations such as YMCA.
5. In addition to sharing services, the City has cut costs by purchasing and installing a new telephone system that will save at least \$307,000 over 10 years. The new telephone system uses advanced technology to improve communications and staff productivity.

Cogeneration Project. The City Council approved a major wastewater system improvement

with the construction of an 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 waste 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. The project will be operational in November, 2006.

Wastewater Treatment Plant Renovation. The City's wastewater collection system and treatment plan is extensively being renovated, which started 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 budget is \$35 million. The City is applying for low-interest California state loans and other low-cost financing to pay for the project.

Settlement of Crestview Slide Litigation. Multiple claims relating to the \$8 million repair of the Crestview Slide area, damaged by the winter storms of 1999-2000, were settled.

Re-negotiation of Crestview Slide Loan. A big concern for the past several years has been the Crestview Slide Loan with the State of California. The City was facing paying \$2.7 million by May 2007 for hillside repairs needed for damage created by the winter storms of 2000. Fortunately, the City successfully renegotiated the Crestview Slide Loan to likely release the City from its repayment. This has been critical to the City of Millbrae's financial stability.

Red Light Traffic Camera System. In June of 2006, the City Council approved a proposal to install red light traffic cameras at Rollins Road and Millbrae Avenue, which could generate additional revenue for the City but more importantly improve traffic safety. This system will likely also be placed at Millbrae Ave. and El Camino Real in the coming year.

Sustainable Millbrae Program. The City is taking its civic responsibility seriously by doing its part to foster a healthier and greener community. Last July, the City Council heard a presentation by City staff on implementing a variety of "green" and health related programs to enhance our current activities. This presentation was a first step in developing programs that will help to improve the environment and quality of life in Millbrae. The City's Environmental Policies Committee presented the Guiding Principles and potential programs to help build a healthy community and environment. Health-related program areas include exercise, safety, and nutrition. The environmental programs include pollution prevention, recycling and waste prevention, Earth Day, water conservation, energy conservation, and air quality. Health and the environment are interrelated, reducing indoor and outdoor air pollution, exercising by biking and walking, and gardening and eating right to improve both personal health and the health of the earth.

The Guiding Principles of this effort include:

- Improve the Health of Residents and Municipal Employees
- Conserve and Preserve the Environment
- Preserve Property Values
- Save Money
- Enhance the Quality of Life & Community Partnerships

These principles will lead to programs that benefit the community, businesses, and municipal employees. The City will continue our tradition of paving the way and serving as a role model for others.

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 fund level. 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, 2006, 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 Manager 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 CSAC EIA 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, 2005. This was the 11th 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 2005. These awards are the highest awards given for government accounting and financial reporting achievements in the State of California.

ELECTED OFFICIALS

ROBERT G. GOTTSCHALK, MAYOR

MARC HERSHMAN, VICE MAYOR

NADIA V. HOLOBER, COUNCILWOMAN

LINDA T. LARSON, COUNCILWOMAN

GINA PAPAN, COUNCILWOMAN

DIRECTORY OF CITY OFFICIALS

RALPH L. JAECK, CITY MANAGER

JEFFREY W. KILLIAN, ASSISTANT CITY MANAGER

JOAN CASSMAN, CITY ATTORNEY

DEBORAH KONKOL, CITY CLERK

RALPH PETTY, COMMUNITY DEVELOPMENT AND PARKS DIRECTOR

RON POPP, PUBLIC WORKS DIRECTOR

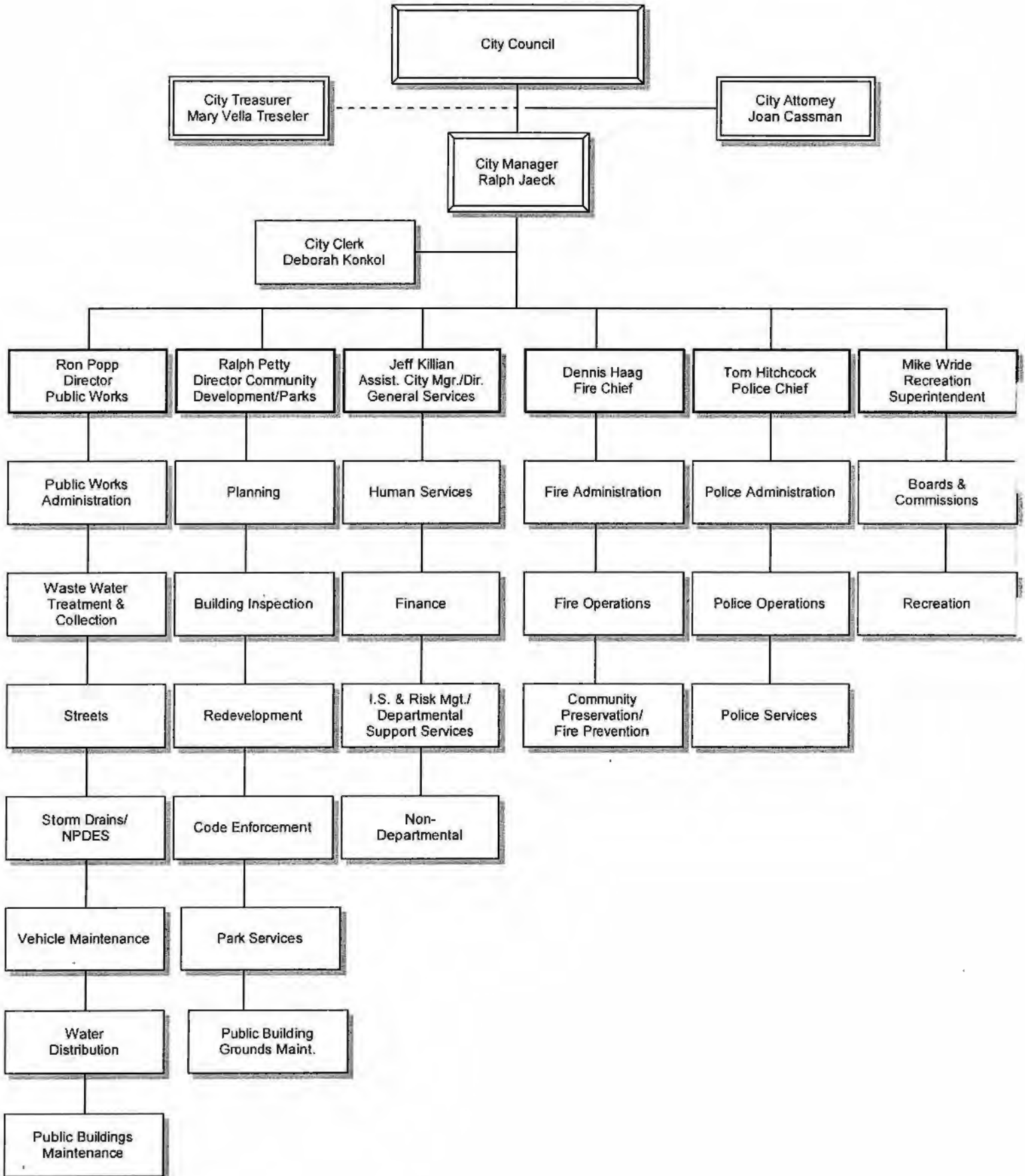
DENNIS HAAG, FIRE CHIEF

TOM HITCHCOCK, POLICE CHIEF

MIKE WRIDE, RECREATION SUPERINTENDENT

City of Millbrae

Organization Chart





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.



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Millbrae
California

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

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.



Carla E. Fudge

President

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Certificate of Award

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City of Millbrae



*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, 2006

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

ACCOUNTANCY CORPORATION

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Pleasant Hill, California 94523
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**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, 2006, 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 and generally accepted government audit standards issued by the Comptroller General of 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, 2006 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.

In accordance with the generally accepted government auditing standards, we have also issued reports dated October 17, 2006 on our consideration of the City of Millbrae internal control structure and on its compliance with laws and regulations.

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 was 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.

Maze & Associates

October 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2006 is the fourth 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 2006 FINANCIAL HIGHLIGHTS

City of Millbrae's financial situation has turned around with a moderate recovery. This year the General Fund balance increased to \$2.7 million, a \$1.2 million increase from the prior year. The City's previously largest revenue source, Transient Occupancy Tax (Hotel Tax) grew 14% in 2005-06. Sales Taxes increased 15% primarily due to the new Millbrae Gas and Market and the new In N Out Burgers. Higher gasoline prices and a general economic recovery were also key factors in the improvement of sales tax revenue. Property Taxes grew 11% due to increases in assessed property values. Adjustments of Vehicle License Fee Adjustment Amount (VLFAA) for both prior and current years, and in the Educational Revenue Augmentation Fund (ERAF) refunds also helped the City's revenue increase.

Certain revenue enhancements enacted in previous year continued to improve the overall General Fund revenues. This year the City of Millbrae received \$1.104 million in fire assessment revenue and \$0.84 million in franchise fees. \$430,000 of the franchise fee revenue was from the solid waste franchise, which increased by 130,000 from the previous fiscal year. The fire assessment revenue was close to prior year's receipts.

General Fund expenditures increased \$1.5 million. Part of the increase in expenditures was due to a one-time \$600,000 payment as part of a renegotiated Crestview Slide project loan with the State of California Office of Emergency Services (OES). The remaining \$700,000 expenditure growth was due to increased contractual services and material and supply costs. The net General Fund balance increased \$1.2 million in 2006. Other financial highlights of the year include the following:

- The City's total net assets increased \$3 million during Fiscal 2006. On June 30, 2006, net assets totaled \$30 million;
- Total City revenues, including program and general revenues, increased to \$31.7 million, while total expenses increased to \$28 million in fiscal 2006;
- Net assets in Governmental funds were \$14 million, while net assets in business activities were \$16 million;
- Governmental Program Revenues were \$5 million;
- Governmental Program Expenses were \$20 million in fiscal 2006;
- Revenues from Business-Type activities were \$8.6 million in fiscal 2006;
- Expenses of Business-Type Activities were \$8.3 million in fiscal 2006;
- General Fund revenues totaled \$14.1 million and expenditures were \$13 million, which resulted an increase of \$1.1 million over the prior year amounts; and,
- The General Fund balance was \$2.7 million at the 2006 fiscal year end.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is organized 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 include the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different perspectives of the City's financial activities and financial position.

The City-wide Financial Statements provide a long-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, 2006
(in Millions)

	Governmental Activities	
	2006	2005
Cash and investments	\$19.16	\$19
Other assets	13.36	12
Capital assets	24.01	23
Total assets	56.53	54
Long-term debt outstanding	36.66	37
Other liabilities	5.49	5
Total liabilities	42.15	42
Net assets:		
Invested in capital assets, net of debt	8.69	9
Restricted	15.99	12
Unrestricted	(10.30)	(9)
Total net assets	\$14.38	\$12

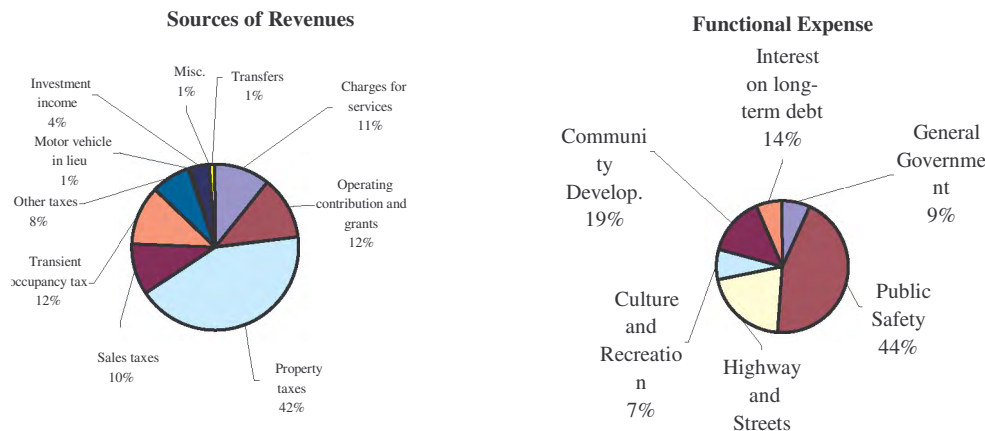
The City's net assets from governmental activities increased with a fraction of \$2 million as June 30, 2006. This increase is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

- Cash and investments increased \$0.6 million from the governmental activities. At June 30, 2006 cash and investments balance increased to \$19.1 million from the prior year's balance of \$18.5 million. Cash and Investments increased \$3.7 million primarily from General Fund revenue increases, RDA Debt Service and Housing Fund tax increment increases, and other Governmental Funds. The increases were further diminished by a \$3.1 million decrease of cash and investments in the Redevelopment Capital Project Fund and the Self-Insurance Funds. In RDA Capital Project Fund cash decreased \$2 million mainly resulted from a \$1.3 million loan to the Sanitation Fund and a \$0.35 million transfers out to the El Camino Real Improvement project. The Self-Insurance Funds' cash decreased \$1 million due to transfers out of \$0.6 million to General Fund for paying out the required OES loan payment and major claims were paid in 2005-06.
- Other assets increased \$1.2 million mainly due to a short loan due from Sanitation Fund and from other funds for covering the funds' cash deficit at June 30, 2006.
- The increase of \$1 million in Capital Assets mainly came from the costs for design of a renovation project to improve both the wastewater treatment facility as well as parts of the sewer collection system; for the purchase of a new RIMS communication system and equipments for the Police Department; and for the various vehicles replacements.

- Long-Term Debt decreased \$0.5 million primarily from a \$1.7 million retirement of the OES Loan and a \$0.2 million retirement for other debts. On the other hand, \$1.2 million added to the POB obligation this year for the accreted value adjustment and a new \$0.2 million lease purchase loan was acquired for the phone system. As a result, Long-Term Debt netted with a \$0.5 million decrease for the year.
- The aggregate amount of “Other Liabilities” increased \$1 million, primarily due to the increased inter-fund transactions to cover cash deficits at year end, the increased deferred revenues as the reimbursement grants for the Park Improvement projects not received yet; and the increased payroll payable accruals resulted from a change of payroll process from semi-monthly to bi-weekly.
- \$8.7 million of the \$24 million capital assets were “Invested in Capital Assets, Net of Related Debt”.
- Restricted net assets totaled \$16 million, which includes \$1 million restricted for capital projects, \$3 million earmarked for debt service, \$9 million set aside for redevelopment, and \$3 million restricted for special revenue programs.
- Unrestricted net assets had a deficit of \$10.3 million primarily due to the long-term debt, thereby not requiring the current assets to be liquidated.

Fiscal Year 2006 Government Activities

(See Table 2)



As the Sources of Revenue Chart above shows, \$9.6 million, or 43% of the City’s Fiscal 2006 revenue, came from Property Taxes revenues. Property Taxes increased \$1.1 million due to improved property values, increased Vehicle License Fee Adjustment Amount (VLFAA) for both current and prior years, and the result from a property tax audit performed by MBIA. Sales Taxes and Transient Occupancy Tax accounted for \$2.3 million and \$2.6 million respectively. The total general revenues of \$17.3 million, accounted for 77% of the 2006 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 2006, the City added \$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	
	2006	2005
Expenses		
General government	\$ 1.76	\$ 1.42
Public Safety	8.82	8.83
Highway and Streets	1.47	1.63
Culture and Recreation	2.14	1.97
Community Development	3.03	3.10
Interest on long-term debt	2.92	1.48
Total Expenses	\$20.14	\$18.43
Revenues		
Program revenues:		
Charges for services	2.73	2.04
Operating contributions and grants	2.76	1.33
Developmental impact fees and permits	0.0	0.0
Total program revenues	5.49	3.37
General revenues:		
Taxes:		
Property taxes	9.64	8.54
Sales taxes	2.25	1.88
Transient occupancy tax	2.60	2.28
Other taxes	1.69	1.17
Motor vehicle in lieu	0.13	0.49
Investment income	0.50	0.72
Miscellaneous	0.23	0.18
Transfers	-0.05	0.01
Total general revenues	16.99	15.27
Total revenues	22.48	18.64
Change in net assets	\$ 2.34	\$ 0.21

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	
	2006	2005
General Government	\$ (0.4)	\$ (1.3)
Public Safety	(7.9)	(8.0)
Highway and Streets	0.2	(0.4)
Culture and Recreation	(1.2)	(1.3)
Community Development	(2.5)	(2.6)
Interest on Long-term Debt	(2.9)	(1.5)
Totals	\$ (14.7)	\$ (15.1)

- \$7.9 million of program net expenses over revenues came from Public Safety. The 2005-06 Public Safety net deficit improved slightly from the prior year level. General Fund Police expenditures increased \$0.4 million mainly from a \$0.27 million increase in contractual services for operations and the rest was from a new Police Chief hired and compensation increases netted out with a \$0.06 million savings for contracting out the Dispatcher Services with the San Mateo County. The General Fund Fire expenditures were \$0.3 million lower than the prior year primarily resulted from a \$0.2 million reduction in overtime cost and \$0.1 million savings in Emergency Medical Services program.
- Highway and Streets net revenues over expenses increased \$0.6 million comparing to last year. Revenues increased \$0.4 million mainly from the new developer fees, while expenses decreased \$0.2 million as a result of the GASB 34 consolidation adjustments.
- Culture and Recreation expenses over revenues decreased \$0.1 million. The deficit decreased due to a \$0.3 million increase in revenues netted with a \$0.2 million increase in expenses. The revenues increased because grants reimbursements received in this year and the new developer fees assessed for parks improvements. The expenses increased due to higher recreation programs' costs and personnel costs.
- Community Development net expenses over revenues improved \$0.1 million, mainly resulted from a \$0.07 million increase in revenues and a \$0.06 million decrease in expenses. The 2006 revenues and expenses were very close the prior year's level.
- The interest on long-term debt increased by \$1.4 million mainly from a \$1.2 million increase in POB obligation for the accreted value adjustment and a \$0.2 million increase from the Sanitation Fund debt, the new Co-Generation Loan.

Business-type Activities

Table 4
Business-Type Net Assets
(in Millions)

	Business-Type Activities	
	2005	2005
Cash and investments	\$4.35	\$ 7.25
Other current assets	1.78	1.60
Internal balances	(0.76)	0.59
Capital assets and other	18.60	13.31
Total assets	\$23.97	\$22.75
Long-term debt outstanding	6.25	6.45
Other liabilities	1.63	1.09
Total liabilities	7.88	7.54
Net assets:		
Invested in capital assets, net of debt	16.68	11.19
Unrestricted	(0.59)	4.03
Total net assets	\$16.09	\$15.22

Net assets for Business-type Activities increased \$0.9 million. Cash and Investments decreased \$2.9 million. This was due to a \$6.52 million decrease in cash for the Co-Generation, the Sewer System Rehabilitation, the Water Main, and the Storm Drain projects' capital and related debt expenses; a \$2.03 million cash increase from operating activities; and a \$1.6 million increase mainly from the \$1.5 million Sewer Fund loans borrowed from the Water Fund and the RDA Capital Project Fund. The loans borrowed were used for the start up costs incurred on the Waste Water Treatment Facility and Sewer System Improvement Project. Other Current Assets increased \$0.18 million due to a one-time billing adjustment and increased accrual amount for May and June revenues. The increased May and June increased revenues resulted from rates increases. Internal Balances liability increased \$1.4 million primarily due to the Sewer Fund Loans borrowed in 2005-06. \$5.3 million increase in Capital Assets – Net of Accumulated Depreciation primarily for the various Enterprise Funds' capital outlays as mentioned above. Long-Term Debt decreased \$0.2 million from retirement of the Co-Generation Project debt for the current year portion. Other Liabilities increased \$0.5 million mainly for the Sanitary Sewer Rehabilitation and the Co-Generation projects' accounts payable and accrual as June 30, 2006.

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

	Business - Type - Activities	
	2006	2005
Net: Revenues from Business-type activities		
Municipal Water System	\$0.36	\$0.13
Waste Water Treatment Facility (Sanitation)	0.08	(0.15)
Storm Drain	(0.14)	(0.10)
Total Business-type Activities	<u>\$0.30</u>	<u>(\$0.12)</u>

The Business-Type net revenues over expenses increased \$0.4 million after netted out with an allocation of the Internal Service Funds' net deficit for the year. Water Fund revenues increased slightly and expenses, on the other hand, decreased, which resulted in a net increase for the year. Although the Sanitation Fund expenses increased considerably, the Fund net assets increased due to a strong growth in revenues resulted from rate increase. The Storm Drain Fund's net decrease due to the Fund's net income from operations was not sufficient to cover the net loss allocated from Internal Service Funds.

As shown in the "Statement of Cash Flows," Net Cash Flows decreased \$2.9 million. Water Fund cash flow decreased \$0.4 million, Sanitation Fund decreased \$2.3 million, and Storm Drain Fund decreased almost \$0.2 Million. The cash flow decreased mainly from capital expenses for the Co-Generation, the Sewer System Rehabilitation, the Water Main, and the Storm Drain projects.

The City's Fund Financial Statements

Governmental Funds

At June 30, 2006, the City's governmental funds reported combined fund balances of \$18.6 million, which was a \$2.2 million increase or 13.2% compared to the prior year. General Fund accounted for \$1.2 million of the increase and another \$1 million increase was from Other Governmental Funds: mainly the Park Capital Improvement Fund and the Millbrae Station Area Developer Permit Fund.

Governmental fund revenues increased \$1.6 million this year to a new total of \$21 million primarily due to a 1 million increase in General Fund and \$0.5 million increase in the Redevelopment Agency Debt Service and Housing funds. Expenditures decreased \$6.5 million this year to \$19.4 million. The decrease in expenditures mainly resulted from a \$5.3 million decrease in Redevelopment Capital Project Fund, \$3.5 million decrease in Library Project Fund, which further netted out with a \$1.5 million increase in the General Fund, a \$0.5 million increase Developer Fee Fund, and a \$0.2 million increase in Redevelopment Agency Capital Project Fund.

Proprietary Funds

Enterprise Fund net assets totaled \$16.1 million at June 30, 2006, an increase of \$0.9 million from the prior year. Water Fund net assets increased \$0.5 million, Sanitation Fund assets increased \$0.3 million, and Storm Drain Fund increased \$0.1 million. Operating revenues increased \$1.2 million, primarily due to an \$0.8 million sewer rate increase, a \$0.27 million prior year water billing adjustment and a higher accrual amount for this year's May and June water sales, and a \$0.16 million from a one-time reimbursement to Storm Drain Fund by the BART. Operating expenses increased \$0.3 million. Of which Sanitation Fund accounted for \$0.4 million expenses increase due to higher costs for maintaining the City's sanitary sewer system: higher salaries and benefits, contractual services, materials and supplies. On the other hand, Water Fund expenses decreased \$0.1 million from the prior year. Non-Operating revenues over expenses increased primarily due to higher interest income and a one-time loan forgiveness from General Fund.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

General Fund

The General Fund balance increased to \$2.7 million, a \$1.2 million increase from the prior year. Revenues reached \$14.1 million, which is \$1 million higher than the prior year's level. The three major revenues performed well in 2005-06. Property taxes increased \$0.6 million, of which \$0.2 million resulted from a retro-adjustment for the 2004-05 VLFAA; \$0.2 million from property value increases; and \$0.2 million from ERAF refunds. Transient Occupancy Tax continued with a moderate recovery, which increased 14% over the 2004-05 level. Sales Taxes increased \$0.3 million due to the new Millbrae Gas and Market and the new In N Out Burgers opened in 2005-06. The higher gasoline price and a general economic recovery also contributed to the overall increase in Sales Taxes. Even though there were no fee increases in 2005-06, Permits and Licenses increased \$0.14 million primarily due to higher assessed valuation on buildings because construction costs were higher than a year ago. The high valued new development at 1355 El Camino Real also contributed to the revenue increase for Permits and Licenses. Other Taxes increased \$0.15 million. Of this amount, a \$0.13 million was from the refuse franchise fee and other franchise fees. Use of Money and Property revenues decreased \$0.06 million due to a downward \$0.1 million in fair value adjustments for the investments with the San Mateo County and the LAIF Pools. Miscellaneous Revenues decreased \$0.2 million mainly due to a one-time reimbursement in 2004-05 for the Library Project costs incurred and advanced by the General Fund.

General Fund expenditures were up \$1.5 million from the prior year level. \$0.6 million was paid to the State of California Office of Emergency Services (OES), which was a pre-requisite for amending the OES Loan for the Crestview Slide Repair project. General Government expenditures increased \$0.3 million, primarily for the TM1 software license and consulting services for the budget and financial reporting enhancements; higher utilities costs, and a new Accounting Technician was hired. Replacement of the 10 year old financial system server and the line printer, the purchase of Microsoft Office 2003 software licenses, and a two year maintenance contract for the MacAfee active virus scan also contributed to the over all increases in the General Government expenditures. Culture and Recreations increased \$0.2 million due to a Maintenance Technician and a Maintenance Worker hired. Highway and Streets increased \$0.14 million primarily due to a full-time Maintenance Worker assigned, higher building maintenance costs and a general increase in salaries and benefits. Capital Outlay increased \$0.17 million, primarily for a purchase of the new RIMS communication system and equipments for the Police Department and an upgrade of the Recreations Center's bathroom in compliance with the ADA compliance.

On April 25, 2006 the City entered into a capital lease purchase agreement in the amount of \$246,658 for the new City-wide telephone system, of which \$188,074 was for phone equipments purchase.

This year the “Transfers In” was primarily from the General Liability Fund for the \$0.6 million loan payout to the State of California OES for the Crestview Slide project. “Transfers Out” increased \$0.18 million because \$0.09 transferred to a newly created Police Vehicles Maintenance Fund, a one-time transfer of \$0.05 million to the Storm Drain Fund, and a general increase in operating subsidies to other funds.

At June 30, 2006, the General Fund Balance comprised of \$1.3 million reserved almost entirely for encumbrances and advances to other funds, with a \$1.4 million left for unreserved and undesignated fund balance. The unreserved amount increased \$1.3 million in 2005-06 mainly as a result of revenue growth. The unreserved amount would be increased further if the Advance Receivable of \$1 million from Redevelopment Agency were to be paid back.

Other Major Governmental Funds

Redevelopment Agency Special Revenue

The tax increment revenues increased 18% over the prior year, of which 8% due to increase in property assessment value and 10% increase resulted from MBIA audit. The Use of Money and Property decreased primarily due to fair value adjustment for portfolios with the San Mateo County Investment Pool. The expenditures increased slightly primarily from salaries and benefits increase.

Redevelopment Agency Debt Service

Redevelopment Agency Debt Service Fund balance increased to \$2.1 million, a \$0.4 million increase from the prior year. Tax increment revenues increased 19% over the prior year primarily resulting from the MBIA audit and subsequent increased assessment valuations. Although Interest Income increased, the overall Use of Money and Property decreased, because of downward fair value adjustments for portfolios with San Mateo and LAIF investment pools. Expenditures decreased \$5.3 million due to in 2004-05 a \$5 million payoff for the retirement of 1993 Bonds and \$0.5 million for the 2005 Bonds issuance and insurance costs. Proceeds from Long Term Debt decreased \$5.5 million mainly as result of the 2005 Bonds’ proceeds, which were received in the prior year. Transfers Out increased \$0.4 million, which was authorized to cover the Redevelopment Agency Administration Fund’s cash deficits as of June 30, 2006. At June 30, 2006 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. The Capital Projects Funds operations netted with a \$0.6 million deficit for the year. Revenues decreased slightly. Expenditures increased \$0.2 million mainly for consulting service costs for the bidding and construction review services for upgrading both the El Camino Real Median and the Sidewalk Trees, for the fiscal review and feasibility analyses regarding Station Area Specific Plan Sites, and for the preparation in connection with the Hotel Signage Plan. Proceeds from Long Term Debt decreased \$3.1 million, since this portion of the 2005 RDA Bonds’ proceeds was designated for development opportunities in the redevelopment areas. Transfers In increased \$0.43 million to cover the cash deficit in the RDA Administration Fund, which was authorized and transferred from the RDA Debt Service Fund. The \$0.35 million Transfers Out was used to fund the El Camino Real Landscaping Improvement project. At June 30, 2006, the RDA Capital Projects fund balance decreased to \$6.2 million.

Millbrae Station Area Developer Fees Capital Project

Developer Fees Capital Project Fund balance decreased \$0.5 million resulted from the capital improvements for the waste water treatment facility and parts of the sewer collection system. Developer fees were primarily collected in the previous years. The fees were formulated to mitigate the impact on various city facilities. Part of these fees were allocated to the Sanitation Fund. The City has used this equitable share to assist with the design of a renovation project to improve both the wastewater treatment facility as well as parts of the sewer collection system. An important design element of the treatment plant upgrades is the addition of a one million gallon flow equalization tank. Currently, Millbrae's sewer system does not have any capability to store the extra wastewater, which flows to the plant as a result of the storm water. At times, very heavy storms have caused sanitary sewer overflows, which the City wants to prevent. In addition, most of the antiquated equipment, which is in the current influent pump station, is planned to be moved to the new flow equalization tank. This will enable treatment plant processes to be stabilized and made more efficient over time. Also, as a result of the renovation project, several aeration motors, blowers and pipes need to be upgraded. These currently sit below the current treatment plant operations center. This means the center must be moved. Part of the developer funds is thus being used to assist with the design of a new operations center. The plan is to use this center to co-locate other nearby public works functions, which will increase department efficiency and provides for the replacement of sub-standard facilities for Public Work's field supervisors and managers and their staff. At June 30, 2006, the fund balance was \$0.6 million.

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 \$0.5 million in the current year to a total of \$8.1 million. Total Water operating and non-operating revenues increased \$0.3 million from a year ago. Water Sales increased \$0.2 million due to prior year billing adjustment and increased revenue accrual for May and June water sales as a result of water rate increases. The improved interest earnings and a reimbursement from Burlingame for the shared utilities costs accounted for the remaining \$0.1 million increase in Water revenues. The City of Burlingame reimbursed Millbrae for a total of \$0.07 million in shared electricity costs at the Madera and Larkspur pump stations and the water usage through Helen Turnout. Additionally Water Fund expenses were \$0.1 million lower than a year ago.

Waste Water Treatment Facility (Sanitation)

The Sanitation Fund's net assets increased \$0.2 million in Fiscal Year 2006 to a total of \$6.9 million. Sewer service fees increased \$0.8 million mainly due to a 26% sewer rate increase effective July 1, 2005, from \$1 per unit to \$2.26 per unit. Since the winter consumption units billed in this year were lower, the overall sewer billing revenue increased 20% over a year ago. On the other hand, total Sanitation Fund expenses increased \$0.4 million, primarily due to increased salaries and benefits costs and higher costs in contractual services and materials for the City's sanitary sewer systems maintenances.

Investments in Capital Assets-Net of Related Debt increased \$5 million since capital expenditures were incurred in 2005-06 for the Co-Generation project and the Water Pollution Control Phase I project. The \$6.9 million of Sanitation Fund Net Assets included \$9.8 million of Invested in Capital Assets-Net of Related Debt, which resulted with a deficit of \$2.7 million in Unrestricted Net Assets.

Storm Drain

The Storm Drain Fund net assets increased \$0.1 million, primarily due to a one-time reimbursement from BART and the forgiveness of a General Fund loan. Storm Drain Fee revenue continued to weaken and could not fully cover all the expenses.

Total Invested in Capital Assets Net of Related Debt accounted for \$1.1 Million, while the Unrestricted Net Assets balance resulted a deficit \$0.1 Million.

CAPITAL ASSETS

At the end of fiscal 2006 the City had \$24 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	
	2006	2005
<i>Governmental Activities:</i>		
Land	\$1.97	\$1.97
Land improvements	0.89	0.86
Buildings and improvements	19.80	19.66
Equipment	3.99	2.84
Automobiles and Trucks	2.20	2.21
Infrastructure	2.86	2.55
Less accumulated depreciation	(7.70)	(7.09)
Totals	<u>\$24.01</u>	<u>\$23.00</u>
 <i>Business-type Activities</i>		
Land	\$0.00	\$0.00
Land improvements	0.23	0.38
Buildings	5.88	4.88
Equipment	13.02	7.98
Infrastructure	16.19	14.49
Automobiles and Trucks	.05	.05
Less accumulated depreciation	(16.77)	(15.52)
Totals	<u>\$18.60</u>	<u>\$12.26</u>

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. In 2006 the City engaged in a Lease Purchase Financing for the new phone system, which has upgraded the City's phone system with modern technology.

Table 7
Outstanding Debt
(in Millions)

	<u>2006</u>	<u>2005</u>
<i>Governmental activities</i>		
Tax Allocation Bonds (issued by the Redevelopment Agency)	\$ 8.54	\$ 8.59
Certificates of Participation	3.52	3.63
Public Library Project Bonds	10.52	10.55
Pension Obligation Bonds Series A-2	12.9	11.66
Natural Disaster Assistance Loan	1.00	2.69
2006 Lease Purchase Financing – Phone System	<u>0.19</u>	<u>0.00</u>
	<u>\$36.66</u>	<u>\$37.12</u>
<i>Business-type Activities</i>		
Wastewater Bank Loan – Sanitary Sewer Project	\$6.25	\$6.45
	<u>\$6.25</u>	<u>\$6.45</u>

SPECIAL ASSESSMENT DISTRICT DEBT

There is no new special assessment district debt since June 30, 2005.

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 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 of 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, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$16,493,906	\$3,384,453	\$19,878,359
Cash with fiscal agent (Note 3)	2,666,435	965,733	3,632,168
Receivables:			
Taxes	689,195		689,195
Accounts - net	355,473	1,780,418	2,135,891
Accrued interest	214,946		214,946
Due from other governmental agencies	512,865	52,926	565,791
Loans (Note 5)	683,470		683,470
Internal balances (Note 4D)	814,157	(814,157)	
Prepaid items	5,000		5,000
Prepaid pension obligations (Note 7C)	10,075,632		10,075,632
Capital assets, (Note 6)			
Nondepreciable capital assets	1,967,619		1,967,619
Depreciable capital assets, net	22,048,031	18,595,930	40,643,961
	<u>56,526,729</u>	<u>23,965,303</u>	<u>80,492,032</u>
Total Assets			
LIABILITIES			
Accounts payable and accrued payroll	924,173	1,102,237	2,026,410
Interest payable	444,849	49,764	494,613
Deposits	1,241,688	232,579	1,474,267
Unearned revenue	202,224		202,224
Compensated absences (Note 1G)			
Due within one year	139,727	100,355	240,082
Due in more than one year	1,905,091	142,551	2,047,642
Noncurrent portion accrued self-insurance (Note 11)	627,449		627,449
Long-term debt (Note 7)			
Portion due within one year	285,288	209,830	495,118
Portion due in more than one year	36,379,542	6,044,588	42,424,130
	<u>42,150,031</u>	<u>7,881,904</u>	<u>50,031,935</u>
Total Liabilities			
NET ASSETS (Note 8)			
Invested in capital assets, net of related debt	8,693,759	16,675,966	25,369,725
Restricted for:			
Capital projects	984,730		984,730
Debt service	2,951,604		2,951,604
Redevelopment	8,891,956		8,891,956
Special revenue programs	3,157,516		3,157,516
	<u>15,985,806</u>		<u>15,985,806</u>
Total Restricted Net Assets			
Unrestricted	(10,302,867)	(592,567)	(10,895,434)
	<u>\$14,376,698</u>	<u>\$16,083,399</u>	<u>\$30,460,097</u>
Total Net Assets			

See accompanying notes to financial statements

CITY OF MILLBRAE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

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	\$1,762,874	\$283,146	1,086,858	(\$392,870)		(\$392,870)
Public safety	8,812,931	666,536	\$191,627	(7,954,768)		(7,954,768)
Highways and streets	1,471,951	277,206	1,424,140	229,395		229,395
Culture and recreation	2,139,492	921,774	54,357	(1,163,361)		(1,163,361)
Community development	3,032,777	578,609		(2,454,168)		(2,454,168)
Interest on long-term debt	2,922,699			(2,922,699)		(2,922,699)
Total Governmental Activities	20,142,724	2,727,271	2,756,982	(14,658,471)		(14,658,471)
Business-type Activities:						
Municipal water system	3,485,307	3,852,907			\$367,600	367,600
Municipal waste water treatment facility	4,453,699	4,530,967			77,268	77,268
Storm drain	365,307	220,445			(144,862)	(144,862)
Total Business-type Activities	8,304,313	8,604,319			300,006	300,006
Total	\$28,447,037	\$11,331,590	\$2,756,982	(14,658,471)	300,006	(14,358,465)
General revenues:						
Taxes:						
Property taxes				9,018,720		9,018,720
Incremental property tax				624,721		624,721
Sales taxes				2,248,317		2,248,317
Transient occupancy tax				2,603,820		2,603,820
Other taxes				1,695,514		1,695,514
Motor vehicle in-lieu, unrestricted				128,267		128,267
Investment earnings				495,832	196,813	692,645
Miscellaneous				229,921	319,829	549,750
Transfers				(50,000)	50,000	
Total general revenues and transfers				16,995,112	566,642	17,561,754
Change in Net Assets				2,336,641	866,648	3,203,289
Net Assets-Beginning				12,040,057	15,216,751	27,256,808
Net Assets-Ending				\$14,376,698	\$16,083,399	\$30,460,097

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.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2006. 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.

MILLBRAE STATION AREA DEVELOPER FEE – CAPITAL PROJECTS FUND - To account for the fees collected from the developers for the capital activities of the Millbrae Station Area development project.

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.

CITY OF MILLBRAE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General	Redevelopment Agency Special Revenue Fund	Millbrae Station Area Developer Fee - Capital Capital Projects Fund	Redevelopment Agency Debt Service Fund
ASSETS				
Cash and investments (Note 3)	\$772,576	\$1,955,017		\$3,148,609
Cash with fiscal agent (Note 3)	189,399		\$1,391,956	543,913
Receivables:				
Taxes	689,195			
Accounts - net	26,744			
Accrued interest	124,213			90,733
Due from other funds (Note 4A)	1,026,030			
Due from other governmental agencies	85,911			
Loans (Note 5)		683,470		
Advances to other funds (Note 4B)	1,040,100			
Prepaid items				
Total Assets	<u>\$3,954,168</u>	<u>\$2,638,487</u>	<u>\$1,391,956</u>	<u>\$3,783,255</u>
LIABILITIES				
Accounts payable and accrued payroll	\$682,891		\$100,248	
Due to other funds (Note 4A)			227,328	
Deposits	364,311	\$543	458,059	
Deferred revenue	202,224			
Advances from other funds (Note 4B)				\$1,690,100
Total Liabilities	<u>1,249,426</u>	<u>543</u>	<u>785,635</u>	<u>1,690,100</u>
FUND BALANCES				
Fund balance (Note 8)				
Reserved for:				
Encumbrances	265,452	6,750		
Debt service				2,093,155
Capital outlay		1,947,723		
Advances, prepaids and loans receivable	1,040,100	683,470		
Unreserved:				
Designated				
Special Revenue Funds prior year operating budget carryovers				
Special Revenue Funds capital outlay				
Undesignated, Reported in:				
General Fund	1,399,190			
Special Revenue Funds		1		
Capital Projects Funds			606,321	
Total Fund Balances	<u>2,704,742</u>	<u>2,637,944</u>	<u>606,321</u>	<u>2,093,155</u>
Total Liabilities and Fund Balances	<u>\$3,954,168</u>	<u>\$2,638,487</u>	<u>\$1,391,956</u>	<u>\$3,783,255</u>

See accompanying notes to financial statements

Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$4,808,168	\$4,821,031 541,167	\$15,505,401 2,666,435
		689,195
	328,729	355,473
		214,946
1,462,043		2,488,073
	426,954	512,865
		683,470
		1,040,100
	5,000	5,000
<u>\$6,270,211</u>	<u>\$6,122,881</u>	<u>\$24,160,958</u>
\$16,199	\$109,972 827,816 418,775 427,109	\$909,310 1,055,144 1,241,688 629,333 1,690,100
<u>16,199</u>	<u>1,783,672</u>	<u>5,525,575</u>
97,658	163,085 858,449 139,626 5,000	532,945 2,951,604 2,087,349 1,728,570
	534,789	534,789
6,137,420	428,767	6,566,187
		1,399,190
	1,474,801	1,474,802
18,934	734,692	1,359,947
<u>6,254,012</u>	<u>4,339,209</u>	<u>18,635,383</u>
<u>\$6,270,211</u>	<u>\$6,122,881</u>	<u>\$24,160,958</u>

CITY OF MILLBRAE
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET

STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances reported on the Governmental Funds Balance Sheet	\$18,635,383
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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	23,315,670
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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	988,505
Internal balances	31,228
Capital assets	699,980
Accounts payable	(14,863)
Compensated absences	(15,576)
Accrued self-insurance	(627,449)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	427,109
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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	10,075,632
Long-term debt	(36,664,830)
Compensated absences	(2,029,242)
Interest payable	(444,849)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$14,376,698</u></u>
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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, 2006

	General	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund	Millbrae Station Area Developer Fee - Capital Projects Fund
REVENUES				
Property tax	\$5,894,748	\$624,721	\$2,498,887	
Sales tax	2,248,317			
Transient occupancy tax	2,603,820			
Other taxes	1,311,689			
Licenses and permits	435,583			
Charges for services	664,571			\$25,000
Fines and forfeitures	209,764			
Use of money and property	382,606	7,735	60,660	54,841
Grants and intergovernmental	294,917			
Miscellaneous	84,656	12,511		
Total Revenues	14,130,671	644,967	2,559,547	79,841
EXPENDITURES				
Current:				
General government	1,475,679			
Public safety	8,290,749			
Highways and streets	950,648			
Culture and recreation	913,209			
Community development	543,199	91,762		531,935
Payments to property tax pass throughs (Note 1F)			1,284,484	
Capital outlay	221,659			
Debt service:				
Principal	607,350		50,000	
Interest and fiscal charges	1,861		476,288	
Total Expenditures	13,004,354	91,762	1,810,772	531,935
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,126,317	553,205	748,775	(452,094)
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt (Note 7)	188,074			
Transfers in (Note 4C)	636,703		115,423	
Transfers (out) (Note 4C)	(799,317)	(115,423)	(424,742)	
Total Other Financing Sources (Uses)	25,460	(115,423)	(309,319)	
NET CHANGE IN FUND BALANCES	1,151,777	437,782	439,456	(452,094)
BEGINNING FUND BALANCES	1,552,965	2,200,162	1,653,699	1,058,415
ENDING FUND BALANCES	\$2,704,742	\$2,637,944	\$2,093,155	\$606,321

See accompanying notes to financial statements

Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
	\$625,085	\$9,643,441
		2,248,317
		2,603,820
	383,825	1,695,514
	39,029	474,612
	1,150,763	1,840,334
	149,018	358,782
\$83,111	174,208	763,161
	834,343	1,129,260
	132,754	229,921
<u>83,111</u>	<u>3,489,025</u>	<u>20,987,162</u>
		1,475,679
	123,423	8,414,172
	479,983	1,430,631
	1,143,991	2,057,200
741,294	198,331	2,106,521
		1,284,484
6,386	435,159	663,204
	150,000	807,350
	752,885	1,231,034
<u>747,680</u>	<u>3,283,772</u>	<u>19,470,275</u>
<u>(664,569)</u>	<u>205,253</u>	<u>1,516,887</u>
		188,074
424,742	1,519,895	2,696,763
<u>(351,000)</u>	<u>(541,964)</u>	<u>(2,232,446)</u>
<u>73,742</u>	<u>977,931</u>	<u>652,391</u>
(590,827)	1,183,184	2,169,278
<u>6,844,839</u>	<u>3,156,025</u>	<u>16,466,105</u>
<u>\$6,254,012</u>	<u>\$4,339,209</u>	<u>\$18,635,383</u>

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, 2006

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	\$2,169,278
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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 and other capitalized expenditures are therefore added back to fund balance	1,513,170
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$136,588 which has already been allocated to serviced funds)	(629,793)

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	(188,074)
Repayment and forgiveness of debt principal are added back to fund balance	1,894,208
Interest expense are deducted from fund balance	(444,849)

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	(5,198)
Deferred revenue	427,109
Compensated absences	(111,003)
Unpaid interest added to long-term debt	(1,246,816)
Amortization of prepaid pension obligation	(620,368)

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	(421,023)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$2,336,641
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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 City has identified the funds below as major proprietary funds in fiscal 2006.

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, 2006

	Business-type Activities-Enterprise Funds			Governmental
	Municipal Water System	Municipal Waste Water Treatment Facility	Storm Drain	Activities- Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments (Note 3)	\$1,199,843	\$2,184,610		\$988,505
Cash with fiscal agent (Note 3)		965,733		965,733
Receivables:				
Accounts - net	817,218	963,200		1,780,418
Due from other funds (Note 4A)	254,175			254,175
Due from other governmental agencies		34,219	\$18,707	52,926
Total Current Assets	2,271,236	4,147,762	18,707	988,505
Total Noncurrent Assets:				
Advances to other funds (Note 4B)	650,000			650,000
Depreciable capital assets, net (Note 6)	5,718,102	11,738,915	1,138,913	699,980
Total Assets	8,639,338	15,886,677	1,157,620	1,688,485
LIABILITIES				
Current Liabilities:				
Accounts payable	265,127	835,579	1,531	14,863
Interest payable		49,764		49,764
Deposits	203,536	17,510	11,533	232,579
Due to other funds (Note 4A)		1,591,479	95,625	1,687,104
Compensated absences (Note 1G)	29,545	70,163	647	100,355
Long-term debt due within one year (Note 7)		209,830		209,830
Total Current Liabilities	498,208	2,774,325	109,336	14,863
Noncurrent Liabilities:				
Compensated absences (Note 1G)	22,233	111,656	8,662	15,576
Accrued self-insurance (Note 11)				627,449
Long-term debt (Note 7)				
Due in more than one year		6,044,588		6,044,588
Total Liabilities	520,441	8,930,569	117,998	657,888
NET ASSETS (Note 8)				
Invested in capital assets, net of related debt	5,718,102	9,818,951	1,138,913	16,675,966
Unrestricted	2,400,795	(2,862,843)	(99,291)	(561,339)
Total Net Assets	\$8,118,897	\$6,956,108	\$1,039,622	\$1,030,597
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.				(31,228)
Net assets business-type activities				\$16,083,399

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, 2006

	Business-type Activities-Enterprise Funds				Governmental
	Municipal Water System	Municipal Waste Water Treatment Facility	Storm Drain	Totals	Activities- Internal Service Funds
OPERATING REVENUES					
Water sales	\$3,852,907			\$3,852,907	
Sewer service fees		\$4,530,967		4,530,967	
Equipment rental					\$522,138
Interdepartmental charges					981,771
Storm drain fees			\$220,445	220,445	
Miscellaneous	75,120	48,650	196,059	319,829	14,341
Total Operating Revenues	3,928,027	4,579,617	416,504	8,924,148	1,518,250
OPERATING EXPENSES					
Personnel services	1,114,723	2,319,420	180,031	3,614,174	451,157
Contractual services	366,579	838,846	104,729	1,310,154	140,378
Materials, supplies and other services	385,221	480,463	17,878	883,562	200,889
Water purchases	1,431,168			1,431,168	
Depreciation	166,564	515,952	41,364	723,880	136,588
Utilities	4,718		615	5,333	
Insurance premiums and claims					555,408
Total Operating Expenses	3,468,973	4,154,681	344,617	7,968,271	1,484,420
Operating Income (Loss)	459,054	424,936	71,887	955,877	33,830
NONOPERATING REVENUES (EXPENSES)					
Loss on disposal of capital assets					
Interest revenue	58,982	120,497	17,334	196,813	28,236
Interest expense		(310,012)		(310,012)	
Total Nonoperating Revenues (Expenses)	58,982	(189,515)	17,334	(113,199)	28,236
Income (Loss) Before Transfers	518,036	235,421	89,221	842,678	62,066
Transfers in (Note 4C)			50,000	50,000	85,683
Transfers (out) (Note 4C)					(600,000)
Net transfers			50,000	50,000	(514,317)
Change in net assets	518,036	235,421	139,221	892,678	(452,251)
BEGINNING NET ASSETS	7,600,861	6,720,687	900,401		1,482,848
ENDING NET ASSETS	\$8,118,897	\$6,956,108	\$1,039,622		\$1,030,597

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

Change in net assets of business-type activities

\$866,648

See accompanying notes to financial statements

CITY OF MILLBRAE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	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	\$3,862,970	\$4,501,577	\$401,277	\$8,765,824	\$1,522,336
Payments to customers		(697)	(185,541)	(186,238)	
Payments to suppliers	(2,263,063)	(563,823)	(132,800)	(2,959,686)	(358,806)
Payments to employees	(1,098,128)	(2,311,678)	(182,792)	(3,592,598)	(451,146)
Claims paid					(900,013)
Cash Flows from Operating Activities	501,779	1,625,379	(99,856)	2,027,302	(187,629)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund payments	(254,175)	(34,219)	(50,000)	(338,394)	
Interfund receipts		1,591,479	95,625	1,687,104	
Transfers in			50,000	50,000	85,683
Transfers (out)					(600,000)
Cash Flows from Noncapital Financing Activities	(254,175)	1,557,260	95,625	1,398,710	(514,317)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(744,377)	(5,064,511)	(204,854)	(6,013,742)	(269,553)
Principal payments on capital debt		(198,531)		(198,531)	
Interest paid		(311,597)		(311,597)	
Cash Flows from Capital and Related Financing Activities	(744,377)	(5,574,639)	(204,854)	(6,523,870)	(269,553)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	58,982	120,497	17,334	196,813	28,236
Cash Flows from Investing Activities	58,982	120,497	17,334	196,813	28,236
Net Cash Flows	(437,791)	(2,271,503)	(191,751)	(2,901,045)	(943,263)
Cash and investments at beginning of period	1,637,634	5,421,846	191,751	7,251,231	1,931,768
Cash and investments at end of period	\$1,199,843	\$3,150,343		\$4,350,186	\$988,505
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:					
Operating income (loss)	\$459,054	\$424,936	\$71,887	\$955,877	\$33,830
Adjustments to reconcile operating income (Loss) to cash flows from operating activities:					
Depreciation	166,564	515,952	41,364	723,880	136,588
Change in assets and liabilities:					
Receivables, net	(102,404)	(78,040)		(180,444)	4,086
Due from other governmental agencies			(15,227)	(15,227)	
Accounts payable and other accrued expenses	(75,377)	755,486	(9,578)	670,531	(17,539)
Compensated absences	16,595	7,742	(2,761)	21,576	(344,594)
Refundable deposits	37,347	(697)	(185,541)	(148,891)	
Cash Flows from Operating Activities	\$501,779	\$1,625,379	(\$99,856)	\$2,027,302	(\$187,629)

See accompanying notes to financial statements

<p style="text-align: center;">CITY OF MILLBRAE Notes to Financial Statements</p>

<p>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</p>

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 and 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.

<p style="text-align: center;">CITY OF MILLBRAE Notes to Financial Statements</p>

<p>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</p>

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.

MILLBRAE STATION AREA DEVELOPER FEE – CAPITAL PROJECTS FUND- To account for the fees collected from the developers for the operation of the Millbrae Station Area development project.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, workers' 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 \$1,284,484 have been passed through to these agencies during fiscal 2005-2006.

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	\$1,933,804	\$221,330	\$2,155,134
Additions	196,941	32,019	228,960
Payments	(85,927)	(10,443)	(96,370)
Ending Balance	<u>\$2,044,818</u>	<u>\$242,906</u>	<u>\$2,287,724</u>
Current Portion	<u>\$139,727</u>	<u>\$100,355</u>	<u>\$240,082</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.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgeting Procedures*

In even numbered years, the City Manager 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 Manager 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), Enterprise Funds, Hillcrest Slide Maintenance Special Revenue Fund, Parking In-Lieu Special Revenue Fund, Sister City Trust Special Revenue Fund and Fire Facility Bonds Debt Service Fund.

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 2006, the following funds incurred expenditures in excess of budget.

Fund/Department	Amount in Excess of Appropriations
Library Bond Debt Service Fund	\$2,155
Redevelopment Agency Debt Service Fund	8,421

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, 2006:

	Cash and Investments		Total
	Available for Operations	With Fiscal Agents	
Investments:			
U.S. Government Agency Securities	\$99,938	\$848,518	\$948,456
Local Agency Investment Fund	10,586,641	882,521	11,469,162
San Mateo County Investment Fund	9,418,875		9,418,875
Money Market Funds	100,828	1,711,730	1,812,558
Mutual Fund		189,399	189,399
Petty Cash	1,500		1,500
Cash in banks and on hand	(329,423)		(329,423)
Total cash and investments	<u>\$19,878,359</u>	<u>\$3,632,168</u>	<u>\$23,510,527</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.

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/account	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

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City did not enter into any reverse repurchase agreements during the year ended June 30, 2006.

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:

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
California 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.

As of June 30, 2006, the City had \$189,399 invested in a mutual fund. The mutual fund's investments included bankers' acceptances of U.S. branches of foreign banks, short-term corporate notes and bonds, master demand notes, short-term fund agreements, variable and floating rate securities, private placements investments, when-issued or delayed-delivery securities and Eurodollar time deposits. Subsequent to June 30, 2006, the City had drawn down on the mutual fund and as of September 29, 2006, the fair value of the mutual fund was \$5,035.

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.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	Total
U.S. Government Agency Securities	\$416,738	\$531,718	\$948,456
Local Agency Investment Fund	11,469,162		11,469,162
San Mateo County Investment Fund	9,418,875		9,418,875
Money Market Funds	1,812,558		1,812,558
Mutual Fund	189,399		189,399
Petty Cash	1,500		1,500
City-wide cash and investment pool	(329,423)		(329,423)
Total Cash and Investments	<u>\$22,978,809</u>	<u>\$531,718</u>	<u>\$23,510,527</u>

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, 2006 for each investment type:

Investment Type	AAA	Total
U.S. Government Agency Securities	<u>\$948,456</u>	<u>\$948,456</u>
Totals		
<i>Not rated:</i>		
Local Agency Investment Fund		11,469,162
San Mateo County Investment Fund		9,418,875
Money Market Funds		1,812,558
Mutual Fund		189,399
Petty Cash		1,500
Cash in banks and on hand		(329,423)
Total Cash and Investments		<u>\$23,510,527</u>

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.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

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.

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, 2006, these investments matured in an average of 152 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, 2006, these investments matured in an average of 1.3 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, 2006 interfund balances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Non-Major Governmental Funds	\$703,085
	Millbrae Station Area Developer Fee	
	- Capital Projects Fund	227,320
	Storm Drain Enterprise Fund	95,625
Redevelopment Agency Capital Projects Fund	Municipal Wastewater Treatment Facility Fund	1,337,304
	Non-Major Governmental Funds	124,739
Municipal Water System Enterprise Fund	Municipal Wastewater Treatment Facility Fund	254,175
		\$2,742,248

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 Millbrae Redevelopment 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 and Municipal Water System Enterprise Fund to the Redevelopment Agency \$1,690,100 respectively, as of June 30, 2006. The agreements do not specify a due date for repayment of advances.

At June 30, 2006 outstanding balances from the above advances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Redevelopment Agency Debt Service Fund	\$1,040,100
Municipal Water System Enterprise Fund	Redevelopment Agency Debt Service Fund	650,000
		<u>\$1,690,100</u>

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, 2006 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Non-Major Governmental Funds	\$36,703 E
	General Liability Internal Service Fund	600,000 C
Non-Major Governmental Funds	General Fund	663,634 A
	Redevelopment Agency Capital Projects Fund	351,000 E
	Non Major Governmental Funds	505,261 E
Storm Drain Enterprise Fund	General Fund	50,000 C
Internal Service Funds	General Fund	85,683 B
Redevelopment Agency Debt Service Fund	Redevelopment Agency Special Revenue Fund	115,423 C
Redevelopment Agency Capital Projects Fund	Redevelopment Agency Debt Service	424,742 D
	Total Interfund Transfers	<u>\$2,832,446</u>

The reasons for these transfers are set forth below:

- A To fund park and recreation activities and pay debt service costs
- B To fund police vehicle maintenance and replacements
- C To fund debt service payments
- D To fund administrative expenditures
- E To fund library maintenance costs, landscaping improvements and Central Park project

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, 2006, First Time Home Buyer Loans in the amount of \$683,470 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 2007.

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.

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

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS (Continued)

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 capital assets during the year ended June 30, 2006 comprise:

	Balance at June 30, 2005	Additions	Retirements	Balance at June 30, 2006
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	859,210	\$33,962		893,172
Building and Improvements	19,660,376	141,280		19,801,656
Furniture, Fixtures and Equipment	2,840,345	1,153,658		3,994,003
Automobiles and Trucks	2,211,648	144,496	(\$156,269)	2,199,875
Infrastructure	2,550,718	309,327		2,860,045
Total capital assets being depreciated	28,122,297	1,782,723	(156,269)	29,748,751
Less accumulated depreciation for:				
Land Improvements	564,819	1,874		566,693
Building and Improvements	2,269,381	281,871		2,551,252
Furniture, Fixtures and Equipment	1,795,616	174,819		1,970,435
Automobiles and Trucks	1,795,715	270,246	(156,269)	1,909,692
Infrastructure	665,077	37,571		702,648
Total accumulated depreciation	7,090,608	766,381	(156,269)	7,700,720
Net capital assets being depreciated	21,031,689	1,016,342		22,048,031
Governmental activity capital assets, net	\$22,999,308	\$1,016,342		\$24,015,650

CITY OF MILLBRAE Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS (Continued)
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	Balance at June 30, 2005	Additions	Balance at June 30, 2006
Business-type activities			
Capital assets, being depreciated:			
Land Improvements	\$214,812	\$16,455	\$231,267
Building and Improvements	5,877,357		5,877,357
Furniture, Fixtures and Equipment	8,284,116	4,733,152	13,017,268
Automobiles and Trucks	50,057		50,057
Infrastructure	14,923,292	1,264,134	16,187,426
	<u>29,349,634</u>	<u>6,013,741</u>	<u>35,363,375</u>
 Total capital assets being depreciated	 <u>29,349,634</u>	 <u>6,013,741</u>	 <u>35,363,375</u>
 Less accumulated depreciation for:			
Land Improvements	88,078	14,148	102,226
Building and Improvements	2,554,208	101,823	2,656,031
Furniture, Fixtures and Equipment	4,962,814	441,141	5,403,955
Automobiles and Trucks	33,369	6,077	39,446
Infrastructure	8,405,097	160,690	8,565,787
	<u>16,043,566</u>	<u>723,879</u>	<u>16,767,445</u>
 Total accumulated depreciation	 <u>16,043,566</u>	 <u>723,879</u>	 <u>16,767,445</u>
 Business-type activity capital assets, net	 <u><u>\$13,306,068</u></u>	 <u><u>\$5,289,862</u></u>	 <u><u>\$18,595,930</u></u>

At June 30, 2006, the Co-Generation Wastewater Project remaining costs are estimated to be approximately \$1.3 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.

<p style="text-align: center;">CITY OF MILLBRAE Notes to Financial Statements</p>

<p>NOTE 6 - CAPITAL ASSETS (Continued)</p>

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	\$50,253
Public Safety	95,734
Highways and Streets	52,490
Culture and Recreation	9,896
Community Development	421,420
Capital assets held by the City's Internal Service Funds	<u>136,588</u>
Total Governmental Activities	<u><u>\$766,381</u></u>

Business-Type Activities

Municipal Water System	\$166,564
Municipal Wastewater Treatment Facility	515,952
Storm Drain	<u>41,364</u>
Total Business-Type Activities	<u><u>\$723,880</u></u>

<p>NOTE 7 - LONG TERM DEBT</p>

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, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Governmental Activity Debt:						
General Obligation Bonds						
Public Library Project						
5.12%-8.5%, due 8/1/2036	\$10,600,000	\$10,555,000		\$35,000	\$10,520,000	\$45,000
Pension Obligation Bonds Series A-2						
4.35%-6.58%, due 6/1/2034	11,521,630	11,657,290	\$1,246,816		12,904,106	
1999 Certificates of Participation						
4.5-5.875%, due 3/1/2024	4,105,000	3,635,000		115,000	3,520,000	120,000
Natural Disaster Assistance Loan						
5.39%, due 6/9/2011	2,686,858	2,686,858		1,686,858	1,000,000	
2005 Redevelopment Agency Tax Allocation Bonds						
3.0-4.5%, due 8/1/2035	8,590,000	8,590,000		50,000	8,540,000	75,000
2006 Lease Purchase Financing-Phone System						
4.56%, due 06/30/2011	246,658		188,074	7,350	180,724	45,288
Total Governmental Activity Debt		<u>\$37,124,148</u>	<u>\$1,434,890</u>	<u>\$1,894,208</u>	<u>\$36,664,830</u>	<u>\$285,288</u>
Business-Type Activity Debt:						
Enterprise Funds:						
2005 Bank Loan - Cogeneration Project						
4.75%, due 4/27/2025	\$6,486,209	\$6,486,209		\$200,208	\$6,286,001	\$209,830
Discounts and loss on refunding, net of amortization		(33,260)		1,677	(31,583)	
Total Business-Type Activity Debt		<u>\$6,452,949</u>		<u>\$201,885</u>	<u>\$6,254,418</u>	<u>\$209,830</u>

B. 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 was 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 is 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.

C. 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 was 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. As of June 30, 2006, prepaid pension obligations amounted to \$10,075,632.

The Bonds unaccrued discount totaled \$20,755,894 at June 30, 2006. 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.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 7 - LONG TERM DEBT (Continued)

D. 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.

E. Natural Disaster Assistance Loan

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. Principal and interest payments were deferred for 3 years with annual interest payments. In fiscal year 2005, the loan agreement was amended to defer repayment until May 2007. During fiscal year 2006, the City repaid a portion of the principal in the amount of \$600,000 and amended the loan agreement to a principal amount of \$2,000,000.

Interest payments are due annually May 9 and outstanding principal is due May 9, 2011. However, the City's obligation to make any annual interest payment or any payment of the outstanding principal are conditioned upon certain minimum level of the City's General Fund. In any year during the term of the loan that the General Fund does not meet or exceed the minimum level, the City's annual obligation for that year will be voided and forgiven.

F. 2005 Redevelopment Agency Tax Allocation Bonds

On January 13, 2005, the Redevelopment Agency issued 2005 Redevelopment Agency 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 are due each February 1 and August 1 and principal payments are due each August 1. These debt service payments are repayable from tax increment revenues allocated to the Redevelopment Agency and certain other sources.

G. 2006 Lease Purchase Financing

On April 25, 2006 the City entered into a capital lease purchase agreement in amount of \$246,658 for the purchase, installation, training and maintenance of a new phone system. Principal and interest payments are due monthly until 6/30/2011 at the interest rate of 4.56%.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 7 - LONG TERM DEBT (Continued)

H. 2005 Bank Loan

On April 27, 2005 the City obtained a 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 are due each April 27 and October 27 until 2025.

I. Debt Service Requirements

Annual debt service requirements are shown below:

Year ending June 30:	Governmental Activities		Business-Type Activities	
	Principal (A)	Interest	Principal	Interest
2007	\$285,288	\$1,113,929	\$209,830	\$296,123
2008	1,072,397	1,099,166	219,915	286,037
2009	1,124,604	1,085,170	230,485	275,467
2010	1,163,435	1,064,807	241,564	264,389
2011	2,250,000	1,044,195	253,175	252,779
2012-2016	7,200,000	4,872,484	1,460,527	1,069,236
2017-2021	10,290,000	4,163,077	1,846,923	682,841
2022-2026	10,990,000	3,175,147	1,823,582	200,232
2027-2031	12,665,000	2,176,140		
2032-2036	9,560,000	954,761		
2037-2040	820,000	21,013		
Total	<u>\$57,420,724</u>	<u>\$20,769,889</u>	<u>\$6,286,001</u>	<u>\$3,327,104</u>

(A) Includes unaccrued discount totaling \$20,755,894

J 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, 2006 was \$28,305,000.

<p style="text-align: center;">CITY OF MILLBRAE Notes to Financial Statements</p>

<p>NOTE 8 – NET ASSETS AND FUND BALANCES</p>

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.

B. *Fund Balance*

Fund balances consist of reserved and unreserved amounts. Reserved fund balances 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 legally restricted for use on capital outlay projects.

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

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 8 – NET ASSETS AND FUND BALANCES (Continued)

D. Designations

Designated for **prior year operating budget carryovers** is the portion of fund balance to be used for prior year 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, Park Improvement Special Revenue Fund, U.S. 101 Millbrae Avenue Capital Projects Fund and Workers' Compensation Internal Service Fund had deficit fund balances of \$14,995, \$98,379, \$55,165 and \$49,503, respectively, at June 30, 2006. Future revenues are expected to eliminate these deficits.

NOTE 9 - 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 City's labor contracts require it to pay the employees contributions as well as its own. The Plans' provisions and benefits in effect at June 30, 2006, are summarized as follows:

	Safety	Miscellaneous
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	9.861%	10.785%

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 9 - RETIREMENT BENEFITS (Continued)

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 uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2006, 2005, and 2004 amounted to \$1,608,470, \$1,566,622, and \$1,059,066 respectively.

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 twenty years. Gain and losses that occur in the operation of risk pool are amortized over a rolling thirty year period.

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 \$10,075,632 at June 30, 2006. During fiscal 2005-2006, the amortization of the prepayment increased the actuarially required contributions by \$620,638 to arrive at Annual Pension Costs of \$1,579,238. For years prior to fiscal 2005-2006, Annual Pension Costs equal the Actuarially Required Contributions disclosed above.

As required by new State law, effective July 1, 2005, the City's Safety and Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry to these pools was that the City true-up any unfunded liability in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The City satisfied its Miscellaneous and Safety Plans' liabilities of 1,539,217 and assets of \$1,227,556 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 20 years and 12 years for both the plans.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 9 - RETIREMENT BENEFITS (Continued)

As a result of the new pools, CALPERS has calculated actuarial values funding progress for all pool participants in total which is presented below at 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
2003	\$1,218,082,935	\$1,083,690,137	\$134,392,798	89.0%	\$184,098,257	73.0%
2004	996,203,370	885,549,650	110,653,720	88.9%	149,407,703	74.0%

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
2003	\$2,596,966,545	\$2,372,879,034	\$224,087,511	91.4%	\$725,020,458	30.9%
2004	2,746,095,668	2,460,944,656	285,151,012	89.6%	743,691,970	38.3%

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, 2006 the City paid \$225,672 on behalf of 48 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.

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 10 - 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, 2006, the City paid ABAG Plan \$279,222 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.

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 2005-2006			Fiscal 2004-2005 Totals
	Workers' Compensation Claims	General Liability Claims	Total	
Balances, beginning of year	\$581,900	\$390,154	\$972,054	\$706,960
Net change in:				
Liability for current fiscal year claims	180,173	76,274	256,447	355,105
Liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(122,072)	(183,533)	(305,605)	689,894
Claims paid	(176,085)	(119,362)	(295,447)	(779,905)
Balances, end of year	\$463,916	\$163,533	\$627,449	\$972,054

CITY OF MILLBRAE
Notes to Financial Statements

NOTE 11 - 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, 2006. 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 SamTrans, 401 Marina Boulevard, South San Francisco, CA 94080.

NOTE 12 - 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
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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
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Property tax	\$4,304,979	\$5,374,380	\$5,894,748	\$520,368
Sales tax	2,160,780	2,210,780	2,248,317	37,537
Transient occupancy tax	2,405,057	2,405,057	2,603,820	198,763
Other taxes	1,025,386	1,220,386	1,311,689	91,303
Licenses and permits	383,358	383,358	435,583	52,225
Charges for services	595,024	641,863	664,571	22,708
Fines and forfeitures	239,730	239,730	209,764	(29,966)
Use of money and property	232,154	272,154	382,606	110,452
Grants and intergovernmental	1,054,040	266,139	294,917	28,778
Miscellaneous	136,324	20,842	84,656	63,814
Total Revenues	12,536,832	13,034,689	14,130,671	1,095,982
EXPENDITURES:				
Current:				
General government	995,028	1,951,366	1,475,679	475,687
Public safety	8,743,825	8,311,045	8,290,749	20,296
Highways and streets	923,112	1,081,046	950,648	130,398
Culture and recreation	915,111	1,010,742	913,209	97,533
Community development	568,626	721,406	543,199	178,207
Capital outlay	62,376	309,376	221,659	87,717
Debt service:				
Principal		7,350	607,350	(600,000)
Interest and fiscal charges		1,860	1,861	(1)
Total Expenditures	12,208,078	13,394,191	13,004,354	389,837
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	328,754	(359,502)	1,126,317	1,485,819
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt			188,074	188,074
Transfers in			636,703	636,703
Transfers (out)	(663,634)	(749,317)	(799,317)	(50,000)
Total other financing sources (uses)	(663,634)	(749,317)	25,460	774,777
NET CHANGE IN FUND BALANCES	(\$334,880)	(\$1,108,819)	1,151,777	\$2,260,596
BEGINNING FUND BALANCE			1,552,965	
ENDING FUND BALANCE			\$2,704,742	

CITY OF MILLBRAE
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
GOVERNMENTAL REVENUES				
Property tax	\$362,000	\$362,000	\$624,721	\$262,721
Use of money and property	40,000	40,000	7,735	(32,265)
Miscellaneous			12,511	12,511
Total Revenues	402,000	402,000	644,967	242,967
EXPENDITURES				
Community development	113,861	148,662	91,762	56,900
Total Expenditures	113,861	148,662	91,762	56,900
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	288,139	253,338	553,205	299,867
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(115,423)	(115,423)	(115,423)	
Total Other Financing Sources (Uses)	(115,423)	(115,423)	(115,423)	
NET CHANGE IN FUND BALANCES	\$172,716	\$137,915	437,782	\$299,867
BEGINNING FUND BALANCE			2,200,162	
ENDING FUND BALANCE			\$2,637,944	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

In even numbered years, the City Manager 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 Manager is authorized to transfer appropriations between line items within any department within a fund. 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 Hillcrest Slide Maintenance Fund, Parking In-Lieu Fund, Sister City Trust Fund and Fire Facility Bonds Fund.

MAJOR GOVERNMENTAL FUNDS, OTHER THAN GENERAL FUND AND SPECIAL REVENUE FUNDS
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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
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budget	Actual	Positive (Negative)
GOVERNMENTAL REVENUES			
Property tax	\$2,248,000	\$2,498,887	\$250,887
Use of money and property	50,000	60,660	10,660
Total Revenues	2,298,000	2,559,547	261,547
EXPENDITURES			
Payments to property tax pass throughs	1,223,055	1,284,484	(61,429)
Debt service:			
Principal	190,000	50,000	140,000
Interest and fiscal charges	389,296	476,288	(86,992)
Total Expenditures	1,802,351	1,810,772	(8,421)
EXCESS OF REVENUES OVER EXPENDITURES	495,649	748,775	253,126
OTHER FINANCING SOURCES (USES)			
Transfers in	115,423	115,423	
Transfers (out)	(424,745)	(424,742)	3
Total Other Financing Sources (Uses)	(309,322)	(309,319)	3
NET CHANGE IN FUND BALANCES	\$186,327	439,456	\$253,129
BEGINNING FUND BALANCE		1,653,699	
ENDING FUND BALANCE		\$2,093,155	

OTHER SUPPLEMENTARY INFORMATION

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.

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 Improvement - 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.

1999 Certificates of Participation (COPS) - 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

Library Capital Project Fund - To account for project costs funded by proceeds of the 2001 General Obligation Bonds.

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

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

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, 2006

	SPECIAL REVENUE FUNDS				
	COPs & Other Grants	Measure A	Noise Insulation Grant	Gas Tax	AB2928 Grant
ASSETS					
Cash and investments	\$51,649	\$1,144,399	\$37,001	\$506,666	\$56,622
Cash with fiscal agent					
Receivables:					
Accounts - net					
Due from other governmental agencies	4,273				26,268
Prepaid items					
Total Assets	<u>\$55,922</u>	<u>\$1,144,399</u>	<u>\$37,001</u>	<u>\$506,666</u>	<u>\$82,890</u>
LIABILITIES					
Accounts payable	6,528	\$297		\$10,867	
Due to other funds					
Deposits					
Deferred revenue	4,274				
Total Liabilities	<u>10,802</u>	<u>297</u>		<u>10,867</u>	
EQUITY AND OTHER CREDITS					
Fund balances:					
Reserved for:					
Encumbrances		\$38,095		43,168	
Debt service					
Capital outlay					
Prepays					
Unreserved:					
Designated for:					
Prior year operating budget carryovers		406,835		3,910	
Capital outlay				428,767	
Undesignated	45,120	699,172	\$37,001	19,954	\$82,890
Total Fund Balances	<u>45,120</u>	<u>1,144,102</u>	<u>37,001</u>	<u>495,799</u>	<u>82,890</u>
Total Liabilities and Fund Balances	<u>\$55,922</u>	<u>\$1,144,399</u>	<u>\$37,001</u>	<u>\$506,666</u>	<u>\$82,890</u>

SPECIAL REVENUE FUNDS

<u>Hillcrest Slide Maintenance</u>	<u>Special Recreation</u>	<u>Parking In-Lieu</u>	<u>Integrated Waste Management</u>	<u>Other</u>	<u>Shultz Park</u>	<u>Sister City Trust</u>
\$75,000	\$108,236	\$1,593	\$209,553	\$66,316	\$13,484	\$9,998
			29,158	\$299,571 19,836		
	5,000					
<u>\$75,000</u>	<u>\$113,236</u>	<u>\$1,593</u>	<u>\$238,711</u>	<u>\$385,723</u>	<u>\$13,484</u>	<u>\$9,998</u>
	\$19,858		\$1,000	\$3,853 326,500		\$394
	10,527		15,549	24,107 46,258		
	30,385		16,549	400,718		394
				40,983		
	5,000					
<u>\$75,000</u>	<u>77,851</u>	<u>\$1,593</u>	<u>222,162</u>	<u>(\$55,978)</u>	<u>\$13,484</u>	<u>9,604</u>
<u>75,000</u>	<u>82,851</u>	<u>1,593</u>	<u>222,162</u>	<u>(14,995)</u>	<u>13,484</u>	<u>9,604</u>
<u>\$75,000</u>	<u>\$113,236</u>	<u>\$1,593</u>	<u>\$238,711</u>	<u>\$385,723</u>	<u>\$13,484</u>	<u>\$9,998</u>

(Continued)

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2006

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS		
	Park Improvement	Millbrae Station Area Developer Fee - Operating	Storm Drain Bonds	Fire Facility Bonds	1999 COPS
ASSETS					
Cash and investments	\$32,234	\$705,045	\$3,236	\$4,373	\$32,278
Cash with fiscal agent	213,369				327,798
Receivables:					
Accounts - net					
Due from other governmental agencies	320,546				
Prepaid items					
Total Assets	<u>\$566,149</u>	<u>\$705,045</u>	<u>\$3,236</u>	<u>\$4,373</u>	<u>\$360,076</u>
LIABILITIES					
Accounts payable	\$4,130	\$795			
Due to other funds	320,546				
Deposits	19,306	249,287			
Deferred revenue	320,546				
Total Liabilities	<u>664,528</u>	<u>250,082</u>			
EQUITY AND OTHER CREDITS					
Fund balances:					
Reserved for:					
Encumbrances	941	33,570			
Debt service			\$3,236	\$4,373	\$360,076
Capital outlay					
Prepays					
Unreserved:					
Designated for:					
Prior year operating budget carryovers		75,125			
Capital outlay					
Undesignated	(99,320)	346,268			
Total Fund Balances	<u>(98,379)</u>	<u>454,963</u>	<u>3,236</u>	<u>4,373</u>	<u>360,076</u>
Total Liabilities and Fund Balances	<u>\$566,149</u>	<u>\$705,045</u>	<u>\$3,236</u>	<u>\$4,373</u>	<u>\$360,076</u>

DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS				
Library Bonds	Library Capital Project	Special Assessment District	Park Capital Improvement	U.S. 101 / Millbrae Ave	Total Nonmajor Governmental Funds
\$490,764	\$143,375	\$51,365	\$976,979	\$100,865	\$4,821,031 541,167
					328,729
				56,031	426,954 5,000
<u>\$490,764</u>	<u>\$143,375</u>	<u>\$51,365</u>	<u>\$976,979</u>	<u>\$156,896</u>	<u>\$6,122,881</u>
			\$62,250		\$109,972
			124,739	56,031	827,816
				\$99,999	418,775
				56,031	427,109
			186,989	212,061	1,783,672
\$490,764	\$6,195			133	163,085
	88,261	\$51,365			858,449
					139,626 5,000
	48,919				534,789
			\$789,990	(55,298)	428,767
<u>490,764</u>	<u>143,375</u>	<u>51,365</u>	<u>789,990</u>	<u>(55,165)</u>	<u>2,209,493</u>
<u>\$490,764</u>	<u>\$143,375</u>	<u>\$51,365</u>	<u>\$976,979</u>	<u>\$156,896</u>	<u>\$6,122,881</u>

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS				
	COPs & Other Grants	Measure A	Noise Insulation Grant	Gas Tax	AB2928 Grant
GOVERNMENTAL REVENUES					
Property tax					
Other taxes		\$383,825			
Licenses and permits					
Charges for services					
Fines and forfeitures					
Use of money and property	\$2,232	18,039	\$1,167	\$10,705	
Grants and intergovernmental	100,000			402,169	\$93,532
Miscellaneous	1,789				
Total Revenues	104,021	401,864	1,167	412,874	93,532
EXPENDITURES					
Current:					
Public safety	123,423				
Highways and streets				294,781	
Culture and recreation					
Community development		67,160	2,972		10,642
Capital outlay		137,557		28,977	
Debt service:					
Principal					
Interest and fiscal charges					
Total Expenditures	123,423	204,717	2,972	323,758	10,642
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(19,402)	197,147	(1,805)	89,116	82,890
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)					
Total Other Financing Sources (Uses)					
NET CHANGE IN FUND BALANCES	(19,402)	197,147	(1,805)	89,116	82,890
BEGINNING FUND BALANCES	64,522	946,955	38,806	406,683	
ENDING FUND BALANCES (DEFICITS)	\$45,120	\$1,144,102	\$37,001	\$495,799	\$82,890

SPECIAL REVENUE FUNDS

<u>Hillcrest Slide Maintenance</u>	<u>Special Recreation</u>	<u>Parking In-Lieu</u>	<u>Integrated Waste Management</u>	<u>Other</u>	<u>Shultz Park</u>	<u>Sister City Trust</u>
	\$586,874		\$201,936			
	112,156			\$638		\$140
	22,102		5,593			
	698			7,103		3,164
	<u>721,830</u>		<u>207,529</u>	<u>7,741</u>		<u>3,304</u>
	1,115,502		143,785	41,417		3,291
			8,500	19,797		
	<u>1,115,502</u>		<u>152,285</u>	<u>61,214</u>		<u>3,291</u>
	<u>(393,672)</u>		<u>55,244</u>	<u>(53,473)</u>		<u>13</u>
	360,534					1,100
	<u>360,534</u>					<u>1,100</u>
	(33,138)		55,244	(53,473)		1,113
\$75,000	115,989	\$1,593	166,918	38,478	\$13,484	8,491
<u>\$75,000</u>	<u>\$82,851</u>	<u>\$1,593</u>	<u>\$222,162</u>	<u>(\$14,995)</u>	<u>\$13,484</u>	<u>\$9,604</u>

(Continued)

CITY OF MILLBRAE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS		
	Park Improvement	Millbrae Station Area Developer Fee - Operating	Storm Drain Bonds	Fire Facility Bonds	1999 COPS
GOVERNMENTAL REVENUES					
Property tax			\$379		
Other taxes					
Licenses and permits		\$39,029			
Charges for services		361,953			
Fines and forfeitures		149,018			
Use of money and property	\$8,406	8,610			\$10,385
Grants and intergovernmental	210,118				
Miscellaneous					
Total Revenues	218,524	558,610	379		10,385
EXPENDITURES					
Current:					
Public safety					
Highways and streets					
Culture and recreation	25,198				
Community development		112,626			
Capital outlay	48,312				
Debt service:					
Principal					115,000
Interest and fiscal charges			60		204,058
Total Expenditures	73,510	112,626	60		319,058
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	145,014	445,984	319		(308,673)
OTHER FINANCING SOURCES (USES)					
Transfers in					320,000
Transfers (out)	(264,511)	(222,750)			
Total Other Financing Sources (Uses)	(264,511)	(222,750)			320,000
NET CHANGE IN FUND BALANCES	(119,497)	223,234	319		11,327
BEGINNING FUND BALANCES	21,118	231,729	2,917	\$4,373	348,749
ENDING FUND BALANCES (DEFICITS)	(\$98,379)	\$454,963	\$3,236	\$4,373	\$360,076

DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS			
Library Bonds	Library Capital Project	Special Assessment District	Park Capital Improvement	US 101/ Millbrae Ave	Total Nonmajor Governmental Funds
\$624,706					\$625,085
					383,825
					39,029
					1,150,763
	\$1,730				149,018
				\$829	174,208
	120,000				834,343
					132,754
624,706	121,730			829	3,489,025
					123,423
					479,983
					1,143,991
	4,910			21	198,331
	58,834		\$52,378	80,804	435,159
35,000					150,000
548,717		\$50			752,885
583,717	63,744	50	52,378	80,825	3,283,772
40,989	57,986	(50)	(52,378)	(79,996)	205,253
			838,261		1,519,895
	(54,703)				(541,964)
	(54,703)		838,261		977,931
40,989	3,283	(50)	785,883	(79,996)	1,183,184
449,775	140,092	51,415	4,107	24,831	3,156,025
\$490,764	\$143,375	\$51,365	\$789,990	(\$55,165)	\$4,339,209

CITY OF MILLBRAE
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SPECIAL REVENUE FUNDS

	COPS & OTHER GRANTS			MEASURE A		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Other taxes				\$300,000	\$383,825	\$83,825
Special assessments						
Charges for services						
Licenses and permits						
Fines and forfeitures						
Use of money and property		\$2,232	\$2,232	7,000	18,039	11,039
Grants and intergovernmental	\$100,000	100,000				
Miscellaneous		1789	1,789			
Total Revenues	100,000	104,021	4,021	307,000	401,864	94,864
EXPENDITURES						
Current:						
Public safety	124,174	123,423	751			
Highways and streets						
Culture and recreation						
Community development				69,575	67,160	2,415
Capital outlay				582,066	137,557	444,509
Debt service:						
Principal						
Interest and fiscal charges						
Total Expenditures	124,174	123,423	751	651,641	204,717	446,924
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,174)	(19,402)	4,772	(344,641)	197,147	541,788
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	<u>(\$24,174)</u>	<u>(19,402)</u>	<u>\$4,772</u>	<u>(\$344,641)</u>	<u>197,147</u>	<u>\$541,788</u>
BEGINNING FUND BALANCES		64,522			946,955	
ENDING FUND BALANCES (DEFICITS)		<u>\$45,120</u>			<u>\$1,144,102</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)
	\$1,167	\$1,167	\$5,500 423,000	\$10,705 402,169	\$5,205 (20,831)	\$85,134	\$93,532	8,398
	1,167	1,167	428,500	412,874	(15,626)	85,134	93,532	8,398
			395,994	294,781	101,213			
\$27,453	2,972	24,481	50,000	28,977	21,023	10,711	10,642	69
27,453	2,972	24,481	445,994	323,758	122,236	10,711	10,642	69
(27,453)	(1,805)	25,648	(17,494)	89,116	106,610	74,423	82,890	8,467
(\$27,453)	(1,805)	\$25,648	(\$17,494)	89,116	\$106,610	\$74,423	82,890	\$8,467
	38,806			406,683				
	\$37,001			\$495,799			\$82,890	

(Continued)

CITY OF MILLBRAE
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SPECIAL REVENUE FUNDS

	SPECIAL RECREATION			INTEGRATED WASTE MANAGEMENT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Other taxes						
Special assessments						
Charges for services	\$593,752	\$586,874	(\$6,878)	\$200,000	\$201,936	\$1,936
Licenses and permits						
Fines and forfeitures						
Use of money and property	85,000	112,156	27,156			
Grants and intergovernmental		22,102	22,102		5,593	5,593
Miscellaneous	4,000	698	(3,302)			
Total Revenues	682,752	721,830	39,078	200,000	207,529	7,529
EXPENDITURES						
Current:						
Public safety						
Highways and streets				145,182	143,785	1,397
Culture and recreation	1,115,901	1,115,502	399			
Community development						
Capital outlay				8,500	8,500	
Debt service:						
Principal						
Interest and fiscal charges						
Total Expenditures	1,115,901	1,115,502	399	153,682	152,285	1,397
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(433,149)	(393,672)	39,477	46,318	55,244	8,926
OTHER FINANCING SOURCES (USES)						
Transfers in	360,534	360,534				
Transfers (out)						
Total Other Financing Sources (Uses)	360,534	360,534				
NET CHANGE IN FUND BALANCES	(\$72,615)	(33,138)	\$39,477	\$46,318	55,244	\$8,926
BEGINNING FUND BALANCES		115,989			166,918	
ENDING FUND BALANCES (DEFICITS)		\$82,851			\$222,162	

SPECIAL REVENUE FUNDS

OTHER			SISTER CITY TRUST			PARK IMPROVEMENT		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$61,000		(\$61,000)						
	\$638	638		\$140	\$140	\$17,420	\$8,406	(\$9,014)
37,800		(37,800)				549,938	210,118	(339,820)
7,000	7,103	103	\$4,000	3,164	(836)	8,400		(8,400)
105,800	7,741	(98,059)	4,000	3,304	(696)	575,758	218,524	(357,234)
30,603	41,417	(10,814)						
			6,460	3,291	3,169	15,458	25,198	(9,740)
55,800	19,797	36,003				109,766	48,312	61,454
86,403	61,214	25,189	6,460	3,291	3,169	125,224	73,510	51,714
19,397	(53,473)	(72,870)	(2,460)	13	2,473	450,534	145,014	(305,520)
			1,100	1,100		(264,511)	(264,511)	
			1,100	1,100		(264,511)	(264,511)	
\$19,397	(53,473)	(\$72,870)	(\$1,360)	1,113	\$2,473	\$186,023	(119,497)	(\$305,520)
	38,478			8,491			21,118	
	(\$14,995)			\$9,604			(\$98,379)	

(Continued)

CITY OF MILLBRAE
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUND			DEBT SERVICE FUNDS		
	MILLBRAE STATION AREA DEVELOPER FEE - OPERATING			STORM DRAIN BONDS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax				\$33,000	\$379	(\$32,621)
Other taxes						
Special assessments						
Charges for services		\$361,953	361,953			
Fines and forfeitures		39,029	39,029			
Fines and forfeitures		149,018	149,018			
Use of money and property		8,610	8,610			
Grants and intergovernmental						
Miscellaneous						
Total Revenues		558,610	558,610	33,000	379	(32,621)
EXPENDITURES						
Current:						
Public safety						
Highways and streets						
Culture and recreation						
Community development	\$391,445	112,626	278,819			
Capital outlay						
Debt service:						
Principal				720	60	660
Interest and fiscal charges						
Total Expenditures	391,445	112,626	278,819	720	60	660
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(391,445)	445,984	837,429	32,280	319	(31,961)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)		(222,750)	(222,750)			
Total Other Financing Sources (Uses)		(222,750)	(222,750)			
NET CHANGE IN FUND BALANCES	(\$391,445)	223,234	\$614,679	\$32,280	319	(\$31,961)
BEGINNING FUND BALANCES		231,729			2,917	
ENDING FUND BALANCES (DEFICITS)		\$454,963			\$3,236	

DEBT SERVICE FUNDS					
1999 COPS			LIBRARY BONDS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
			\$583,000	\$624,706	\$41,706
\$10,000	\$10,385	\$385	5,000		(5,000)
10,000	10,385	385	588,000	624,706	36,706
110,000	115,000	(5,000)	33,300	35,000	(1,700)
212,009	204,058	7,951	548,262	548,717	(455)
322,009	319,058	2,951	581,562	583,717	(2,155)
(312,009)	(308,673)	3,336	6,438	40,989	34,551
320,000	320,000				
320,000	320,000				
\$7,991	11,327	\$3,336	\$6,438	40,989	\$34,551
	348,749			449,775	
	\$360,076			\$490,764	

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.

Workers' Compensation - To account for the resources and uses for the payment of workers' 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, 2006

	Municipal Garage	Unemployment Insurance	Workers' Compensation	General Liability	Total
ASSETS					
Current Assets:					
Cash and investments	\$286,324	\$13,764	\$414,413	\$274,004	\$988,505
Total Current Assets	286,324	13,764	414,413	274,004	988,505
Noncurrent Assets:					
Capital assets	2,297,076				2,297,076
Less accumulated depreciation	(1,597,096)				(1,597,096)
Total Assets	986,304	13,764	414,413	274,004	1,688,485
LIABILITIES					
Current Liabilities:					
Accounts payable	14,231			632	14,863
Total Current Liabilities	14,231			632	14,863
Noncurrent Liabilities:					
Compensated absences	15,576				15,576
Accrued self-insurance			463,916	163,533	627,449
Total Liabilities	29,807		463,916	164,165	657,888
NET ASSETS					
Invested in capital assets, net of related debt	699,980				699,980
Unrestricted	256,517	13,764	(49,503)	109,839	330,617
Total Net Assets (Deficits)	\$956,497	\$13,764	(\$49,503)	\$109,839	\$1,030,597

CITY OF MILLBRAE
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Municipal Garage	Unemployment Insurance	Workers' Compensation	General Liability	Total
OPERATING REVENUES					
Equipment rental	\$522,138				\$522,138
Interdepartmental charges		\$11,033	\$574,150	\$396,588	981,771
Miscellaneous	8,420		5,921		14,341
Total Operating Revenues	530,558	11,033	580,071	396,588	1,518,250
OPERATING EXPENSES					
Personnel services	293,756		85,377	72,024	451,157
Contractual services	59,063		54,795	26,520	140,378
Materials, supplies and other services	173,756		1,419	25,714	200,889
Depreciation	136,588				136,588
Insurance premiums and claims	14,016	15,422	366,110	159,860	555,408
Total Operating Expenses	677,179	15,422	507,701	284,118	1,484,420
Operating Income (Loss)	(146,621)	(4,389)	72,370	112,470	33,830
NONOPERATING REVENUES (EXPENSES)					
Interest revenue	9,175		2,260	16,801	28,236
Total Nonoperating Revenues (Expenses)	9,175		2,260	16,801	28,236
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(137,446)	(4,389)	74,630	129,271	62,066
TRANSFERS					
Transfers in	85,683				85,683
Transfers (out)				(600,000)	(600,000)
Transfers, net	85,683			(600,000)	(514,317)
Change in Net Assets	(51,763)	(4,389)	74,630	(470,729)	(452,251)
BEGINNING NET ASSETS (DEFICIT)	1,008,260	18,153	(124,133)	580,568	1,482,848
ENDING NET ASSETS (DEFICIT)	\$956,497	\$13,764	(\$49,503)	\$109,839	\$1,030,597

CITY OF MILLBRAE
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Municipal Garage	Unemployment Insurance	Workers' Compensation	General Liability	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$530,558	\$11,033	\$580,071	\$400,674	\$1,522,336
Payments to suppliers	(233,873)		(57,824)	(67,109)	(358,806)
Payments to employees	(293,745)		(85,377)	(72,024)	(451,146)
Claims paid	(14,016)	(15,422)	(484,094)	(386,481)	(900,013)
Cash Flows from Operating Activities	(11,076)	(4,389)	(47,224)	(124,940)	(187,629)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	85,683				85,683
Transfers out				(600,000)	(600,000)
Cash Flows from Noncapital Financing Activities	85,683			(600,000)	(514,317)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(269,553)				(269,553)
Cash Flows from Capital and Related Financing Activities	(269,553)				(269,553)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	9,175		2,260	16,801	28,236
Cash Flows from Investing Activities	9,175		2,260	16,801	28,236
Net Cash Flows	(185,771)	(4,389)	(44,964)	(708,139)	(943,263)
Cash and investments at beginning of period	472,095	18,153	459,377	982,143	1,931,768
Cash and investments at end of period	<u>\$286,324</u>	<u>\$13,764</u>	<u>\$414,413</u>	<u>\$274,004</u>	<u>\$988,505</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income (loss)	(\$146,621)	(\$4,389)	\$72,370	\$112,470	\$33,830
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	136,588				136,588
Change in assets and liabilities:					
Accounts receivable				4,086	4,086
Accounts and other payables	(1,054)		(1,610)	(14,875)	(17,539)
Other accrued expenses	11		(117,984)	(226,621)	(344,594)
Cash Flows from Operating Activities	<u>(\$11,076)</u>	<u>(\$4,389)</u>	<u>(\$47,224)</u>	<u>(\$124,940)</u>	<u>(\$187,629)</u>

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

1. Net Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

1. Assessed and Estimated Actual Value of Taxable Property
2. Property Tax Rates, All Overlapping Governments
3. Principal Property Taxpayers
4. Property Tax Levies and Collections

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Ratio of Bonded Debt Outstanding
3. Computation of Direct and Overlapping Debt
4. Computation of Legal Bonded Debt Margin
5. Sewer Fund Revenue Bond and Loan Coverage
6. Bonded Debt Pledged Revenue Coverage, Redevelopment Agency Tax Allocation Bonds

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

CITY OF MILLBRAE
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)
(Dollars in millions)



	2003	2004	2005	2006
<i>Governmental activities</i>				
Invested in capital assets, net of related debt	\$6.7	\$7.9	\$8.8	\$8.7
Restricted	9.9	12.5	11.8	16.0
Unrestricted	(6.8)	(8.6)	(8.6)	(10.3)
Total governmental activities net assets	\$9.8	\$11.8	\$12.0	\$14.4
<i>Business-type activities</i>				
Invested in capital assets, net of related debt	\$11.0	\$11.0	\$11.2	\$16.7
Unrestricted	3.6	4.2	4.0	(0.6)
Total business-type activities net assets	\$14.6	\$15.2	\$15.2	\$16.1

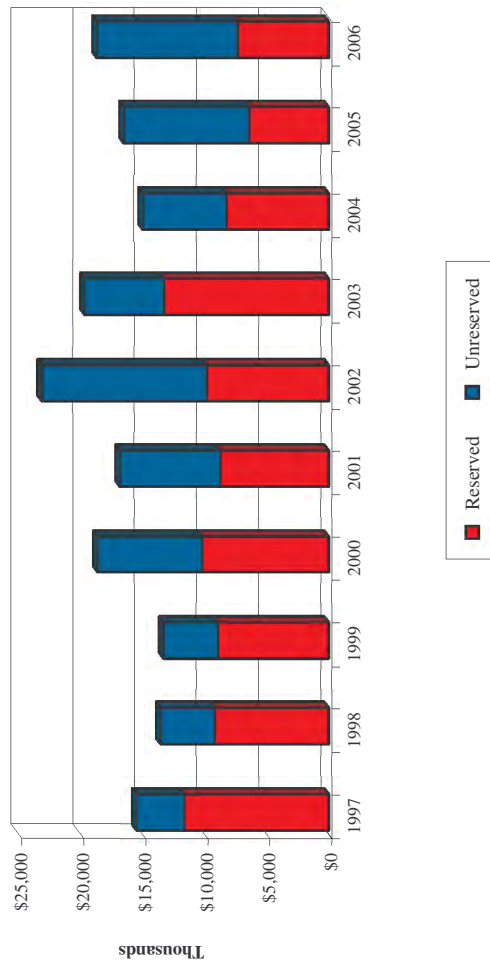
CITY OF MILLBRAE
Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)
(Dollars in millions)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses				
Governmental Activities:				
General Government	\$1.4	\$1.3	\$1.4	\$1.8
Public Safety	8.9	9.0	8.8	8.8
Highway and Streets	4.1	1.8	1.6	1.5
Culture and Recreation	2.9	2.6	3.1	2.1
Community Development	1.5	1.3	2.0	3.0
Interest on Long-Term Debt	1.3	1.6	1.5	2.9
Total Governmental Activities Expenses	<u>20.1</u>	<u>17.6</u>	<u>18.4</u>	<u>20.1</u>
Business-Type Activities:				
Municipal Water System	3.0	3.6	3.5	3.5
Municipal Wastewater Treatment Facility	3.5	3.7	3.9	4.4
Storm Drain	0.3	0.3	0.3	0.4
Total Business-Type Activities Expenses	<u>6.8</u>	<u>7.6</u>	<u>7.7</u>	<u>8.3</u>
Total Primary Government Expenses	<u>26.9</u>	<u>25.2</u>	<u>26.1</u>	<u>28.4</u>
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	0.3	0.1	0.1	0.3
Public Safety	0.6	0.7	0.5	0.7
Highway and Streets	0.0	0.2	0.2	0.3
Culture and Recreation	0.5	0.8	0.7	0.9
Community Development	0.6	1.8	0.5	0.6
Operating Grants and Contributions	1.6	1.3	1.3	2.8
Capital Grants and Contributions	1.6			
Total Government Activities Program Revenues	<u>5.2</u>	<u>4.9</u>	<u>3.3</u>	<u>5.6</u>
Business-Type Activities:				
Charges for Services:				
Municipal Water System	3.2	4.0	3.6	3.9
Municipal Wastewater Treatment Facility	3.7	3.8	3.8	4.5
Storm Drain	0.2	0.2	0.2	0.2
Operating Grants and Contributions				
Capital Grants and Contributions		0.2		
Total Business-Type Activities Program Revenue	<u>7.1</u>	<u>8.2</u>	<u>7.6</u>	<u>8.6</u>
Total Primary Government Program Revenues	<u>12.3</u>	<u>13.1</u>	<u>10.9</u>	<u>14.2</u>
Net (Expense)/Revenue				
Governmental Activities	(14.9)	(12.7)	(15.1)	(14.5)
Business-Type Activities	0.3	0.6	(0.1)	0.3
Total Primary Government Net Expense	<u>(14.6)</u>	<u>(12.1)</u>	<u>(15.2)</u>	<u>(14.2)</u>

CITY OF MILLBRAE
Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)
(Dollars in millions)
(continued)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Property Taxes	5.4	5.6	8.5	9.6
Sales Taxes	2.0	2.0	1.9	2.2
Motor Vehicle In-Lieu	1.2	1.0	0.5	0.1
Transient Occupancy Tax	2.2	2.2	2.3	2.6
Other Taxes	1.1	1.0	1.2	1.7
Interest Earnings	1.0	0.3	0.7	0.5
Other	0.4	2.5	0.2	0.2
Transfers	0.1			(0.1)
Total Government Activities	<u>13.4</u>	<u>14.6</u>	<u>15.2</u>	<u>16.8</u>
Business-Type Activities:				
Interest Earnings	0.3	0.1	0.2	0.2
Miscellaneous				0.3
Transfers and Other	(0.1)			0.1
Total Business-Type Activities	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>	<u>0.6</u>
Total Primary Government	<u>13.6</u>	<u>14.7</u>	<u>15.4</u>	<u>17.4</u>
 Change in Net Assets				
Governmental Activities	(1.5)	1.9	0.1	2.3
Business-Type Activities	0.5	0.7	0.1	0.9
Total Primary Government	<u>(1.0)</u>	<u>2.6</u>	<u>0.2</u>	<u>3.2</u>

CITY OF MILLBRAE
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)



	Fiscal Year Ended June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$1,074,161	\$1,112,721	\$1,323,957	\$1,427,152	\$1,334,159	\$1,162,649	\$1,096,756	\$1,086,073	1,435,087	\$1,305,552
Unreserved	2,500,181	1,860,579	1,573,801	2,175,437	2,058,866	612,204	203,942	(665,816)	117,878	1,399,190
Total General Fund	<u>\$3,574,342</u>	<u>\$2,973,300</u>	<u>\$2,897,758</u>	<u>\$3,602,589</u>	<u>\$3,393,025</u>	<u>\$1,774,853</u>	<u>\$1,300,698</u>	<u>\$420,257</u>	<u>\$1,552,965</u>	<u>\$2,704,742</u>
All Other Governmental Funds										
Reserved	\$10,575,508	\$8,004,571	\$7,546,532	\$8,700,789	\$7,378,615	\$8,643,242	\$12,167,422	\$7,094,675	\$4,920,951	\$5,994,916
Unreserved, reported in:										
Special revenue funds	1,288,378	467,196	1,121,329	1,484,525	1,886,324	882,049	6,496,194	6,827,715	4,145,428	8,575,778
Capital project funds	35,554	2,024,945	1,660,594	4,768,211	4,095,787	11,735,854	(334,836)	579,509	5,846,761	1,359,947
Total all other governmental funds	<u>\$11,899,440</u>	<u>\$10,496,712</u>	<u>\$10,328,455</u>	<u>\$14,953,525</u>	<u>\$13,360,726</u>	<u>\$21,261,145</u>	<u>\$18,328,780</u>	<u>\$14,501,899</u>	<u>\$14,913,140</u>	<u>\$15,930,641</u>

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

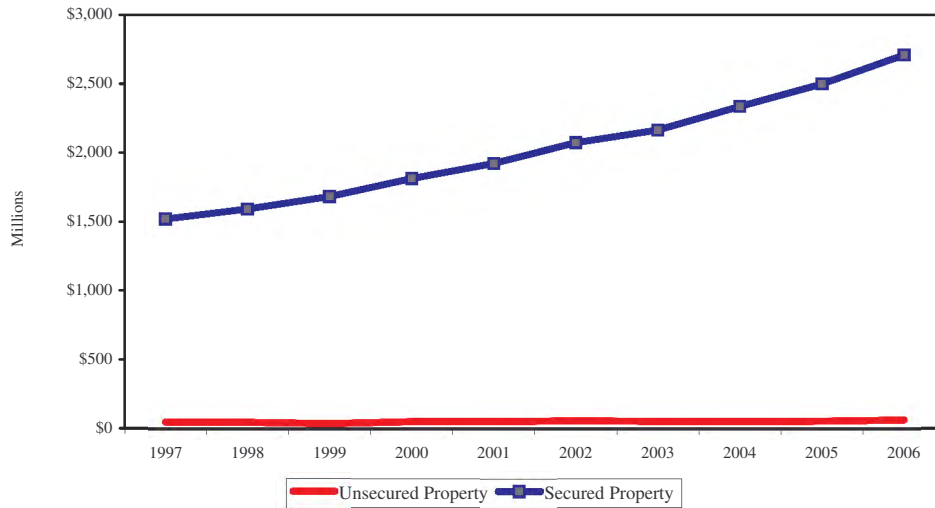
CITY OF MILLBRAE
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year Ended June 30,				
	1997	1998	1999	2000	2001
Revenues					
Taxes	\$9,469,226	\$10,714,804	\$10,678,131	\$11,789,763	\$12,090,514
Licenses, permits and fees	163,285	279,401	200,041	242,067	207,245
Charges for services	1,051,563	1,147,421	1,320,763	1,401,500	1,343,763
Fines and forfeitures	98,197	107,868	159,499	197,218	220,302
Use of money and property	1,032,394	989,498	727,970	923,482	1,419,444
Grants and intergovernmental	7,707,694	6,140,745	4,181,994	5,094,670	8,468,454
Miscellaneous	442,074	461,657	399,436	782,045	494,042
Total Revenues	19,964,433	19,841,394	17,667,834	20,430,745	24,243,764
Expenditures					
Current:					
General government	1,190,014	1,279,407	1,632,976	1,596,499	1,937,360
Public safety	5,793,645	6,028,503	6,693,460	7,050,614	7,789,589
Highways and streets	1,091,858	1,189,064	1,790,276	1,716,087	2,292,948
Culture and recreation	1,617,458	1,804,948	2,039,148	2,498,675	2,266,262
Community development	4,123,399	5,854,084	3,105,854	2,362,097	3,417,641
Capital outlay	5,244,257	4,858,977	2,017,984	2,320,605	9,727,417
Debt service:					
Principal repayment	334,956	402,544	371,790	1,200,729	345,000
Interest and fiscal charges	650,285	592,639	557,811	519,713	742,905
Total Expenditures	20,045,872	22,010,166	18,209,299	19,265,019	28,519,122
Excess (deficiency) of revenues over (under) expenditures	(81,439)	(2,168,772)	(541,465)	1,165,726	(4,275,358)
Other Financing Sources (Uses)					
Transfers in	3,311,734	982,921	1,105,682	2,095,624	1,497,150
Transfers (out)	(3,152,152)	(817,921)	(808,015)	(2,036,450)	(1,185,276)
Proceeds from long-term debt	2,500,100			4,105,000	2,161,121
Payment to retirement plan					
Tax allocation bonds issued					
Library bonds					
Sale of capital assets					
Total other financing sources (uses)	2,659,682	165,000	297,667	4,164,174	2,472,995
Net change in fund balances	\$2,578,243	(\$2,003,772)	(\$243,798)	\$5,329,900	(\$1,802,363)
Debt service as a percentage of noncapital expenditures	5.2%	4.7%	5.4%	9.8%	4.0%

Fiscal Year Ended June 30,

2002	2003	2004	2005	2006
\$11,029,412	\$10,990,862	\$11,338,355	\$14,291,554	\$16,191,092
208,158	334,554	565,594	349,179	474,612
1,512,160	466,764	2,674,024	1,379,653	1,840,334
203,112	222,945	291,095	203,223	358,782
1,327,625	1,200,849	426,685	807,830	763,161
6,889,858	4,774,880	1,940,142	2,004,196	1,129,260
381,763	1,442,871	1,958,367	369,532	229,921
<u>21,552,088</u>	<u>19,433,725</u>	<u>19,194,262</u>	<u>19,405,167</u>	<u>20,987,162</u>
1,886,046	1,331,146	1,216,074	1,162,097	1,475,679
8,147,357	8,410,205	8,333,506	8,346,122	8,414,172
2,281,965	1,853,430	1,575,042	1,336,560	1,430,631
2,445,562	1,941,713	1,497,215	1,695,953	2,057,200
2,159,940	2,177,272	2,205,659	3,027,175	3,391,005
8,398,219	4,635,161	7,767,178	3,909,191	663,204
335,000	370,000	420,000	5,330,000	807,350
<u>1,011,752</u>	<u>1,211,210</u>	<u>1,510,795</u>	<u>1,205,110</u>	<u>1,231,034</u>
<u>26,665,841</u>	<u>21,930,137</u>	<u>24,525,469</u>	<u>26,012,208</u>	<u>19,470,275</u>
<u>(5,113,753)</u>	<u>(2,496,412)</u>	<u>(5,331,207)</u>	<u>(6,607,041)</u>	<u>1,516,887</u>
1,768,029	4,477,250	904,673	1,515,967	2,696,763
(1,303,029)	(3,697,258)	(1,207,173)	(1,954,977)	(2,232,446)
331,000		11,521,630		188,074
		(11,200,000)		
			8,590,000	
10,600,000		604,755		
<u>11,396,000</u>	<u>779,992</u>	<u>623,885</u>	<u>8,150,990</u>	<u>652,391</u>
<u>\$6,282,247</u>	<u>(\$1,716,420)</u>	<u>(\$4,707,322)</u>	<u>\$1,543,949</u>	<u>\$2,169,278</u>
5.3%	7.8%	8.5%	33.6%	11.7%

**CITY OF MILLBRAE
ASSESSED AND ESTIMATED ACTUAL
VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

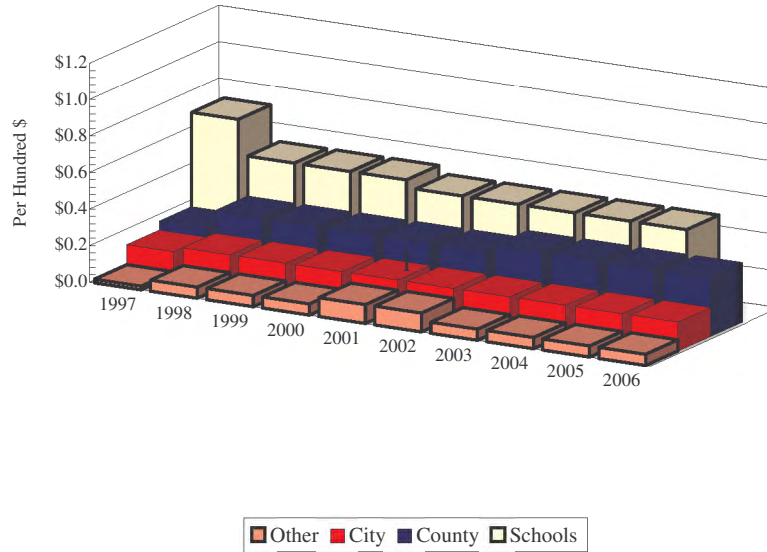


Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
1997	\$1,260,873,925	\$165,466,571	\$13,088,604	\$37,204,178	\$1,476,633,278	\$47,639,754	\$1,524,273,032	\$1,524,273,032	0.18674%
1998	1,309,793,991	182,309,182	13,697,294	45,222,853	1,551,023,320	45,967,012	1,596,990,332	1,596,990,332	0.20844%
1999	1,395,801,327	187,892,438	15,927,728	50,616,529	1,650,238,022	36,681,289	1,686,919,311	1,686,919,311	0.19676%
2000	1,502,591,917	200,476,816	15,088,282	48,360,421	1,766,517,436	50,653,981	1,817,171,417	1,817,171,417	0.20830%
2001	1,608,664,847	200,627,615	18,990,823	47,605,315	1,875,888,600	50,169,539	1,926,058,139	1,926,058,139	0.20390%
2002	1,737,618,409	206,401,619	20,210,975	55,944,473	2,020,175,476	56,459,257	2,076,634,733	2,076,634,733	0.20955%
2003	1,830,815,260	205,408,812	22,671,727	56,629,528	2,115,525,327	52,441,765	2,167,967,092	2,167,967,092	0.23229%
2004	1,991,744,482	213,193,265	23,896,936	58,133,646	2,286,968,329	51,586,538	2,338,554,867	2,338,554,867	0.23845%
2005	2,136,349,237	222,231,374	24,110,680	65,446,807	2,448,138,098	53,266,268	2,509,864,869	2,509,864,869	0.23911%
2006	2,327,641,820	233,450,555	27,468,703	60,471,807	2,649,032,885	61,636,786	2,710,669,671	2,710,669,671	0.24221%

Source: HdL Coren & Cone, San Mateo County Assessor Combined Tax Rolls from 1996-2006

- (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.
- (b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area. The City of Millbrae encompasses more than 15 tax rate areas.

**CITY OF MILLBRAE
PROPERTY TAX RATES
ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**



Fiscal Year	Schools	County	City	Other	Total
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
2006	0.4580	0.3240	0.1580	0.0609	1.0009

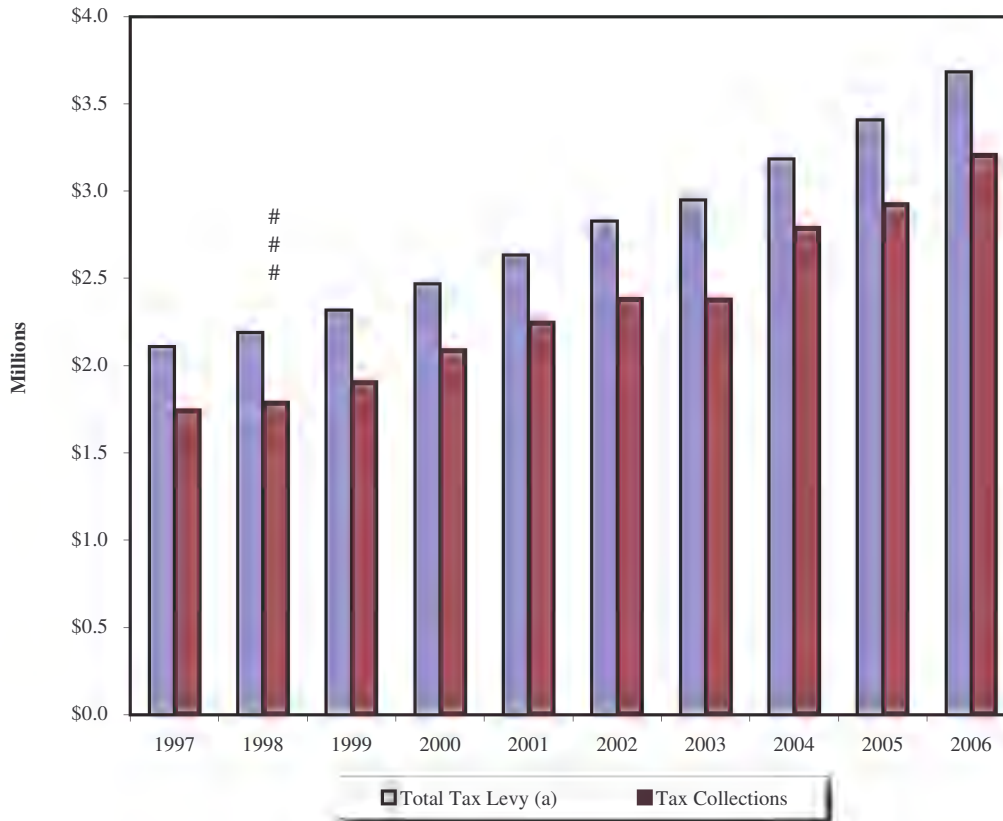
Source: Hdl Coren & Cone, San Mateo County Assessor Annual Tax Increment Tables

CITY OF MILLBRAE
Principal Property Tax Payers
Current Year and Nine Years Ago

	2005-06			1996-97	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value		Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Taxpayer			Taxpayer		
Westin Bay Hotel Company	\$51,544,411	1.9%	Westin Bay Hotel Company	\$41,149,663	2.7%
SLT Realty Limited Partnership	27,296,642	1.0%	Sebanc, Allan A. & Beverly M.	11,769,991	0.8%
Magnolia of Millbrae, Inc.	25,842,886	1.0%	SLT Realty Limited Partnership	11,218,103	0.7%
Marymount Greenhills LLC	19,323,245	0.7%	Hertz Realty Corp	9,586,341	0.6%
Glenborough Pauls Millbrae LLC	18,877,066	0.7%	Orchard Supply Hardware Corp	8,392,782	0.6%
Williams Portfolio	11,655,781	0.4%	Friend Friend & Friend	7,697,954	0.5%
American Store Properties Inc.	9,503,959	0.4%	G W Williams Co	7,300,000	0.5%
Desai Trust	7,594,379	0.3%	Townsquare Associates Millbrae	7,158,362	0.5%
John & Susan C. Wilms	7,821,347	0.3%	Wilms, John & Susan C Trs	7,013,822	0.5%
OSH Acquisition Corporation	8,997,000	0.3%	Wilms, Earl M Tr, Et Al	6,883,046	0.5%
World Journal Inc.	6,334,601	0.2%	California Lucky Man Enterprise	6,462,288	0.4%
Millbrae Square Company	5,981,316	0.2%	Pacific Gas & Electric	5,927,580	0.4%
Ramkabar LLC	5,640,814	0.2%	Millbrae Square Co	5,018,690	0.3%
EMJP Partners Limited Partnership	5,566,659	0.2%	Desai Arvind C & I A Trs	4,913,453	0.3%
Paul D. Wright	5,061,121	0.2%	World Journal Inc	4,905,357	0.3%
Real Property Storage LLC	4,636,554	0.2%	Chang, Michael C H, Et Al	4,200,000	0.3%
Poplar Apartments LLC	4,546,714	0.2%	Muzzi, Vincent A	4,170,811	0.3%
California Lucky Man Enterprises	4,481,673	0.2%	Liu, Kan-Ping, Et Al	4,147,959	0.3%
Millbrae Paradise LLC	4,324,080	0.2%	McCloskey, Kenneth D & C M	3,929,240	0.3%
Nan Hai USA Company Inc.	4,259,225	0.2%	Green Hills Country Club	3,818,289	0.3%
Daniel N. Tiao	3,748,500	0.1%	O'Neill Daniel C	3,814,961	0.3%
Joseph T. Fitzpatrick Trust	3,528,728	0.1%	Nan Hai (U S A) Co, Inc	3,740,832	0.2%
Steve H. & Carol Y. Lin	3,486,548	0.1%	Pringle Douglas Hall, Et Al	3,173,575	0.2%
Great Western Savings	3,473,724	0.1%	Fatica Bruno & Tina Trs	3,155,083	0.2%
Bruno Fatica	3,760,255	0.1%	Wong, C W & Betty	3,055,000	0.2%
Subtotal	\$257,287,228	9.5%		\$182,603,182	12.0%
Total Net Assessed Valuation:					
Fiscal Year 2005-2006	\$2,710,669,671				
Fiscal Year 1996-1997	\$1,524,273,032				

Source:HdL Coren & Cone, San Mateo County Assessor 1996/1997 and 2005/2006 Combined Tax Rolls
 *Listed in descending order, with the top property taxpayer listed first.

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



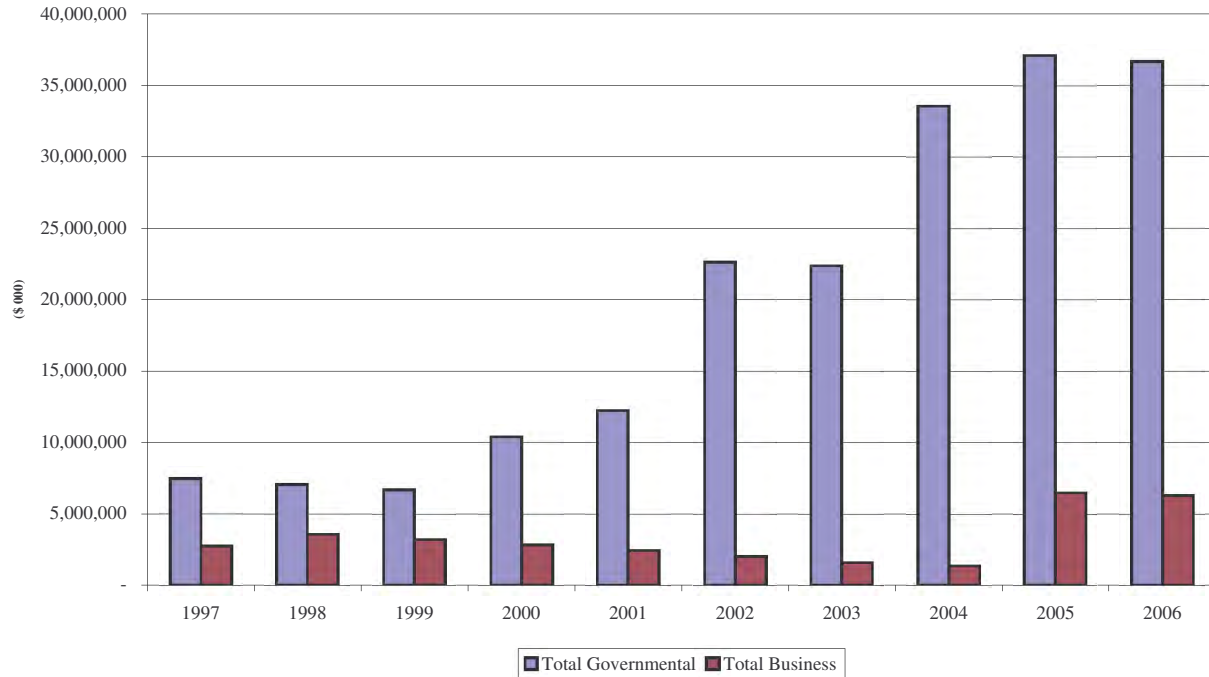
Fiscal Year	Total Tax Levy (a)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1997	\$2,110,055	\$1,739,999	82.4623%	\$7,582	\$1,747,581	82.8216%
1998	2,189,538	1,786,581	81.5963%	2,736	1,789,317	81.7212%
1999	2,318,067	1,891,759	81.6093%	15,585	1,907,344	82.2817%
2000	2,469,184	2,036,108	82.4608%	55,515	2,091,623	84.7091%
2001	2,634,125	2,167,317	82.2784%	80,350	2,247,667	85.3288%
2002	2,829,892	2,336,584	82.5680%	46,414	2,382,998	84.2081%
2003	2,950,755	2,383,880	80.7888%	(3,194)	2,380,686	80.6806%
2004	3,182,827	2,623,965	82.4413%	165,925	2,789,890	87.6545%
2005	3,408,015	2,812,240	82.5184%	114,656	2,926,896	85.8827%
2006	3,682,039	2,952,070	80.1749%	258,862	3,210,932	87.2053%

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

NOTE: Current tax collections beginning in 1993 have been reduced by a mandatory tax reallocation imposed by the State of California

(a) During fiscal year 1995, the County began providing the City 100% of its tax levy under an agreement which allows the County to keep all interest and delinquency charges collected.

CITY OF MILLBRAE
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years



Governmental Activities						
Fiscal Year	General Obligation Bonds	Pension Obligation Bonds	Tax Allocation Bonds	Certificates of Participation	Special Assessment Debt	Loan & Capital Lease
1997	\$225,000		\$6,005,000		\$1,010,000	\$206,104
1998	200,000		5,825,000		910,000	108,560
1999	175,000		5,640,000		805,000	55,729
2000	150,000		5,445,000	\$4,105,000	690,000	
2001	120,000		5,300,000	4,055,000	570,000	2,177,623
2002	10,690,000		5,225,000	3,955,000	440,000	2,294,997
2003	10,660,000		5,130,000	3,850,000	300,000	2,419,056
2004	10,610,000	\$11,521,630	5,015,000	3,745,000	150,000	2,549,443
2005	10,555,000	11,657,290	8,590,000	3,635,000		2,686,858
2006	10,520,000	12,904,106	8,540,000	3,520,000		1,180,724
						36,664,830

Business-Type Activities						
Fiscal Year	Water Lease Purchase Financing	Sewer Bank Loan	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
1997		\$2,743,700	\$2,743,700	\$10,189,804	0.04%	475.12
1998	\$989,677	2,576,800	3,566,477	10,610,037	0.04%	487.17
1999	810,858	2,400,700	3,211,558	9,887,287	0.03%	457.81
2000	622,953	2,214,800	2,837,753	13,227,753	0.04%	612.40
2001	425,502	2,018,500	2,444,002	14,666,625	0.04%	699.11
2002	218,021	1,811,300	2,029,321	24,634,318	0.06%	1,183.55
2003		1,592,600	1,592,600	23,951,656	0.07%	1,156.30
2004		1,361,700	1,361,700	34,952,773	0.09%	1,707.93
2005		6,486,209	6,486,209	43,610,357	0.11%	2,105.97
2006		6,286,001	6,286,001	42,950,831	0.12%	2,071.42

Note : Debt amounts exclude any premiums, discounts, or other amortization amounts.

Sources: City of Millbrae Financial Records

State of California, Department of Finance (population)

U.S. Department of commerce, Bureau of the Census (income)

(a) See Demographic Statistics for San Mateo County Personal Income and City of Millbrae population data.

CITY OF MILLBRAE
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	<u>General Bonded Debt Outstanding</u>		Percentage of Actual Taxable Value of Property	Per Capita
	Storm Water / Library Bonds	Total		
1997	\$225,000	\$225,000	0.01%	10.49
1998	200,000	200,000	0.01%	9.18
1999	175,000	175,000	0.01%	8.10
2000	150,000	150,000	0.01%	6.94
2001	120,000	120,000	0.01%	5.72
2002	10,690,000	10,690,000	0.51%	513.60
2003	10,660,000	10,660,000	0.49%	514.63
2004	10,610,000	10,610,000	0.45%	518.45
2005	10,555,000	10,555,000	0.42%	509.71
2006	10,520,000	10,520,000	0.39%	507.35

CITY OF MILLBRAE
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2006

2005-06 Assessed Valuation	\$2,710,749,223
Redevelopment Incremental Valuation	<u>282,206,836</u>
Adjusted Assessed Valuation:	\$2,428,542,387

	Net Debt Outstanding	Percentage Applicable	Amount Applicable
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			
San Mateo Community College District	\$332,729,800	2.347%	\$7,809,168
San Mateo Union High School District	128,489,950	6.674%	8,575,419
Millbrae School District Maintenance Assessment District	375,000	46.606%	174,773
City of Millbrae	<u>10,520,000</u>	<u>100.000%</u>	<u>10,520,000</u>

TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	<u><u>\$ 27,079,360</u></u>
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OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Mateo County General Fund Obligations	\$409,824,816	2.347%	\$ 9,618,588
San Mateo County Board of Education Certificates of Participation	14,000,000	2.347%	328,580
San Mateo Community College District Certificates of Participation	30,885,000	2.347%	724,871
Millbrae School District Certificates of Participation	3,915,000	51.403%	2,012,427
San Mateo Union High School District 201 Certificates of Participation	35,000,000	6.674%	2,335,900
City of Millbrae Certificates of Participation	<u>3,520,000</u>	<u>100.000%</u>	<u>3,520,000</u>
City of Millbrae Pension Obligations	<u>11,521,630</u>	<u>100.000%</u>	<u>11,521,630</u>
San Mateo County Mosquito Abatement District Certificates of Participation	1,275,000	3.253%	41,476

TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT	<u><u>\$30,061,997</u></u>
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COMBINED TOTAL DEBT	<u><u>\$57,141,357</u></u>
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(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

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

RATIOS TO 2005-06 ASSESSED VALUATION:

Direct Debt	0.39%
Total Direct and Overlapping Tax Assessment Debt	1.00%

RATIOS TO ADJUSTED ASSESSED VALUATION:

Combined Direct Debt (\$25,561,630)	1.05%
Combined Total Debt	2.36%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06:

Source: California Municipal Statistics, Inc.

**CITY OF MILLBRAE
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2006**

ASSESSED VALUATION:

Secured property assessed value, net of exempt real property	\$2,678,910,423
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BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a)	\$100,459,141
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AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt	23,424,106
Less Pension Obligation Bonds	12,904,106
Amount of debt subject to limit	10,520,000

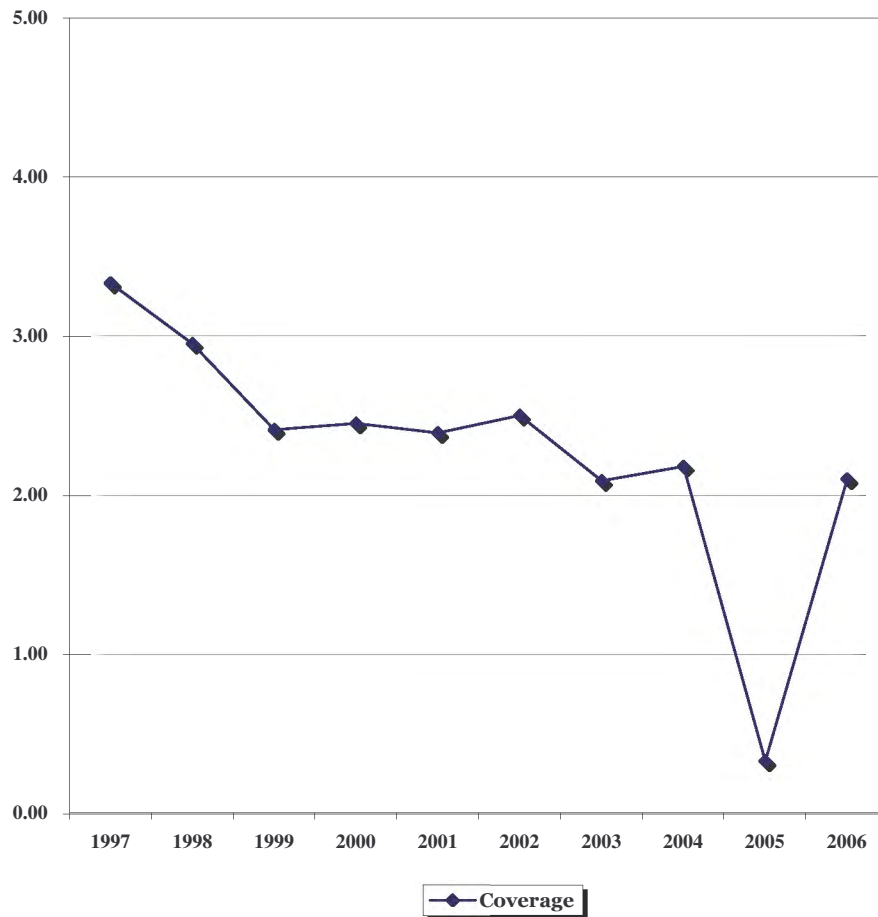
LEGAL BONDED DEBT MARGIN	\$89,939,141
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Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total net debt applicable to the limit as a percentage of debt limit
1997	\$57,382,208	\$214,979	\$57,167,229	0.38%
1998	60,116,690	192,915	59,923,775	0.32%
1999	63,479,705	165,607	63,314,098	0.26%
2000	68,365,480	137,331	68,228,149	0.20%
2001	72,494,311	105,316	72,388,995	0.15%
2002	78,109,553	10,365,019	67,744,534	15.30%
2003	83,073,302	10,275,951	72,797,351	14.12%
2004	88,115,231	21,715,716	66,399,515	32.70%
2005	94,117,856	10,097,935	84,019,921	12.02%
2006	100,459,141	10,520,000	89,939,141	11.70%

NOTE:

- (a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

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



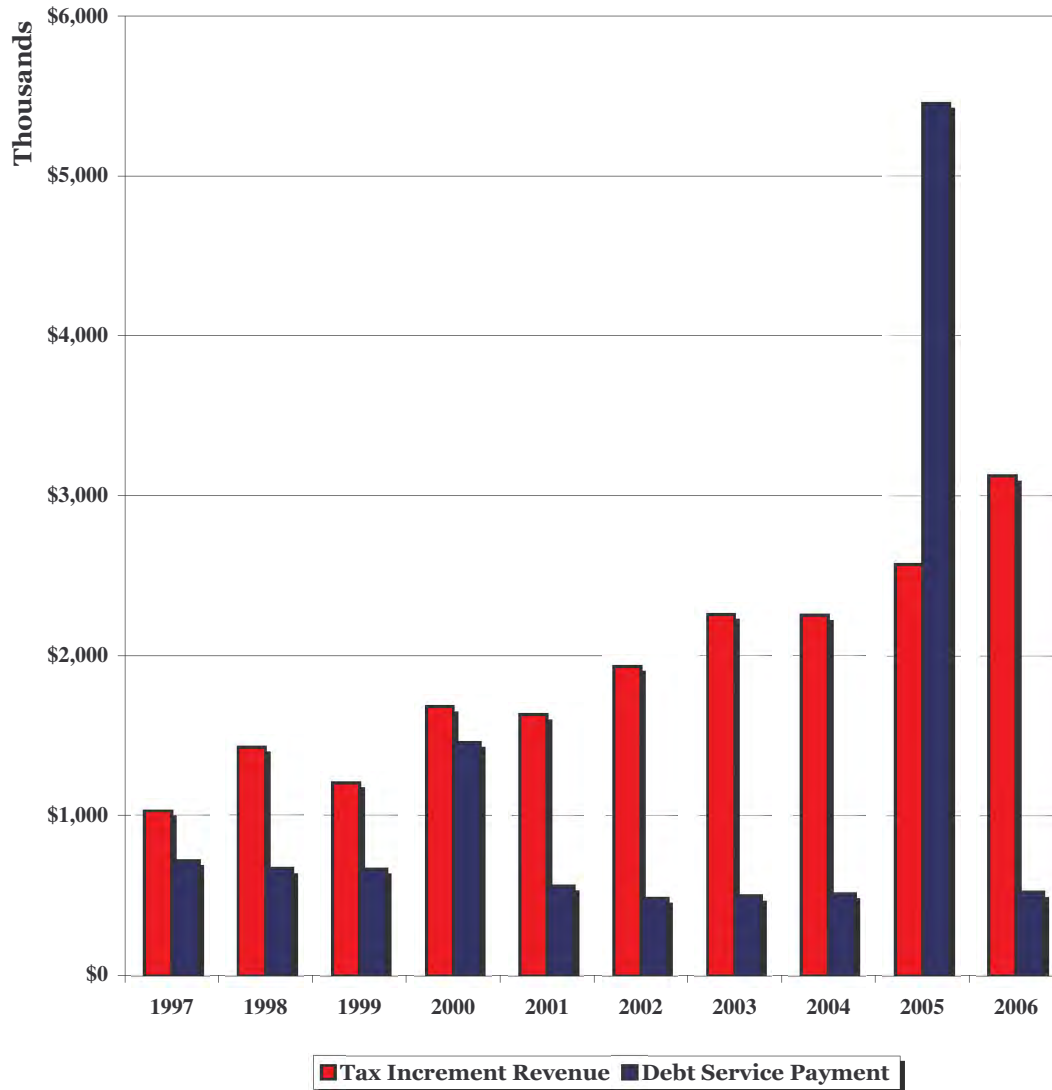
Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1997	\$3,233,201	\$1,959,329	\$1,273,872	\$210,000	\$172,477	\$382,477	3.33
1998	2,969,407	2,064,133	905,274	166,900	140,155	307,055	2.95
1999	3,100,313	2,085,853	1,014,460	261,254	159,053	420,307	2.41
2000	3,271,657	2,241,865	1,029,792	275,380	144,482	419,862	2.45
2001	3,302,898	2,298,546	1,004,352	290,326	129,118	419,444	2.39
2002	3,711,320	2,663,157	1,048,163	306,002	112,922	418,924	2.50
2003	3,796,303	2,922,565	873,738	322,521	95,850	418,371	2.09
2004	3,840,717	3,166,274	674,443	230,900	77,850	308,750	2.18
2005	3,844,013	3,362,695	481,318	1,361,700	104,717	1,466,417	0.33
2006	4,700,114	3,638,729	1,061,385	200,208	305,745	505,953	2.10

Notes: (1) Includes all Wastewater Operating Revenues, Non-operating Interest Revenue, Connection Fees and other Non-operating Revenue

(2) Includes all Wastewater Operating Expenses less Depreciation

Source: City of Millbrae financial records

**MILLBRAE REDEVELOPMENT AGENCY
BONDED DEBT PLEDGED REVENUE COVERAGE
TAX ALLOCATION BONDS
LAST TEN FISCAL YEARS**

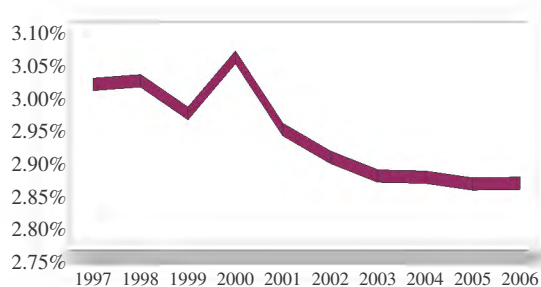


Fiscal Year	Gross Tax Increment Revenue	Debt Service Requirements			Coverage
		Principal	Interest	Total	
1997	\$1,027,777	\$170,000	\$547,405	\$717,405	1.43
1998	1,422,878	180,000	489,166	669,166	2.13
1999	1,202,387	185,000	480,589	665,589	1.81
2000	1,678,181	1,005,000	451,214	1,456,214	1.15
2001	1,630,151	145,000	416,611	561,611	2.90
2002	1,931,479	75,000	411,736	486,736	3.97
2003	2,256,852	95,000	404,547	499,547	4.52
2004	2,251,228	115,000	399,030	514,030	4.38
2005	2,573,324	5,015,000	439,472	5,454,472	0.47
2006	3,123,608	50,000	474,287	524,287	5.96

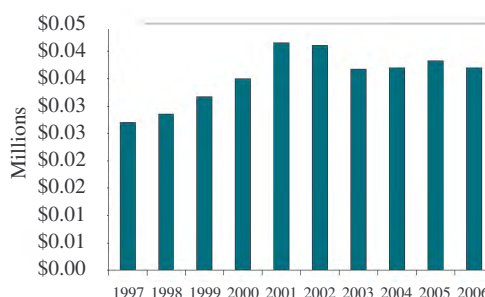
Source: City of Millbrae Financial Reports

Note: 2005 Millbrae Redevelopment Agency issued new TAB for \$8,590,000 and paid off the 1993 TAB outstanding debt.

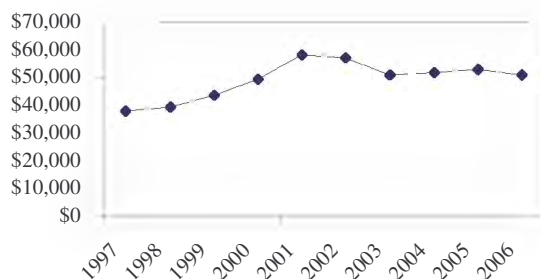
**CITY OF MILLBRAE
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**



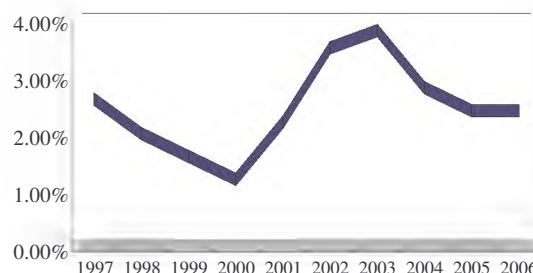
■ City Population as a % of County Population



■ County Personal Income (Million)



◆ Per Capita Personal Income



■ Unemployment Rate (%)

Fiscal Year	City Population	San Mateo County Personal Income (Million)	San Mateo County Per Capita Personal Income	Unemployment Rate (%)	San Mateo County Population	City Population % of County
1997	21,447	\$27,013	\$37,956	2.6%	711,700	3.01%
1998	21,779	28,537	\$39,558	2.0%	721,400	3.02%
1999	21,597	31,688	\$43,569	1.6%	727,300	2.97%
2000	21,600	35,028	\$49,533	1.2%	707,161	3.05%
2001	20,979	41,512	\$58,271	2.2%	712,400	2.94%
2002	20,814	41,039	\$57,237	3.5%	717,000	2.90%
2003	20,714	36,725	\$50,962	3.8%	720,630	2.87%
2004	20,465	36,941	\$51,854	2.8%	712,400	2.87%
2005	20,708	38,264	\$52,891	2.4%	723,453	2.86%
2006	20,735	36,941	\$51,016	2.4%	724,104	2.86%

Source: California State Department of Finance and San Mateo County Controller's Office.

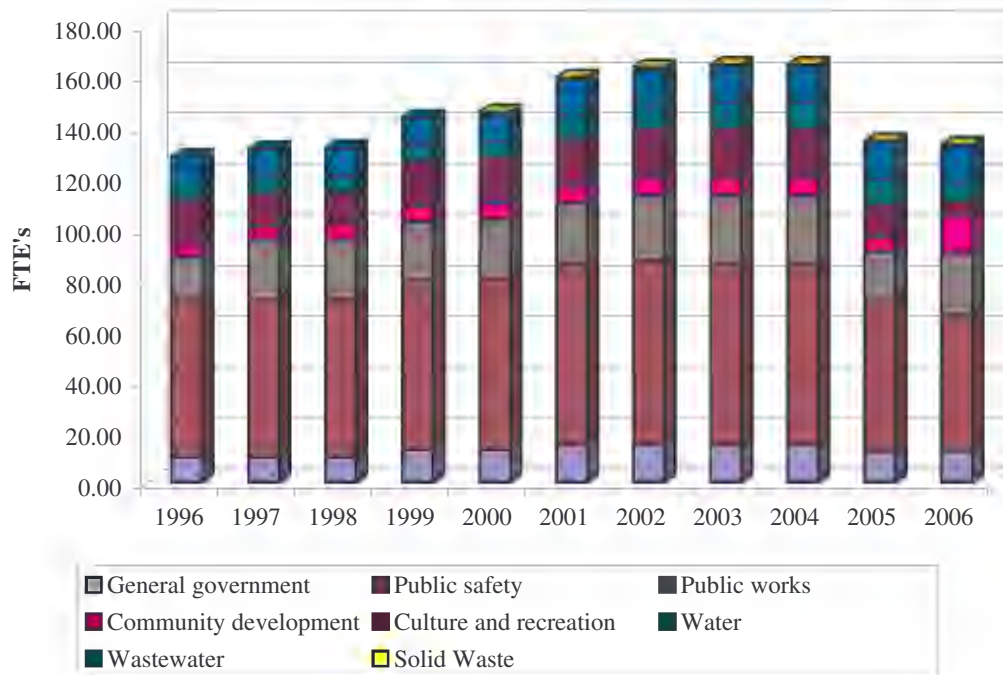
CITY OF MILLBRAE
Principal Employers
Current Year

<u>Employer</u>	<u>2005-06</u>		
	<u>Number of</u> <u>Employees</u>	<u>Rank</u>	<u>Percentage</u> <u>of Total City</u> <u>Employment</u>
City & County of San Francisco	300	1	1.4%
Millbrae School District	225	2	1.1%
Starwood Hotels & Resorts	200	3	1.0%
El Rancho Motel Inc	168	4	0.8%
San Mateo Union High School	130	5	0.6%
Pleasant Care Corp	130	5	0.6%
City of Millbrae	133	5	0.6%
Millbrae Serra Sanitarium	125	8	0.6%
Mervyn's LLC	112	9	0.5%
Albertson's LLC	100	10	0.5%
Subtotal	<u>1,623</u>		<u>7.8%</u>
Total City Day Population	<u>20,708</u>		

Note: Information for nine years ago not available.

Source: City of Millbrae Community Development Department

CITY OF MILLBRAE
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years



Source: City of Millbrae Budget Schedule

CITY OF MILLBRAE
Operating Indicators by Function/Program
2005-06 Fiscal Year

Function/Program

Public safety:

Fire:

Fire calls for service	2,505
Primary fire inspections conducted	214

Police:

Communication Center calls answered	6,001
Police calls for Service	13,074

Law violations:

Part I and Part II crimes	1,524
Physical arrests (adult and juvenile)	691
Traffic violations	1,744
Parking violations	5,252

Public works

Street resurfacing (miles)	Data not available
Potholes repaired (square miles)	Data not available

Culture and recreation:

Community Services:

Recreation class participants	7,000
Performing Arts performances	7

Library:

Volumes in Collection (thousands)	71,000
Total Volumes Borrowed (thousands)	446,700

Water

Water service connections	6,200
Water main breaks	7
Average daily consumption (thousands of gallons)	2,725,000

Wastewater

Storm drain inlets	700
Sewer service connections	6,200
Sewer main blockages	62
Average daily treatment (thousands of gallons)	2,200,000

Solid Waste

Recyclables Processed (tons per year)	7,506
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Source: City of Millbrae

CITY OF MILLBRAE
Capital Asset Statistics by Function/Program
2005-06 Fiscal Year

	<u>2006</u>
Function/Program	
Public safety:	
Fire stations	2
Police stations	1
Police patrol units	17
Public works	
Miles of streets	110 lane miles
Street lights	1,250
Traffic Signals	5
Culture and recreation:	
Community services:	
City parks	14
City parks acreage	104
Playgrounds	6
City trails	1
City trails miles	3
Roadway landscaping acreage	2
Regional park facilities:	
Clubhouse and banquet facility	2
Historic house	2
Community gardens	1
Community centers	1
Senior centers	1
Tennis courts	4
Baseball/softball diamonds	5
Soccer/football fields	1
Library:	
City Libraries	1
Water	
Miles of water mains	70
Fire hydrants	545
Storage capacity (thousands of gallons)	2,360,000
Wastewater	
Miles of sanitary sewers	56
Miles of storm sewers	21
Number of treatment plants (1)	1
Treatment capacity (thousands of gallons)	3,000,000

(1) The City of Millbrae owns treatment capacity in the Millbrae Treatment Plant.

(2) Information now reported from the City's GIS system.

(3) Information prior to 2006 are not available.

Source: City of Millbrae