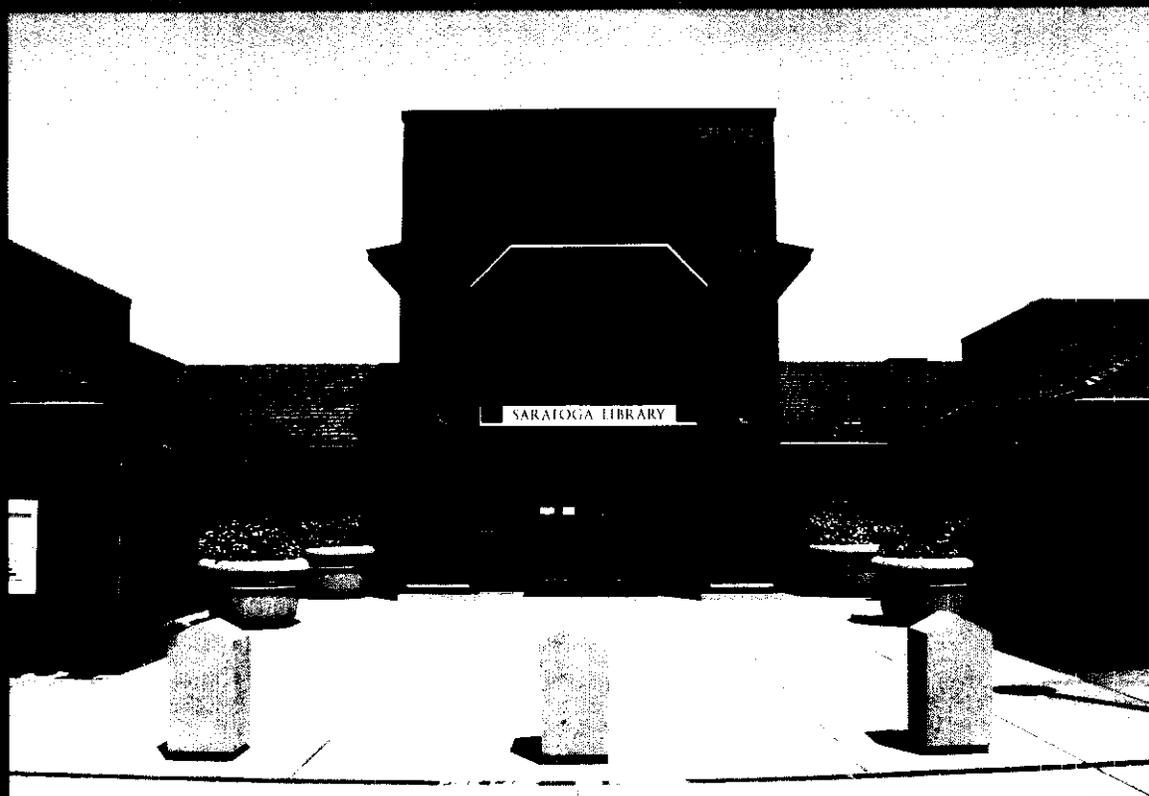




2003



City of Saratoga, California

City of Saratoga
Comprehensive Annual Financial Report
For the year ended June 30, 2003

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CITY of SARATOGA

13777 FRUITVALE AVENUE • SARATOGA, CALIFORNIA 95070 • (408) 868-1200

Incorporated October 22, 1956

November 11, 2003

COUNCIL MEMBERS:

Stan Bogosian
Kathleen King
Norman Kline
Nick Streit
Ann Waltonsmith

To the Honorable Mayor and City Council
of the City of Saratoga
Saratoga, CA 95070

The Comprehensive Annual Financial Report (CAFR) of the City of Saratoga for the year ended June 30, 2003, is hereby submitted as mandated by applicable statutes. These statutes require that the City of Saratoga annually issue a report on its financial position and activity, and that an independent firm of certified public accountants audit this report. Responsibilities for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds, account groups and component units of the City of Saratoga. All disclosures necessary to enable the reader to gain an understanding of the City of Saratoga's activities have been included.

The CAFR is presented in the following three sections:

1. **Introductory Section** - The introductory section, which is unaudited, includes this letter of transmittal, a list of the City of Saratoga's elected officials and administrative personnel, an organization chart, the Government Finance Officers Association's (GFOA's) of the United States Certificate of Achievement for Excellence in Financial Reporting and the California Society of Municipal Finance Officer's (CSMFO) Certificate of Award for Financial Reporting to the City of Saratoga for its CAFR for the fiscal year ending June 30, 2002.
2. **Financial Section** - The basic financial statements include management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the basic financial statements, and required supplementary information as well as the auditors' report on the financial statements and schedules.
3. **Statistical Section** - Includes selected financial and demographic information, which is generally presented on a multi-year basis and is unaudited.

REPORTING ENTITY

The financial reporting entity (the City) includes all the fund activity of the primary government, as well as all of its component units. Component units are legally separated entities for which the City is fully accountable. Blended component units, although legally separate entities, are in substance,

part of the City's operations and data from these units are combined with data of the City. Accordingly, the operations of the Landscaping and Lighting Assessment District #1 and the agency cash flows and cash balances of the Saratoga Public Finance Authority are reported in the City's financial statements.

GOVERNMENTAL STRUCTURE AND RELATED INFORMATION

The City, incorporated in 1956, is located 40 miles south of San Francisco in the Santa Clara Valley. The City currently covers a land area of approximately 12 square miles and contains a population of 30,444 as reported by the State of California Department of Finance. The City is a general law city of the State of California and operates under a council-manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor, Vice Mayor and three additional council members. City Council members are elected at-large for staggered four-year terms. The Mayor is selected annually by the City Council. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing members to the City's seven advisory commissions and hiring the City Manager and City Attorney. The City Manager is responsible for implementing the policies and ordinances of the City Council, overseeing the daily operations of the City, and recommending appointments of the City's department directors to the City Council.

The City provides a limited range of services including public safety, development regulation, public works, community and recreation activities and events, and general administrative functions. The City supports privatization and has supplemented its work force through numerous contracts with others. Contracted services include, but are not limited to, public safety, infrastructure maintenance, engineering services, legal services and recreation activities. The City is also committed to citizen participation in the evaluation, expansion and enhancement of services.

Saratoga residents who wish to assist the City Council in forming government policy may do so by serving on an advisory commission. The commissions all act in an advisory capacity to the City Council, and are comprised of the Finance Commission, Heritage Preservation Commission, Library Commission, Parks and Recreation Commission, Planning Commission, Public Safety Commission, and Arts and Youth Commission.

ECONOMIC CONDITIONS AND OUTLOOK

Within a close proximity to many businesses associated with the high technology industry, Saratoga is viewed as a desirable place to live and serves primarily as a residential community to the Silicon Valley. There is limited commercial or industrial activity occurring within the City's boundaries.

Due to the community's residential character, the main measure of the City's economic condition is based on the stability of property taxes, motor vehicle license fees, sales tax, franchise fees, as well as the fluctuations in service charges which affects development taxes, permits and fees.

Saratoga's tax base continued to grow in spite of the slowdown of the economy. This past fiscal year saw an increase in the assessed valuations of real property by 3.47% from 2002 to 2003, although significantly lower than the 17.61% increase experienced from 2001 to 2002. Additional support from the City's passing of the 2001 Library General Obligation Bond, which allowed the City to realize additional tax equity allocation (TEA) revenues, plus other one-time revenues were

used to offset the recessionary decline of sales tax, business license fees and reduced interest earnings.

This past year, the City was able to again dedicate ample reserves from the “good times” to purchase the City’s North Campus property for \$4.5 million. In 2002, the City was able to dedicate reserves towards the implementation of a 5-year capital improvement program (CIP) budget (\$13 million) and towards the improvement of Congress Springs Park.

Saratoga continues to support policies and practices intended to maintain the City’s financial integrity. For example, the City continues to develop an annual budget that is fully supported by its current stream of revenues. Additionally, a minimum \$2.3 million General Fund operating reserve is maintained and a \$100,000 contingency appropriation; as well as a \$1.5 million economic uncertainty reserve. The budget is built upon a conservative set of assumptions for annual revenues and does not assume that any potential one-time revenue sources will materialize if not yet committed or guaranteed to the City.

FINANCIAL INFORMATION AND MAJOR INITIATIVES

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 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 also responsible for guaranteeing 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 the City’s management.

In addition, 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, capital projects funds and debt service funds are included in the annual appropriation.

The level of budgetary control (i.e., the level at which expenditures cannot exceed the appropriated amount) is at fund level. The City also maintains an encumbrance accounting system as another method of maintaining budgetary control. Encumbered amounts of the operating budget lapse at year-end with the exception of the CIP, which contains multiple-year capital improvement projects. However, outstanding encumbrances of a material nature are typically reappropriated as part of the following year’s budget.

OTHER INFORMATION

Independent Audit. California law requires cities to prepare an annual audit by an independent certified public accountant. In addition to meeting the requirements set forth in statutes, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984, as amended, and the related U.S. Office of Management and Budget's Circular. Generally accepted auditing standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's unqualified report is included in the financial section of this report. Caporicci & Larson, CPA's, performed the City's fiscal year 2002-2003 audit.

Awards. The City was awarded a certificate for its early implementation of GASB #34. Additionally, the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement to the City for its Excellence in Financial Reporting on the CAFR for the fiscal year ended June 30, 2002. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year. We believe our current CAFR continues to meet the Certificate of Achievement program's requirements, and plan on submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements. This CAFR represents the culmination of numerous hours of hard work expended by many individuals in the Accounting Division of the Administrative Services Department. In particular, we would like to express our appreciation to Vivian Gong, Accounting Supervisor and our staff members Jaye Tkach, Julie Ingraham, and Karen Caselli. Furthermore, we would like to thank Caporicci & Larson, CPA's for their helpful and timely assistance in the preparation of this report. Finally, we would like to give credit to the City Council and the Finance Advisory Commission for their ongoing interest and support in planning, conducting and advising on the operations of the City in a responsible and progressive manner.

Respectfully submitted,



Dave Anderson
City Manager



Jesse Baloca
Administrative Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Saratoga,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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



President

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2001-2002

Presented to the

City of Saratoga

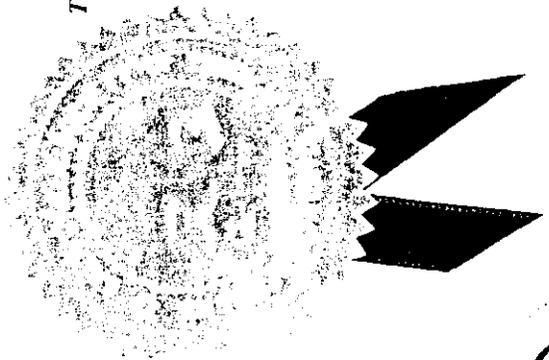
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2003

Bret M. Plumlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



Certificate of Recognition

Presented to

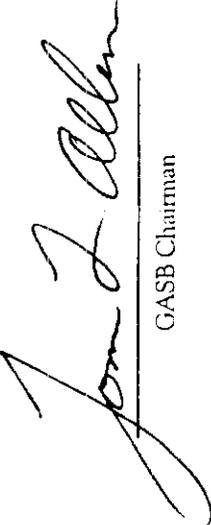
City of Saratoga, California

For

Early Implementation of GASB 34

The implementation of Statement 34 results in better financial information to a government's taxpayers, governing board, and other financial statement users. Early implementation of Statement 34 is a testament to your professional leadership, initiative, and commitment to improving public accountability.

Fiscal Year Ended 6/30/02


GASB Chairman

CITY OF SARATOGA
ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL

As of June 30, 2003

CITY COUNCIL

Nick Streit - Mayor
Ann Waltonsmith - Vice Mayor
Stan Bogosian
Kathleen King
Norman Kline

CITY STAFF

Dave Anderson - City Manager
Lorie Tinfow - Assistant City Manager
Cathleen Boyer - City Clerk
Jesse Baloca - Administrative Services Director
Tom Sullivan - Community Development Director
John Cherbone - Public Works Director
Joan Pisani - Recreation Director

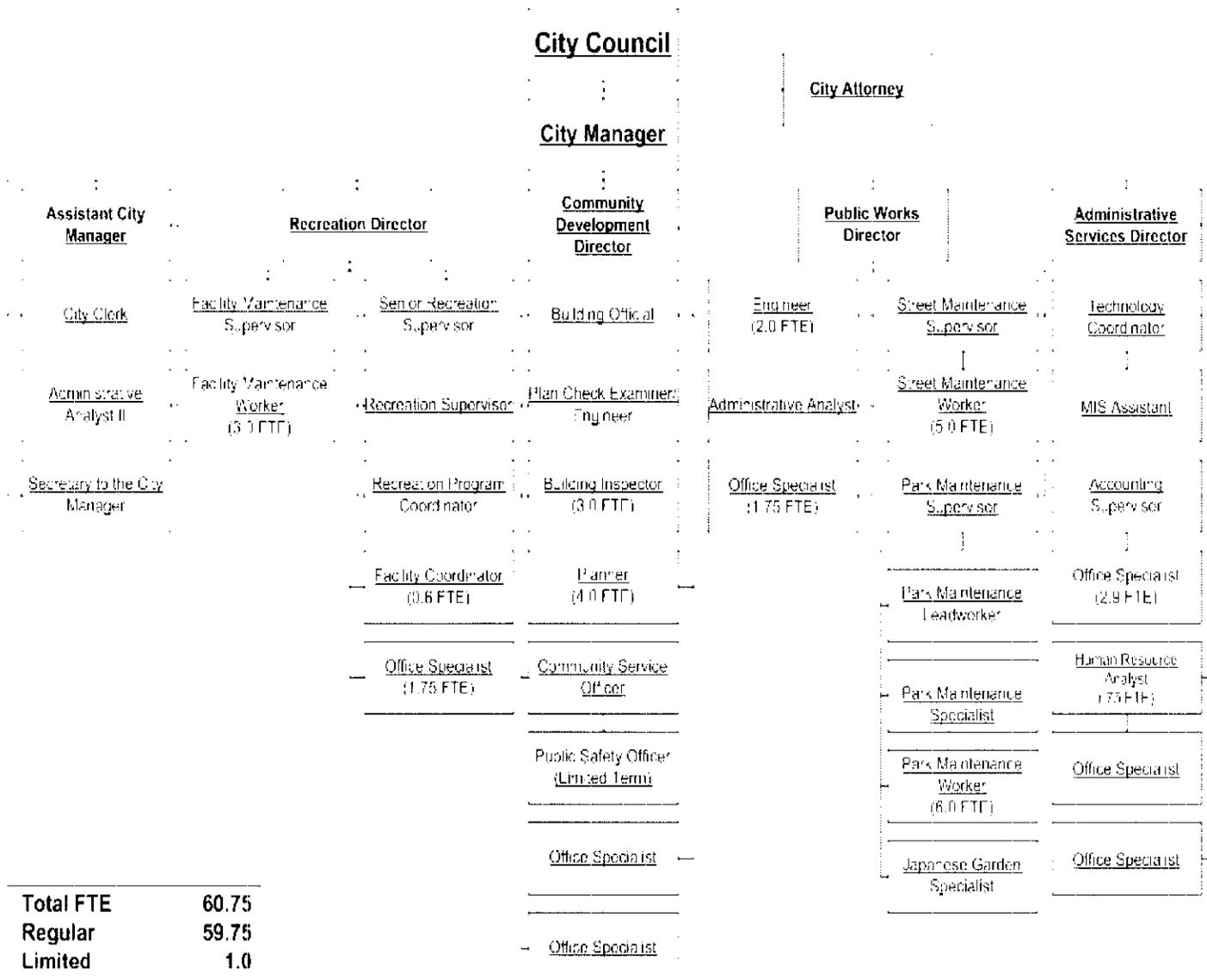
CITY ATTORNEY

Richard S. Taylor - Shute, Mihaly & Weinberger

INDEPENDENT AUDITOR

Caporicci & Larson

City of Saratoga Organizational Chart For the Fiscal Year Ended June 30, 2003





INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council
of the City of Saratoga
Saratoga, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Saratoga, California (City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

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

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

3184-D Airway Avenue
Costa Mesa, California 92626

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

600 "B" Street, Suite 1900
San Diego, California 92101

The Honorable Mayor and Members of the City Council
of the City of Saratoga
Saratoga, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Capricci & Carlson

Oakland, California
September 11, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Saratoga provides this Management Discussion and Analysis, a format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). This narrative overview and analysis of the City of Saratoga's financial activities is for the fiscal year ending June 30, 2003. Please consider this information in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FINANCIAL HIGHLIGHTS

During ongoing conditions of the economic recession, the City experienced a slight decline in revenues overall with major revenue categories increasing slightly and maintaining stability. Overall, fiscal year 2003 revenues declined by \$504k or 2.7% from 2002. Financial highlights of the year include the following:

1. The City's net assets increased by over \$445k or 0.4% over the prior year. The City does not have any business-type assets.
2. The results of activities produced an increase to net assets by \$445k in fiscal year 2003 and \$1.2 million in fiscal year 2002. Change in net assets primarily reflect the exchange of current assets for the purchase of capital assets such as the North Campus property, construction in progress such as the Library Expansion project and payments that reduce the obligation on long-term debt.
3. The change in 2003 revenue activity from 2002 primarily reflects the following major highlights:
 - \$229k in one-time capital grants received in 2003 to support the funding of the Quito Road Bridge capital improvement project;
 - \$471k collected as a special assessment for prior year improvements to Vessing Road;
 - Increases of \$172k or 4.2% in property tax, \$89k or 4.9% in motor vehicle license fees and \$127k in local tax collections;
 - One-time shortfall in planning fees that reflect a change in accounting practice where deposits are recognized after project completion instead of cash receipt;
 - Reduction in interest earnings by \$632k; and
 - Decline of sales tax, franchise fees, and miscellaneous reimbursements by \$556k.

4. The cost of all City programs increased by \$284k or 1.6%. Although 2003 revenues have declined compared to 2002 operations continue to be supported by current revenues. Changes to City program expenses consist of the following major highlights:
 - Increase to general and intergovernmental services primarily reflect elimination of \$971k in direct of cost allocations between programs within the same general fund and \$183k increase in legal fees;
 - Increase of employee expenses that reflect 4% cost of living adjustment, and significant increases to various health benefits and the cost of workers compensation insurance.
 - Savings that reflect the consolidation of two positions into one in the City Manager's Office and the implementation of a hiring freeze for two vacant positions;
 - Reduced debt service reflects a full years payment on the newer 2001 library general obligation bond as compared to the 2002 amount, which included the final interest payment on the completed 1976 library bond and the first interest only payment on the 2001 library bonds; and
 - An additional \$37k in depreciation expense to reflect prior year asset additions.
5. The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease in fund balance by \$1.77 million or 25.3% that primarily reflects the \$3.5 million dedication of surplus reserves towards the purchase of the City's North Campus property and \$1.73 million increase in operations.

FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Saratoga's basic financial statements. The City's basic financial statements include three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statement) in addition to the basic financial statements themselves. These components are described below:

Basic Financial Statements

The *Government-Wide Financial Statements* present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They typically present governmental activities. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for two categories of activities - governmental and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The fiduciary activities are agency

funds, which only report a balance sheet and do not have a measurement focus. Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the City as a whole and about its activities. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and the condition of the City's roads.

Governmental activities report most of the City's basic service activities that include general government services, law enforcement, public works and parks, recreation services, and community development services. Property and sales tax, franchise fees, user fees and licenses, state and federal grants, and interest income finance these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the major funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental Funds consist of most of the City's basic services, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental fund financial statements to those in the Government-wide financial statements are explained in a reconciliation schedule following each Governmental Fund financial statement.

Fiduciary Funds involves the City's role as a trustee or fiduciary for certain funds held on behalf of other organizations or districts. These funds are used to account for assets held by the City and are purely custodial in nature, where assets equal liabilities therefore, related results of operations are not measured or reported. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations. In addition, the City is

responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes can be found immediately following the fund financial statements.

Required Supplementary Information follows the basic financial statements and includes a budgetary comparison schedule that includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As mentioned earlier, the City of Saratoga has prepared the fiscal year ending June 30, 2003 financials in a format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). For comparative purposes, the government-wide financial analysis for the City is presented for both fiscal years 2003 and 2002.

Statement of Net Assets

The City's Net Assets comparing 2003 to 2002 is as follows:

Statement of Net Assets (in Thousands)

	Governmental Activities	
	2003	2002
Current Assets	\$ 16,974	\$ 29,659
Capital Assets	118,725	106,105
Total Assets	<u>135,699</u>	<u>135,764</u>
Current Liabilities	1,847	2,098
Long-term Debt	15,021	15,085
Total Liabilities	<u>16,868</u>	<u>17,183</u>
Net Assets:		
Invested in Capital Assets, net of debt	103,785	91,105
Restricted (restated)	8,310	18,240
Unrestricted	6,736	9,041
Total Net Assets	<u>\$ 118,831</u>	<u>\$ 118,386</u>

The City's net assets totaled \$118.8 million at fiscal year end 2003, as compared to \$118.4 million (restated) in 2002. Although there was very little change in assets overall, significant reallocation occurred between current and capital assets of approximately \$12.6 million. The reallocation primarily reflects (1) the purchase of the North Campus property reserves, (2) the Library Expansion projection construction costs, and (3) progress of the City's adopted 5-year Capital Improvement Program.

The largest portion of the City's net assets \$103.8 million or 87.3% reflects its investments in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The assets are used to provide services to residents; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The portion of the City's restricted net assets, \$8.3 million or 7.0%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$6.7 million, may be used to meet the City's ongoing obligations to residents and creditors. Internally imposed designations of resources are not presented as restricted net assets.

Statement of Changes in Net Assets

The City's Change in Net Assets for fiscal years ended June 30, 2003 and 2002 is as follows:

Changes in Net Assets (in Thousands)

	Governmental Activities	
	2003	2002
Program Revenues:		
Charges for services	\$ 5,767	\$ 5,972
Operating grants and contributions	1,703	1,902
Capital grants and contributions	229	-
Total Program Revenues	<u>7,699</u>	<u>7,874</u>
General Revenues:		
Property taxes	4,216	4,044
Sales taxes	1,028	1,067
Special assessments	471	-
Franchise taxes	933	1,011
Local taxes	1,304	1,177
Motor vehicle in-lieu fees	1,897	1,808
Investment earnings	247	879
Miscellaneous	315	754
Total General Revenues	<u>10,411</u>	<u>10,740</u>
Total Revenues	<u>18,110</u>	<u>18,614</u>
Expenses:		
General and intergovernmental services	3,218	2,005
Public safety	3,513	3,653
Environmental services	648	650
Public works	3,875	4,477
Community services	1,976	2,121
Community development services	2,086	2,026
Interest on long-term debt (unallocated)	783	920
Depreciation expenses (unallocated)	1,566	1,529
Total expenses	<u>17,665</u>	<u>17,381</u>
Increase (decrease) in net assets	<u>\$ 445</u>	<u>\$ 1,233</u>

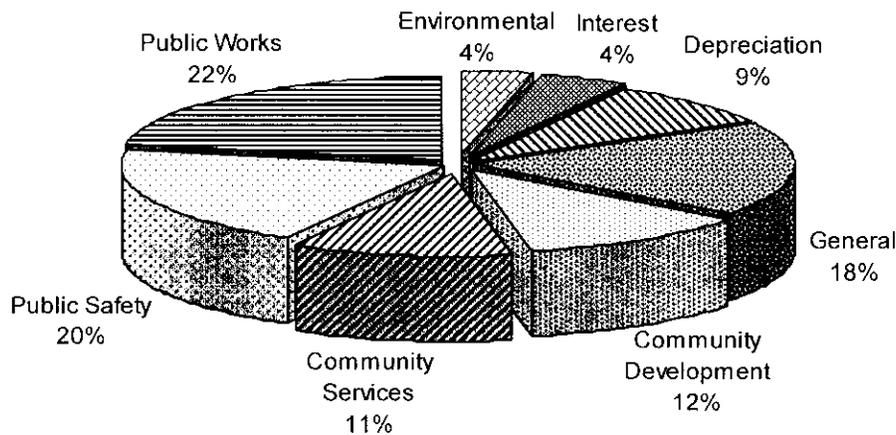
As mentioned earlier, the City's change in net assets was \$445k for the fiscal year. Most of the City's general service programs are supported by General Revenues that represent \$10.4 million or 57.5% of total citywide revenues. Although one-time assessments and taxes partially offset the overall general revenue decline of \$329k or 3% (allowing the City to maintain a balanced budget), the City's use of reserves coupled with the impact of reduced interest rates has had a significant negative impact on investment earnings and miscellaneous rebates.

The City continues to experience growth and stability with its a current mix of major revenues (property tax, sales tax, motor vehicle license fees), which comprise 68.6% of the total general revenues. The increase of property taxes of approximately \$172k primarily reflects a 6.5% growth in assessed valuations from 2002 to 2003, County Tax Equity Allocation, and reduced property tax proceeds required for the City's General Obligation Library Bond debt service payments. Sales tax continued to decline during the year reflecting the depressed local economy while motor vehicle license fees grew by 4.9%.

Charges for service revenues represent 31.8% of total revenues and is used to support programs related to intergovernmental indirect services, public safety, environmental services, public works, recreation and community services, and community development services.

The total cost of all City programs totals \$17.7 million and is an increase of \$284k or 1.6% over the prior year.

The following chart represents the distribution of all City programs expenses:



GENERAL FUND BUDGETARY HIGHLIGHTS

Changes from the City's original budget to the final budget is detailed in the Required Supplementary Information Section along with a comparison to actual activity for the year ended June 30, 2003. A highlight of significant changes from the City's original budget to the final budget is summarized as follows:

Revenues and Transfers In

During the City's mid-year review process, revenue projections were revised to reflect:

- The addition of \$499k in special assessment billings for prior year improvements made on Vessing Road;
- \$590k reduction in vehicle license fee backfill and \$23k in booking fees that reflect the State Governor's January 2003 budget proposal;
- A continual decline of 10% in retail activity and sales tax revenues; and
- An increase of \$289k in construction tax and business license fee revenue to reflect a specific housing development project; and
- \$325k transfers in from two 5-year capital improvement projects that reflect savings from a change in project scope and a cancellation resulting from the unavailability of grant funds.

Expenses and Transfers

During the City's fiscal year, amendments to the original budget were revised to primarily reflect:

- Implementation of a hiring freeze on two vacant positions and consolidation of two City Manager Office positions into one for an approximate \$90k in reduced costs; and
- \$489k in transfers to support prior year initiated capital projects to the new CIP fund; and
- \$3.5 million in transfers from undesignated reserves to the 5-year CIP to assist with the \$4.5 million purchase of the North Campus Property.

CAPITAL ASSETS

As of June 30, 2003, the City had \$118.7 million invested in a variety of capital assets, as reflected in the following schedule, which represents an increase of \$12.6 million or 11.9% above the prior year.

Capital Assets at Year-end (Net of Depreciation - In Thousands)

	Governmental Activities	
	2003	2002
Land	\$ 4,831	\$ 4,831
Buildings and Structures	2,975	3,088
Machinery and Equipment	747	791
Infrastructure	87,248	88,407
Construction in Progress	22,924	8,988
Total	\$ 118,725	\$ 106,105

The following reconciliation summarizes the change in Capital Assets, which primarily reflect the purchase of the North Campus property at \$4.5 million, the added Library Expansion construction costs, and the continued progress of the City's adopted 5-year Capital Improvement Program.

**Changes in Capital Assets
(In Thousands)**

	Governmental Activities	
	2003	2002
Beginning Balance	\$ 106,105	\$ 99,666
Additions:		
CIP	13,936	7,585
Infrastructure	-	9
Machinery and Equipment	251	379
Retirements:		
Inventory Adjustments	-	(1,073)
Depreciation	(1,567)	(461)
Ending Balance	<u>\$ 118,725</u>	<u>\$ 106,105</u>

CASH MANAGEMENT

To City has practiced a passive approach to investments and maintains flexibility by managing a pooled cash system. Under the pooled cash concept, the City invests the cash of all funds with maturities planned to coincide with cash needs. Idle cash is invested in certain eligible securities as constrained by law and further limited by the City's investment policy. The goals of the City's investment policy are safety, liquidity and yield.

DEBT ADMINISTRATION

**Outstanding Debt, at year-end
(In Thousands)**

	Governmental Activities	
	2003	2002
2001 General Obligation Bond	\$ 14,940	\$ 15,000
Claims Payable	247	50
Compensated Absences	262	316
Total	<u>\$ 15,449</u>	<u>\$ 15,366</u>

The current portions of long-term debt (\$428k and \$281k thousand for 2003 and 2002, respectively) are classified as current liabilities in the City's Statement of Net Assets.

During the year, the City made debt service payments that include the first principal reduction of \$60k on the City's \$15 million 2001 General Obligation Library bonds.

The change in compensated absences primarily reflects the changes in payable annual leave balances for City employees. Further information on the City's outstanding debt can be found in the notes to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

As the economic recession begins to show signs of recovery in the Bay Area/Silicon Valley region of Northern California, the City maintains its ability to manage a balanced budget. Although the City maintains a balanced budget, it is clear that the rising cost of operations and the spending of undesignated funds has had the greatest impact to the net of operations of \$445k gained in 2003, as compared to \$1.2 million gained in 2002.

In addition to the rising cost of operations, the negative impact to the net of operations is also attributed to the following: 1) reduction to undesignated fund balance, which primarily reflects the City's continued progress on the 5-year CIP and the purchase of the North Campus property and 2) declining interest rates from 2.67% to 1.697%, from June 2002 to June 2003. Both have resulted in a dramatic reduction to interest earnings and the level of support provided to general revenues, which was 2.4% in 2003, as compared to 8.3% in 2002 and 12.6% in 2001.

As of the end of the fiscal year 2003, the economy has showed signs of recovery. However, the existing threat of losing local revenues remains a question. The City's primary focus for the new fiscal year is to maintain a balanced budget, to exercise caution with the spending of undesignated fund balance and to remain flexible to adjust operations in response to possible revenue cuts by the State.

Major initiatives for the fiscal year 2003-2004 is as follows:

- Maintain preparedness for future economic and City operational threats by closely continuing to monitor current revenues and expenditures and by maintaining General Fund Reserves in the amount of \$1.5 million for economic uncertainty and \$2.3 million for operations;
- Preserve the commitment of capital improvement reserves for projects related to public safety, infrastructure, parks and trails, and facilities; and
- Preserve remaining reserves, and to limit the increase in operating cost to the growth of major revenues.

REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the City of Saratoga's finances for all of Saratoga's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Administrative Services Department, 13777 Fruitvale Avenue, Saratoga, California 95070.







City of Saratoga
Statement of Net Assets
June 30, 2003

	Primary Government Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 15,506,515
Restricted cash and investments	373,485
Receivables:	
Accounts	628,727
Interest	70,443
Loans	394,217
Total current assets	<u>16,973,387</u>
Noncurrent assets:	
Capital assets:	
Non-depreciable	72,937,632
Depreciable, net	45,787,292
Total capital assets	<u>118,724,924</u>
Total noncurrent assets	<u>118,724,924</u>
Total assets	<u>135,698,311</u>
LIABILITIES	
Current liabilities:	
Accounts payable	483,201
Accrued payroll	158,137
Interest payable	325,940
Deposits payable	7,298
Deferred revenues	394,217
Claims payable	50,000
Long-term debt - due within one year	427,995
Total current liabilities	<u>1,846,788</u>
Noncurrent liabilities:	
Long-term debt - due in more than one year	15,020,621
Total noncurrent liabilities	<u>15,020,621</u>
Total liabilities	<u>16,867,409</u>
NET ASSETS	
Investment in capital assets, net of related debt	<u>103,784,924</u>
Restricted for:	
Capital projects	7,175,488
Debt service	836,349
Special projects	298,291
Total restricted	<u>8,310,128</u>
Unrestricted	6,735,850
Total net assets	<u>\$ 118,830,902</u>

See accompanying Notes to the Basic Financial Statements.

City of Saratoga
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General and intergovernmental services	\$ 3,218,231	\$ 1,931,880	\$ -	\$ -	\$ 1,931,880
Public safety	3,512,550	273,469	219,055	-	492,524
Environmental services	647,935	547,647	16,478	-	564,125
Public works	3,874,717	180,571	1,296,553	229,645	1,706,769
Community services	1,975,659	1,035,480	10,000	-	1,045,480
Community development services	2,086,160	1,796,650	161,007	-	1,957,657
Interest on long-term debt (unallocated)	782,506	-	-	-	-
Depreciation expense (unallocated)	1,566,931	-	-	-	-
Total	\$ 17,664,689	\$ 5,765,697	\$ 1,703,093	\$ 229,645	\$ 7,698,435

General revenues and taxes:

Taxes:

Property taxes

Sales taxes

Special assessments

Franchise taxes

Local taxes

Total taxes

Motor vehicle in-lieu fees

Investment earnings

Miscellaneous

Total general revenues and taxes

Change in net assets

Net assets - beginning of year, as restated

Net assets - end of year

See accompanying Notes to the Basic Financial Statements.

Net (Expense)
 Revenue and
 Changes in
 Net Assets

Primary
 Government
 Governmental
 Activities

\$ (1,286,351)
 (3,020,026)
 (83,810)
 (2,167,948)
 (930,179)
 (128,503)
 (782,506)
 (1,566,931)
 (9,966,254)

4,216,425
 1,028,329
 471,021
 932,807
 1,304,261
 7,952,843
 1,896,606
 246,671
 315,165
 10,411,285
 445,031
 118,385,871
 \$ 118,830,902





GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

The General Fund is used to account for all of the general resources of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of the City which are not accounted for in another fund.

Community Development Block Grant Special Revenue Fund

This fund accounts for grant funds received from the Federal Government for the purpose of developing viable urban communities and for the City's rehabilitation loan program.

Library Expansion Capital Projects Fund

This fund accounts for resources used for the construction of the City's library.

Capital Improvement Capital Projects Fund

This fund accounts for resources used for the major capital acquisition and construction activities.

Other Governmental Funds

Other Governmental Funds is the aggregate of all the nonmajor governmental funds.

City of Saratoga
Balance Sheet
Governmental Funds
June 30, 2003

	Major Funds			
	General	Community Development Block Grant	Library Expansion	Capital Improvement
ASSETS				
Cash and investments	\$ 4,905,643	\$ 93,076	\$ 1,263,282	\$ 5,701,240
Restricted cash and investments	22,272	13,897	337,316	-
Receivables:				
Accounts	419,565	18,205	-	-
Interest	68,962	-	1,481	-
Loans	-	394,217	-	-
Advances to other funds	67,111	-	-	-
Total assets	\$ 5,483,553	\$ 519,395	\$ 1,602,079	\$ 5,701,240
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 127,488	\$ -	\$ 57,254	\$ 85,526
Accrued payroll	102,237	877	-	620
Deposits payable	-	-	-	-
Deferred revenue	-	394,217	-	-
Advances from other funds	-	67,111	-	-
Claims payable	50,000	-	-	-
Total liabilities	279,725	462,205	57,254	86,146
Fund Balances:				
Reserved for:				
Encumbrances	75,180	-	-	461,739
Petty cash	300	-	-	-
Advances to other funds	67,111	-	-	-
Debt service	-	-	-	-
Unreserved, designated for:				
Unrealized investment gain	45,881	-	958	-
Operations	2,367,296	-	-	-
Economic uncertainty	1,500,000	-	-	-
PERS	139,668	-	-	-
MIS	128,198	-	-	-
Unreserved, undesignated, reported in:				
General fund	880,194	-	-	-
Special revenues funds	-	57,190	-	-
Capital projects funds	-	-	1,543,867	5,153,355
Total fund balances	5,203,828	57,190	1,544,825	5,615,094
Total liabilities and fund balances	\$ 5,483,553	\$ 519,395	\$ 1,602,079	\$ 5,701,240

See accompanying Notes to the Basic Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 3,543,274	\$ 15,506,515
-	373,485
190,957	628,727
-	70,443
-	394,217
-	67,111
<u>\$ 3,734,231</u>	<u>\$ 17,040,498</u>
\$ 212,933	\$ 483,201
54,403	158,137
7,298	7,298
-	394,217
-	67,111
-	50,000
<u>274,634</u>	<u>1,159,964</u>
700,235	1,237,154
-	300
-	67,111
836,349	836,349
-	46,839
-	2,367,296
-	1,500,000
-	139,668
-	128,198
-	880,194
1,907,444	1,964,634
15,569	6,712,791
<u>3,459,597</u>	<u>15,880,534</u>
<u>\$ 3,734,231</u>	<u>\$ 17,040,498</u>



City of Saratoga
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2003

Total Fund Balances - Total governmental funds	<u>\$ 15,880,534</u>
Amounts reported for governmental activities in the statement of net assets were different because:	
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:	
Non-depreciable capital assets	72,937,632
Depreciable capital assets, net	<u>45,787,292</u>
Total capital assets	<u>118,724,924</u>
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	<u>(325,940)</u>
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:	
General obligation bonds	(14,940,000)
Claims payable	(247,194)
Compensated absences	<u>(261,422)</u>
Total long-term liabilities	<u>(15,448,616)</u>
Net Assets of Governmental Activities	<u><u>\$ 118,830,902</u></u>

See accompanying Notes to the Basic Financial Statements.

City of Saratoga
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2003

	Major Funds			
	General	Community Development Block Grant	Library Expansion	Capital Improvement
REVENUES:				
Property taxes	\$ 2,929,207	\$ -	\$ -	\$ -
Special assessments	471,021	-	-	-
Other local taxes	2,138,618	-	-	-
Intergovernmental - State	1,944,629	-	-	26,406
Intergovernmental - Federal	2,576	93,596	-	-
Intergovernmental - other	-	-	-	4,400
Franchise fees	932,808	-	-	-
Use of money and property	242,228	67,410	13,802	55,174
Current service charges	671,044	-	-	-
Reimbursement of interfund cost allocations	1,931,880	-	-	-
Total revenues	11,264,011	161,006	13,802	83,980
EXPENDITURES:				
Current:				
General and intergovernmental services	3,168,878	-	-	-
Public safety	3,431,591	-	-	-
Environmental services	-	-	-	-
Public works	1,104,505	-	-	-
Community services	343,864	94,520	-	-
Community development services	85,994	-	-	-
Capital outlay	228,607	1,502	7,766,471	6,167,716
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	8,363,439	96,022	7,766,471	6,167,716
REVENUES OVER (UNDER) EXPENDITURES	2,900,572	64,984	(7,752,669)	(6,081,736)
OTHER FINANCING SOURCES (USES):				
Transfers in	339,679	111,000	-	6,273,297
Transfers out	(5,006,101)	-	-	(339,679)
Total other financing sources (uses)	(4,666,422)	111,000	-	5,933,618
Net change in fund balances	(1,765,850)	175,984	(7,752,669)	(148,118)
FUND BALANCES:				
Beginning of year, as restated	6,969,678	(118,794)	9,297,494	5,763,212
End of year	<u>\$ 5,203,828</u>	<u>\$ 57,190</u>	<u>\$ 1,544,825</u>	<u>\$ 5,615,094</u>

See accompanying Notes to the Basic Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 1,250,094	\$ 4,179,301
103,448	574,469
-	2,138,618
1,098,821	3,069,856
451,545	547,717
82,800	87,200
-	932,808
303,775	682,389
3,294,438	3,965,482
-	1,931,880
<u>6,584,921</u>	<u>18,109,720</u>
-	3,168,878
80,316	3,511,907
644,343	644,343
2,729,837	3,834,342
1,506,538	1,944,922
1,982,227	2,068,221
22,143	14,186,439
60,000	60,000
783,756	783,756
<u>7,809,160</u>	<u>30,202,808</u>
<u>(1,224,239)</u>	<u>(12,093,088)</u>
1,294,523	8,018,499
<u>(2,672,719)</u>	<u>(8,018,499)</u>
<u>(1,378,196)</u>	-
<u>(2,602,435)</u>	<u>(12,093,088)</u>
6,062,032	27,973,622
<u>\$ 3,459,597</u>	<u>\$ 15,880,534</u>

City of Saratoga

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2003

Net Change in Fund Balances - Total governmental funds	\$ (12,093,088)
Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:	
Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay	14,186,439
Depreciation expense	<u>(1,566,931)</u>
	<u>12,619,508</u>
Long-term claims payable were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in governmental funds.	(197,194)
Long-term compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in governmental funds.	54,555
Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.	
Long-term debt repayments	60,000
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the change in accrued interest from prior year.	<u>1,250</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 445,031</u></u>

See accompanying Notes to the Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds

Agency Funds is the aggregate of all the agency funds.

City of Saratoga
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Agency Funds
ASSETS	
Cash and investments	\$ 786,301
Restricted cash and investments	330,109
Accounts receivable	42,946
Total assets	\$ 1,159,356
LIABILITIES	
Accounts payable	\$ 1,214
Deposits payable	750,265
Due to assessment district bondholders	407,877
Total liabilities	\$ 1,159,356

See accompanying Notes to the Basic Financial Statements.

City of Saratoga
Index to Notes to the Basic Financial Statements
For the year ended June 30, 2003

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City of Saratoga
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For the year ended June 30, 2003

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City of Saratoga
Notes to the Basic Financial Statements
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Saratoga, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City was incorporated as a municipal corporation in 1956 under the general laws of the State of California, and had a population of 30,482 at June 30, 2003. The City is a largely residential community located in the foothills of the Santa Cruz Mountains.

The City operated under the Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. At June 30, 2003, the City's staff comprised 59 full time employees who were responsible for the following City provided services:

- ◆ Public Safety - The City provides round-the-clock police services under a contract with the County Sheriff's offices. Fire services are provided by special district. Emergency management, code enforcement and inspection services are provided by 1 City employee.
- ◆ Public Works/Maintenance - The City builds and maintains its parks, streets, curbs, gutters and related public property with a force of 22 employees. Major projects may be contracted out to reduce costs.
- ◆ Community Development - Zoning administration, plan checking and advance planning services are provided by 12 employees.
- ◆ Culture, Recreation and Community Support services are provided by a total of 10 employees.
- ◆ General Government services are provided by a total of 14 employees.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City Council acts as the governing board. In addition, the City staff performs all administrative and accounting functions for these entities and these entities provide their services entirely to the City. Blended component units, although legally separate entities are, in substance, part of the City's

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity, Continued

operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the City. Each blended component unit has a June 30 year-end. The City had no discretely presented component units. The following entities are reported as blended component units:

Saratoga Public Financing Authority - The Saratoga Public Financing Authority (Authority) is a joint powers authority organized by the City of Saratoga (City) and the City of Saratoga Parking Authority (Parking Authority) on June 16, 1993, under the laws of the State of California. The Authority was organized to provide financial assistance to the City and Districts for public improvements for the City and the purchase by the Authority of Local Obligations within the meaning of the Act.

Lighting and Landscaping Assessment District - The Lighting and Landscaping Assessment District (District) was established in 1980 for the levy and the collections of assessments upon the several lots or parcels of land in the District, and for the construction or installation of improvements, including maintenance or servicing, or both.

Complete financial statements for each component unit may be obtained from the City of Saratoga, 13777 Fruitvale Avenue, Saratoga, CA 95070.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the City. Fiduciary activities of the City are not included in these statements.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- ◆ Charges for services
- ◆ Operating grants and contributions
- ◆ Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- ◆ Due to/from other funds
- ◆ Advances to/from other funds
- ◆ Transfers in/out

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures, licenses and permits and parking meter revenues are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the combined balance sheet and revenue is recognized.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City’s fiduciary funds represent agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

City of Saratoga

Notes to the Basic Financial Statements, Continued

For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

D. Restricted Cash and Investments

Certain restricted cash and investments are held by a fiscal agent for the redemption of bonded debt and for acquisition and construction of capital projects.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

F. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, are reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets

Capital assets, which includes land, buildings, improvements, furniture, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), were reported in the applicable governmental activities in the government-wide financial statements. Capital assets were recorded at historical cost or estimated historical cost if actual cost was not available. Donated assets were valued at their fair market value on the date of donation. City policy has set the capitalization threshold for reporting capital assets at \$1,000. The City has chosen the Modified Approach for reporting the streets subsystem of infrastructure capital assets.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings and structures	40 years
Machinery and equipment	5-10 years
Infrastructure	20-50 years

The City has not allocated the depreciation expense to departments.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure into its basic financial statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The City defines infrastructure as the basic physical assets including the street system, park and recreation lands and improvements system; storm water conveyance and drainage system, buildings combined with site amenities such as parking and landscaping areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems. The City elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting of its streets, concrete and asphalt pavements. The City commissioned a physical assessment of the streets condition as of June 30, 2001. This condition assessment will be performed every 3 years. A Pavement Condition Index (PCI) was assigned to each street segment. The index is expressed in a continuous scale from 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned to segments of street that have the physical characteristics of a new street.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets, Continued

The following conditions were defined:

<u>Condition</u>	<u>Rating</u>
Excellent	86-100
Very Good	71-85
Good	56-70
Fair	41-55
Poor	26-40
Very Poor	11-25
Substandard	0-10

The City's policy relative to maintaining the street assets is to achieve an average rating of 70 for all street segments. This acceptable rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. For all other infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2001 and has completed an internal update for June 30, 2003. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

H. Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types. The City has not allocated the interest on long-term debt to departments.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Claims Payable

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes "incurred but not reported" (IBNR) claims. There is no fixed payment schedule to pay these liabilities.

J. Compensated Absences

In the government-wide financial statements, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

In the fund financial statements, compensated absences are recorded as expenditures in the years paid, as it is the City's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources.

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Balances

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Fund Balances, Continued

City Council has designated an amount for operations, which it has defined as being equal to the greater of one-quarter of the total budgeted General Fund appropriations for the current budget year or \$2,000,000. The designation is increased annually by an amount equal to the interest the City earned on an equivalent amount of cash and investments.

M. Net Assets

In the governmental-wide financial statements, net assets are classified in the following categories:

- ◆ Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.
- ◆ Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- ◆ Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

N. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City’s policy is to apply restricted net assets first.

O. Property Tax and Special Assessments

County tax assessments included secured and unsecured property taxes, and special assessments. “Unsecured” refers to taxes on personal property. These tax assessments are secured by liens on the property being taxed.

Revenue is recognized in the period for which the tax and assessment is levied. The County of Santa Clara levies, bills and collects property taxes for the City, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on average month-end cash and investment balances in these funds.

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$127,403 at June 30, 2003. Bank balances before reconciling items were \$734,088 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

2. CASH AND INVESTMENTS, Continued

B. Investments

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

- ◆ Securities of the U.S. Government or its agencies.
- ◆ Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies.
- ◆ Negotiable Certificates of Deposit.
- ◆ California Local Agency Investment Fund.
- ◆ Investment-grade obligations of state, local governments or public authorities.
- ◆ Money market mutual funds.
- ◆ Passbook savings account and demand deposits.

The City has complied with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*. No current adjustments have been made to the accompanying basic financial statements, because the City's investments were primarily in the State of California Local Agency Investment Fund and the fair value adjustment was immaterial.

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2003, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- ◆ Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- ◆ Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

As of June 30, 2003, the City had \$16,165,413 invested in LAIF as cash and investments and \$337,316 invested in LAIF as restricted cash and investments, which had invested 2.327% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.002846280 was used to calculate the fair value of the investments in LAIF.

The fair value of the City's position in the LAIF pool is the same as the value of the pool shares.

C. Credit Risk

Governmental Accounting Standards Board Statement No. 3 requires that deposits and investments be classified by credit risk.

Classifications of deposits and investments by credit risk are as follows:

Deposits

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Deposits which are uninsured or uncollateralized.

Investments

Category 1 - Insured or registered or securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the entity's name.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

2. CASH AND INVESTMENTS, Continued

C. Credit Risk, Continued

Investments Not Subject to Categorization - Investments in the California Local Agency Investment Fund (LAIF) are not categorized, as GASB No. 3 does not require categorization of investment pools managed by another government. Certain fiscal agent investments are not categorized because the underlying assets are open-ended mutual funds. Guaranteed investment contracts are not categorized because they are direct contractual investments and are not securities. All such investments are not required to be categorized under interpretive guidelines issued by the GASB.

D. Summary of Cash and Investments

The following is a summary of pooled cash and investments and restricted cash and investments at June 30, 2003:

	Government - Wide Statement of Net Assets Governmental Activities	Fiduciary Funds Statement of Net Assets	Total
Pooled cash and investments	\$ 15,506,515	\$ 786,301	\$ 16,292,816
Restricted cash and investments	373,485	330,109	703,594
Total	<u>\$ 15,880,000</u>	<u>\$ 1,116,410</u>	<u>\$ 16,996,410</u>

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

2. CASH AND INVESTMENTS, Continued

D. Summary of Cash and Investments, Continued

Deposits and investments were categorized as follows at June 30, 2003:

	Category 1	Not Required to be Categorized	Fair Value
City Treasury:			
Demand Deposits:			
Cash deposit	\$ 127,403	\$ -	\$ 127,403
Investments:			
Local agency investment fund	-	16,165,413	16,165,413
Total investments	-	16,165,413	16,165,413
Total deposits and investments	127,403	16,165,413	16,292,816
Cash and Investments with Fiscal Agents:			
Cash deposits	36,169	-	36,169
Money market mutual funds	-	170,109	170,109
Guaranteed investment contract	-	160,000	160,000
Local agency investment fund	-	337,316	337,316
Total cash and investments with fiscal agents	36,169	667,425	703,594
Total	\$ 163,572	\$ 16,832,838	\$ 16,996,410

At June 30, 2003, the City had no category 2 or 3 deposits or investments.

E. Summary of Cash and Investments to Maturity

Pooled cash and investments grouped by maturity date at June 30, 2003, are shown below:

Maturity	Fair Value
Current to one year	\$ 16,292,816

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

3. LOANS RECEIVABLE

The City had the following loan receivable as of June 30, 2003:

	Balance <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2003</u>
Housing Rehabilitation Loan Program	\$ 455,561	\$ -	\$ (61,344)	\$ 394,217

The City administers a housing rehabilitation program called the Saratoga Housing Assistance and Rehabilitation Program (SHARP) using Housing and Community Development Act funds. Under the SHARP, individuals with incomes below a certain level and corporations building rental housing for low-and-moderate income tenants are eligible to receive low interest loans, secured by deeds of trust, for construction work on their properties. Federal funds received by the City are deposited with a commercial bank. Upon approval of loans, the bank disburses the funds, arranges for and collects repayments.

At June 30, 2003, the City had outstanding SHARP loans of \$394,217. During the year ended June 30, 2003, the City received \$61,344 in repayments from all participants.

4. INTERFUND TRANSACTIONS

Fund Financial Statements

A. Long-Term Advances

At June 30, 2003, the City had the following long-term advances:

	Advances From <u>Other Funds</u>
	Community Development Block Grant Special Revenue Fund
<u>Advances To Other Funds</u>	<u>Revenue Fund</u>
General Fund	\$ 67,111

The advances were used for cash flow purposes and will be repaid as cash becomes available within the Community Development Block Grant Special Revenue Fund. However, there are no set dates for repayment.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

4. INTERFUND TRANSACTIONS, Continued

B. Transfers

Transfers for the year ended June 30, 2003 were as follows:

Transfers In	Transfers Out			Total
	General Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	
General Fund	\$ -	\$ 339,679	\$ -	\$ 339,679
Special Revenue Fund:				
Community Development Block Grant	111,000	-	-	111,000
Capital Projects Fund:				
Capital Improvements	3,600,578	-	2,672,719	6,273,297
Other Governmental Funds	1,294,523	-	-	1,294,523
Total	\$ 5,006,101	\$ 339,679	\$ 2,672,719	\$ 8,018,499

The above transfers resulted from the normal course of the City's operation.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003, consisted of the following:

	Primary Government			Balance June 30, 2003
	Balance July 1, 2002	Additions	Retirements	
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 4,830,840	\$ -	\$ -	\$ 4,830,840
Construction in progress	8,988,339	13,935,688	-	22,924,027
Infrastructure:				
Street payment system	45,182,765	-	-	45,182,765
Total capital assets, not being depreciated	59,001,944	13,935,688	-	72,937,632
Capital assets, being depreciated:				
Buildings and structures	4,851,752	8,337	-	4,860,089
Machinery and equipment	1,731,302	242,414	-	1,973,716
Infrastructure:				
Bridges	1,563,654	-	-	1,563,654
Signs and lights	762,527	-	-	762,527
Drainage system	39,844,721	-	-	39,844,721
Sidewalks	11,475,780	-	-	11,475,780
Totals capital assets being depreciated	60,229,736	250,751	-	60,480,487
Accumulated depreciation	(13,126,264)	(1,566,931)	-	(14,693,195)
Totals capital assets, being depreciated, net	47,103,472	(1,316,180)	-	45,787,292
Governmental activities capital assets, net	\$ 106,105,416	\$ 12,619,508	\$ -	\$ 118,724,924

Depreciation expense for the depreciable capital assets was \$1,566,931 in 2003.

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its pavement system. As a result, no accumulated depreciation or depreciation expense has been recorded for this system. A more detailed discussion of the "Modified Approach" is presented in the Required Supplementary Information section of this report. All other capital assets including other infrastructure systems were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

6. LONG-TERM DEBT

A summary of the City's long-term debt transactions for the year ended June 30, 2003, is presented below:

Description	Balance			Balance June 30, 2003	Classification	
	July 1, 2002	Additions	Retirements		Amounts Due Within One Year	Amounts Due in More than One Year
General Obligation Bonds:						
2001 Library Bonds	\$ 15,000,000	\$ -	\$ (60,000)	\$ 14,940,000	\$ 245,000	\$ 14,695,000
Claims payable	50,000	197,194	-	247,194	-	247,194
Compensated absences	315,977	-	(54,555)	261,422	182,995	78,427
Total	\$ 15,365,977	\$ 197,194	\$ (114,555)	\$ 15,448,616	\$ 427,995	\$ 15,020,621

General Obligation 2001 Library Bonds - Original Issue \$15,000,000

On May 1, 2001, the City issued General Obligation Bonds Series 2001 in the amount of \$15,000,000. The proceeds of the bonds were used to improve, renovate, and expand the Saratoga Community Library. The bonds are payable from and secured by certain property taxes within the City. Interest on the bonds ranges from 5% to 6% and is payable on February 1 and August 1 of each year, commencing February 1, 2002. Principal is due annually beginning on August 1, 2002, in amounts ranging from \$60,000 to \$940,000. The bonds mature on August 1, 2032 and are subject to redemption prior to maturity at redemption prices ranging from 100% to 101% of par. The bonds may be called for redemption beginning on or after August 1, 2011, at the option of the City. At June 30, 2003, the outstanding balance of the bonds was \$14,940,000.

The annual debt service requirements on these bonds are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2004	\$ 245,000	\$ 776,131	\$ 1,021,131
2005	255,000	763,631	1,018,631
2006	270,000	750,506	1,020,506
2007	280,000	736,756	1,016,756
2008	295,000	720,906	1,015,906
2009 - 2013	1,755,000	3,311,605	5,066,605
2014 - 2018	2,205,000	2,782,655	4,987,655
2019 - 2023	2,685,000	2,176,807	4,861,807
2024 - 2028	3,465,000	1,387,842	4,852,842
2029 - 2032	3,485,000	377,607	3,862,607
Total	\$ 14,940,000	\$ 13,784,446	\$ 28,724,446

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

6. LONG-TERM DEBT, Continued

Claims Payable

At June 30, 2003, the claims payable has been accrued. See Note 10 Risk Management for more information. The total amount of the long-term claims payable was \$247,194 at June 30, 2003.

The claims payable liability will generally be liquidated through the General Fund.

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to \$261,422 at June 30, 2003.

The compensated absences liability will generally be liquidated through the General Fund.

7. NON-CITY OBLIGATIONS

The following bonds bearing the City's name were issued to finance redevelopment projects; however, neither the faith and credit nor the general taxing power of the City has been pledged to the payment of the bonds. Furthermore, the City has no obligation for the payment of the bonds in the case of default. Therefore, the following obligations are not included in the accompanying basic financial statements.

	<u>Original Amount</u>	<u>Outstanding at June 30, 2003</u>
Parking Assessment Districts #2 and #3	\$ 1,244,900	\$ 305,000
Leonard Road Improvement Assessment District	101,686	65,000
Saratoga Public Financing Authority 1993 Revenue Bonds	1,600,000	520,000

The City is the collecting agent for Village Parking Assessment Districts #2 and #3 and the Leonard Road Improvement District, but is not obligated for the repayment of debt issued by these Districts. As a result, these Districts have not been included in the basic financial statements of the City.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

8. RESERVED AND DESIGNATED FUND BALANCES

Fund balances at June 30, 2003, have been reserved and designated for the following purposes:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total
Reserved for:					
Encumbrances	\$ 75,180	\$ 700,235	\$ -	\$ 461,739	\$ 1,237,154
Petty cash	300	-	-	-	300
Advances to other funds	67,111	-	-	-	67,111
Debt service	-	-	836,349	-	836,349
Total reserved	142,591	700,235	836,349	461,739	2,140,914
Designated for:					
Unrealized investment gain	45,881	-	-	958	46,839
Operations	2,367,296	-	-	-	2,367,296
Economic uncertainty	1,500,000	-	-	-	1,500,000
PERS	139,668	-	-	-	139,668
MIS	128,198	-	-	-	128,198
Total designated	4,181,043	-	-	958	4,182,001
Unreserved, Undesignated	880,194	1,964,634	-	6,712,791	9,557,619
Total fund balances	\$ 5,203,828	\$ 2,664,869	\$ 836,349	\$ 7,175,488	\$ 15,880,534

9. RISK MANAGEMENT

The City participates in the following public entity risk pools:

ABAG Plan Corporation (ABAG PLAN) covers general liability claims in an amount up to \$7,000,000. The City has a deductible or uninsured liability of up to \$25,000 per claim. Once the City's deductible is met ABAG PLAN becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2003, the City contributed \$96,326 for current year coverage and received no refund of prior year excess contributions.

The ABAG Workers' Compensation Pool Insurance Authority (ABAG POOL) covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended June 30, 2003, the City contributed \$395,375 for current year coverage.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

9. RISK MANAGEMENT, Continued

The City's contributions to each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program- year.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

There have been no significant reductions of insurance settlements that exceeded insurance coverage for the past three years.

The workers' compensation and general liability claims payable of \$297,194 reported at June 30, 2003, are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the basic financial statements indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amounts were as follows:

Year Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2001	\$ 100,000	\$ 15,279	\$ (15,279)	\$ 100,000
2002	100,000	32,061	(32,061)	100,000
2003	100,000	214,052	(16,858)	297,194

Claims liability is presented on the Statement of Net Assets as follows at June 30, 2003:

Current portion of claims payable	\$ 50,000
Long-term debt - due in more than one year	247,194
Total	\$ 297,194

Each risk pool is governed by a board consisting of representatives from member municipalities. The board controls the operations of each risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

9. RISK MANAGEMENT, Continued

The following represents summary audited financial information of ABAG for the fiscal year ended June 30, 2002:

Total assets	<u>\$ 38,375,940</u>
Total liabilities	<u>\$ 16,014,502</u>
Fund equity	<u>\$ 22,361,438</u>
Total revenues	<u>\$ 8,294,625</u>
Total expenses	<u>\$ 3,856,567</u>
Net increase in fund equity	<u>\$ 4,438,058</u>

Audited financial information for each risk pool may be obtained from ABAG at P. O. Box 2089, Oakland, California 94604-2089.

10. RETIREMENT PLANS

Pension Plan

Plan Description - The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy - Active plan members are required by state statute to contribute for miscellaneous employees 7% of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$265,427 for the year ended June 30, 2003. The City employer is required to contribute for fiscal year 2002-2003 at an actuarially determined rate of 0% of annual covered payroll for miscellaneous employees.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2003

10. RETIREMENT PLANS, Continued

Annual Pension Cost - For fiscal year 2002-2003, the City's annual pension cost of \$267,321 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.75% to 14.2% for miscellaneous employees depending on age, service, and type of employment, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2002, was 20 years for miscellaneous employees.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	\$ 188,080	100%	\$ 0
6/30/02	241,114	100%	0
6/30/03	267,321	100%	0

11. JOINT POWERS AGREEMENTS

The City is a member of the Santa Clara County Traffic Authority (Traffic Authority), which consists of various cities in the San Francisco Bay area.

The Traffic Authority was formed in 1985 by a joint exercise of powers agreement between the County of Santa Clara and the cities of Santa Clara County for the purpose of financing highway capital improvements within the County to serve transportation needs. Financial statements may be obtained from the Traffic Authority at 1754 Technology Drive, Suite 224, San Jose, California 95110.

The City is also a member of other Joint Powers Authorities (JPA) but has had no material transactions with them. These JPA's are governed by boards consisting of representatives from their members. The boards control the operations of each JPA, including selection of management and approval of operating budgets, independent of any influence by its members beyond their representation on the board.

12. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Federal and State Grant Programs

The City participates in Federal and State grant programs. These programs are audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures which may be disallowed, if any, by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

As of June 30, 2003, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the City.

13. PRIOR PERIOD ADJUSTMENTS

Fund Financial Statements

The City recorded the following adjustments to more accurately reflect the transactions in the prior years:

Community Development Block Grant - The City determined certain amounts payable to other governments was not included in the prior years.

	Fund Balances, as Previously Reported	Prior Period Adjustments	Fund Balances, as Restated
Major Fund:			
Community Development Block Grant	\$ 76,430	\$ (195,224)	\$ (118,794)
Total major fund	\$ 76,430	\$ (195,224)	\$ (118,794)

City of Saratoga
Required Supplementary Information
For the year ended June 30, 2003

1. BUDGETARY INFORMATION

Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities. The Annual Budget assures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

The Annual Budget serves from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the City's performance.

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of a resolution.
- d. The City Manager may authorize transfers of budget amounts within a fund. However, any revisions that increase the total budgeted expenditures of any fund must be approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the fund level without City Council approval.
- e. Formal budgetary integration in the form of legally adopted budgets is employed as a management control device for all funds except the agency funds. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted expenditures reported are as amended by supplemental appropriations of the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General, special revenue and capital projects funds. Unexpended and unencumbered appropriations of these governmental funds automatically lapse at the end of the fiscal year. Encumbrances outstanding at year-end are reported as a reservation of fund balances. They do not constitute expenditures or estimated liabilities.

City of Saratoga
Required Supplementary Information, Continued
For the year ended June 30, 2003

1. BUDGETARY INFORMATION, Continued

The followings are the budget comparison schedules for General Fund and all major special revenue funds.

Budget Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
Fund Balances - Beginning	\$ 6,669,676	\$ 6,969,678	\$ 6,969,678	\$ -
Resources (inflows):				
Property taxes	2,869,665	2,869,665	2,929,207	59,542
Special assessments	-	499,237	471,021	(28,216)
Other local taxes	1,977,290	2,011,923	2,138,618	126,695
Intergovernmental - State	1,763,305	1,193,357	1,944,629	751,272
Intergovernmental - Federal	-	2,576	2,576	-
Franchise fees	954,190	969,982	932,808	(37,174)
Use of money and property	414,800	360,441	242,228	(118,213)
Current service charges	828,620	786,424	671,044	(115,380)
Reimbursement of interfund cost allocations	1,970,294	1,942,294	1,931,880	(10,414)
Transfers in	-	325,000	339,679	14,679
Amount available for appropriations	17,447,840	17,930,577	18,573,368	642,791
Charges to Appropriations (outflows):				
Current:				
General and intergovernmental services	3,052,315	3,041,168	3,168,878	(127,710)
Public safety	3,675,103	3,651,957	3,431,591	220,366
Public works	1,516,489	1,591,765	1,104,505	487,260
Community services	550,260	548,720	343,864	204,856
Community development services	119,212	121,712	85,994	35,718
Capital outlay	191,610	373,038	228,607	144,431
Transfers out	1,542,389	5,419,237	5,006,101	413,136
Total charges to appropriations	10,647,378	14,747,597	13,369,540	1,378,057
Fund Balances - Ending	\$ 6,800,462	\$ 3,182,980	\$ 5,203,828	\$ 2,020,848

City of Saratoga
 Required Supplementary Information, Continued
 For the year ended June 30, 2003

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Community Development Block Grant Fund

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
Fund Balances - Beginning, as restated	\$ 535,378	\$ 76,429	\$ (118,794)	\$ (195,223)
Resources (inflows):				
Intergovernmental - Federal	175,046	175,046	93,596	(81,450)
Use of money and property	2,076	2,076	67,410	65,334
Transfers in	-	111,000	111,000	-
Amount available for appropriations	712,500	364,551	153,212	(211,339)
Charges to Appropriations (outflows):				
Community services	216,000	216,000	94,520	121,480
Capital outlay	41,059	-	1,502	(1,502)
Transfers out	355,441	42,559	-	42,559
Total charges to appropriations	612,500	258,559	96,022	162,537
Fund Balances - Ending	\$ 100,000	\$ 105,992	\$ 57,190	\$ (48,802)

2. MODIFIED APPROACH FOR CITY STREETS INFRASTRUCTURE CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City is required to account for and report infrastructure capital assets. The City defines infrastructure as the basic physical assets that allow the City to function and those resources utilized primarily by the public and provides future economic benefits for a minimum of two years. Infrastructure can be defined as assets that are immovable and of value only to the government. Major infrastructure system includes the street system, park and recreation lands and improvements system; storm water conveyance and drainage system, buildings combined with site amenities such as parking and landscaping areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be divided into concrete and asphalt pavements, concrete curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

The City has elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its Streets Pavement System. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- ◆ The City manages the eligible infrastructure capital assets using an asset management system with characteristics of (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amount to maintain and preserve at the established condition assessment level.
- ◆ The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

The City commissioned a physical assessment of the streets conditions as of June 30, 2001. The study assists the City by providing current inspection data used to evaluate current pavement condition. This helps to maintain a City-defined desirable level of pavement performance while optimizing the expenditure of limited fiscal resources. The entire pavement network within the City is composed of approximately 135.2 centerline miles of pave surfaces. The City's road system can be grouped by function class and includes 19.3 centerline miles of arterial, 23.3 centerline miles of collector, and 92.6 miles as residential.

City of Saratoga
Required Supplementary Information, Continued
For the year ended June 30, 2003

2. MODIFIED APPROACH FOR CITY STREETS INFRASTRUCTURE CAPITAL ASSETS, Continued

A visual survey of all pavement segments was conducted to assess the existing surface condition of each of the individual pavement segments. Upon completion of the study, a Pavement Condition Index (PCI) was calculated for each segment in the City's pavement network to reflect the overall pavement condition. Rating between 0 and 100, a PCI of 0 would correspond to a badly deteriorated pavement with virtually no remaining life. A PCI of 100 would correspond to a pavement with proper engineering design and construction at the beginning of its life cycle.

The following conditions were defined:

<u>Condition</u>	<u>Rating</u>
Excellent	86-100
Very Good	71-85
Good	56-70
Fair	41-55
Poor	26-40
Very Poor	11-25
Substandard	0-10

The City Policy is to achieve an average rating of 70 for all streets, which is a good rating. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. As of June 30, 2003, the City's street system was rated at a PCI index of 70 on the average with the detail condition as follows:

<u>Condition</u>	<u>% of Streets</u>
Excellent to Good	78%
Fair	13%
Poor to Substandard	9%

The City expended \$1,553,674 on street maintenance for the year ended June 30, 2003. These routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the year 2006 is a minimum of \$4,500,000. (\$1,500,000 projected budget each year for the years ending June 30, 2004, 2005, and 2006.)

City of Saratoga
Required Supplementary Information, Continued
For the year ended June 30, 2003

2. MODIFIED APPROACH FOR CITY STREETS INFRASTRUCTURE CAPITAL ASSETS, Continued

A schedule estimated annual amount calculated to maintain and preserve its streets at the current level compared to actual expenditures for street maintenance for the last five years is presented below:

<u>Fiscal Year</u>	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Funded by General Fund</u>	<u>Funded by Gas Tax Fund</u>	<u>Total Funded</u>
1998-99	\$ 2,135,689	\$ 2,137,370	\$ 1,542,568	\$ 594,802	\$ 2,137,370
1999-00	1,846,839	1,686,129	1,095,289	590,840	1,686,129
2000-01	2,520,255	801,160	205,309	595,851	801,160
2001-02	3,529,420	2,214,717	1,631,855	582,862	2,214,717
2002-03	2,207,922	1,553,674	974,514	579,160	1,553,674

As of June 30, 2003, approximately 22% of the City's streets were rated below the average standard of 70. The City will continue to rehabilitate these segments of the streets. Total deficiencies (deferred maintenance) identified in the Pavement Management System amounted to approximately \$9,200,000 for all streets.

3. DEFINED PENSION PLAN

A schedule of funding progress for the year ended June 30, 2003 including the past three actuarial valuations is presented below.

Miscellaneous Employees

<u>Actuarial Valuation Date*</u>	<u>Actuarial Asset Value</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Overfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll</u>
6/30/2000	\$ 18,956,430	\$ 13,716,661	\$ 5,239,769	138.2%	\$ 2,569,891	203.9%
6/30/2001	19,419,719	14,742,788	4,676,931	131.7%	3,035,996	154.0%
6/30/2002	18,292,349	15,889,904	2,402,445	115.1%	3,620,470	66.4%

* Latest information available.





NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Local Law Enforcement - This fund accounts for State Supplemental Law Enforcement entitlement allocated based on population.

Traffic Safety - This fund accounts for vehicle code fine and forfeiture revenues and related public safety expenditures.

Streets and Roads - This fund accounts for revenues and expenditures received from the Federal Government, under I.S.T.E.A. and State, Street and Highway Code Sections 2105, 2106, 2107, and 2107.5. The allocations must be spent for street maintenance or repairs; a limited amount may be spent for engineering.

Lighting and Landscaping Assessment District - This fund accounts for revenues and expenditures associated with development of the City.

Development Services - This fund accounts for revenues and expenditures associated with development of the City.

Environmental Programs - This fund accounts for environmental fees accumulated to offset the cost of environmental programs budgeted in the General Fund.

Recreation - This fund accounts for the City's recreation program revenues and related program expenditures.

Debt Service Fund

Library - Santa Clara County lease revenues are accumulated in this fund to pay annual principal and interest payments on the 1976 and 2001 library bonds.

Capital Projects Fund

Park Development - This fund accounts for resources used for the acquisition and construction of major capital facilities by the City, primarily the acquisition and construction of various City parks.

City of Saratoga
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	Special Revenue			
	Local Law Enforcement	Traffic Safety	Streets and Roads	Lighting and Landscaping Assessment District
ASSETS				
Cash and investments	\$ 175,261	\$ 218,040	\$ 90,559	\$ 77,651
Accounts receivable	-	26,859	26,802	624
Total assets	\$ 175,261	\$ 244,899	\$ 117,361	\$ 78,275
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 8,317	\$ 100,110	\$ 9,903
Accrued payroll	1,349	-	12,767	1,183
Deposits payable	-	-	-	-
Total liabilities	1,349	8,317	112,877	11,086
Fund Balances:				
Reserved for:				
Encumbrances	-	-	668,432	-
Debt service	-	-	-	-
Unreserved, undesignated, reported in:				
Special revenues funds	173,912	236,582	(663,948)	67,189
Capital projects funds	-	-	-	-
Total fund balances	173,912	236,582	4,484	67,189
Total liabilities and fund balances	\$ 175,261	\$ 244,899	\$ 117,361	\$ 78,275

Special Revenue			Debt Service	Capital Projects	Total Other Governmental Funds
Development Services	Environmental Programs	Recreation	Library	Park Development	
\$ 1,315,832	\$ 782,787	\$ 36,034	\$ 831,541	\$ 15,569	\$ 3,543,274
66,842	64,836	186	4,808	-	190,957
<u>\$ 1,382,674</u>	<u>\$ 847,623</u>	<u>\$ 36,220</u>	<u>\$ 836,349</u>	<u>\$ 15,569</u>	<u>\$ 3,734,231</u>
\$ 34,233	\$ 49,282	\$ 11,088	\$ -	\$ -	\$ 212,933
21,519	1,839	15,746	-	-	54,403
-	-	7,298	-	-	7,298
<u>55,752</u>	<u>51,121</u>	<u>34,132</u>	<u>-</u>	<u>-</u>	<u>274,634</u>
-	14,921	16,882	-	-	700,235
-	-	-	836,349	-	836,349
1,326,922	781,581	(14,794)	-	-	1,907,444
-	-	-	-	15,569	15,569
<u>1,326,922</u>	<u>796,502</u>	<u>2,088</u>	<u>836,349</u>	<u>15,569</u>	<u>3,459,597</u>
<u>\$ 1,382,674</u>	<u>\$ 847,623</u>	<u>\$ 36,220</u>	<u>\$ 836,349</u>	<u>\$ 15,569</u>	<u>\$ 3,734,231</u>

City of Saratoga

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the year ended June 30, 2003

	Special Revenue			
	Local Law Enforcement	Traffic Safety	Streets and Roads	Lighting and Landscaping Assessment District
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ 124,065
Special assessments	-	-	-	103,448
Intergovernmental - State	100,000	-	982,343	-
Intergovernmental - Federal	-	-	451,545	-
Intergovernmental - other	-	-	-	-
Use of money and property	6,371	5,283	61,503	2,241
Current service charges	-	136,057	180,571	-
Total revenues	106,371	141,340	1,675,962	229,754
EXPENDITURES:				
Current:				
Public safety	65,781	14,535	-	-
Environmental services	-	-	54,139	-
Public works	-	-	2,442,576	287,261
Community services	-	-	-	-
Development services	-	-	-	-
Capital outlay	-	-	6,225	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	65,781	14,535	2,502,940	287,261
REVENUES OVER (UNDER) EXPENDITURES	40,590	126,805	(826,978)	(57,507)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	715,998	-
Transfers out	-	-	(2,006,000)	-
Total other financing sources (uses)	-	-	(1,290,002)	-
Net change in fund balances	40,590	126,805	(2,116,980)	(57,507)
FUND BALANCES:				
Beginning of year	133,322	109,777	2,121,464	124,696
End of year	\$ 173,912	\$ 236,582	\$ 4,484	\$ 67,189

Special Revenue			Debt Service	Capital Projects	Total Other Governmental Funds
Development Services	Environmental Programs	Recreation	Library	Park Development	
\$ -	\$ -	\$ -	\$ 1,126,029	\$ -	\$ 1,250,094
-	-	-	-	-	103,448
-	16,478	-	-	-	1,098,821
-	-	-	-	-	451,545
-	-	-	-	82,800	82,800
55,755	26,670	145,952	-	-	303,775
1,662,995	520,976	793,839	-	-	3,294,438
1,718,750	564,124	939,791	1,126,029	82,800	6,584,921
-	-	-	-	-	80,316
-	590,204	-	-	-	644,343
-	-	-	-	-	2,729,837
-	-	1,506,538	-	-	1,506,538
1,982,227	-	-	-	-	1,982,227
6,228	-	9,690	-	-	22,143
-	-	-	60,000	-	60,000
-	-	-	783,756	-	783,756
1,988,455	590,204	1,516,228	843,756	-	7,809,160
(269,705)	(26,080)	(576,437)	282,273	82,800	(1,224,239)
-	-	578,525	-	-	1,294,523
(120,000)	-	-	-	(546,719)	(2,672,719)
(120,000)	-	578,525	-	(546,719)	(1,378,196)
(389,705)	(26,080)	2,088	282,273	(463,919)	(2,602,435)
1,716,627	822,582	-	554,076	479,488	6,062,032
\$ 1,326,922	\$ 796,502	\$ 2,088	\$ 836,349	\$ 15,569	\$ 3,459,597

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Library Expansion Capital Projects Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 9,254,359	\$ 9,254,359	\$ 9,297,494	\$ 43,135
RESOURCES (INFLOWS):				
Use of money and property	-	-	13,802	13,802
Amount available for appropriation	<u>9,254,359</u>	<u>9,254,359</u>	<u>9,311,296</u>	<u>56,937</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Capital outlay	<u>7,957,470</u>	<u>8,874,359</u>	<u>7,766,471</u>	<u>1,107,888</u>
Total charges to appropriations	<u>7,957,470</u>	<u>8,874,359</u>	<u>7,766,471</u>	<u>1,107,888</u>
FUND BALANCES - ENDING	<u>\$ 1,296,889</u>	<u>\$ 380,000</u>	<u>\$ 1,544,825</u>	<u>\$ 1,164,825</u>

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Local Law Enforcement Special Revenue Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 137,114	\$ 133,322	\$ 133,322	\$ -
RESOURCES (INFLOWS):				
Intergovernmental - State	100,000	100,000	100,000	-
Use of money and property	6,855	6,855	6,371	(484)
Amount available for appropriation	243,969	240,177	239,693	(484)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Public safety	65,493	65,493	65,781	(288)
Total charges to appropriations	65,493	65,493	65,781	(288)
FUND BALANCES - ENDING	\$ 178,476	\$ 174,684	\$ 173,912	\$ (772)

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Traffic Safety Special Revenue Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
FUND BALANCES - BEGINNING	\$ -	\$ 109,777	\$ 109,777	\$ -
RESOURCES (INFLOWS):				
Use of money and property	-	-	5,283	5,283
Current service charges	129,100	129,100	136,057	6,957
Amount available for appropriation	<u>129,100</u>	<u>238,877</u>	<u>251,117</u>	<u>12,240</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Public safety	31,698	33,448	14,535	18,913
Total charges to appropriations	<u>31,698</u>	<u>33,448</u>	<u>14,535</u>	<u>18,913</u>
FUND BALANCES - ENDING	<u>\$ 97,402</u>	<u>\$ 205,429</u>	<u>\$ 236,582</u>	<u>\$ 31,153</u>

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Streets and Roads Special Revenue Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 2,228,603	\$ 2,121,464	\$ 2,121,464	\$ -
RESOURCES (INFLOWS):				
Intergovernmental - State	1,274,912	1,004,662	982,343	(22,319)
Intergovernmental - Federal	252,705	252,705	451,545	198,840
Use of money and property	-	44,000	61,503	17,503
Current service charges	67,333	72,333	180,571	108,238
Transfers in	1,268,360	1,719,531	715,998	(1,003,533)
Amount available for appropriation	5,091,913	5,214,695	4,513,424	(701,271)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Environmental services	33,761	33,761	54,139	(20,378)
Public works	3,048,152	3,174,934	2,442,576	732,358
Capital outlay	-	-	6,225	(6,225)
Transfers out	-	2,006,000	2,006,000	-
Total charges to appropriations	3,081,913	5,214,695	4,508,940	705,755
FUND BALANCES - ENDING	\$ 2,010,000	\$ -	\$ 4,484	\$ 4,484

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Lighting and Landscaping Assessment District Special Revenue Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
FUND BALANCES - BEGINNING	\$ 96,215	\$ 124,696	\$ 124,696	\$ -
RESOURCES (INFLOWS):				
Property taxes	89,404	89,404	124,065	34,661
Special assessments	101,189	101,189	103,448	2,259
Use of money and property	4,810	4,810	2,241	(2,569)
Amount available for appropriation	291,618	320,099	354,450	34,351
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Public works	254,838	288,338	287,261	1,077
Total charges to appropriations	254,838	288,338	287,261	1,077
FUND BALANCES - ENDING	\$ 36,780	\$ 31,761	\$ 67,189	\$ 35,428

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Development Services Special Revenue Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 1,697,858	\$ 1,716,627	\$ 1,716,627	\$ -
RESOURCES (INFLOWS):				
Use of money and property	84,890	30,000	55,755	25,755
Current service charges	1,298,350	1,284,440	1,662,995	378,555
Amount available for appropriation	3,081,098	3,031,067	3,435,377	404,310
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Development services	1,972,677	1,985,796	1,982,227	3,569
Capital outlay	8,500	8,500	6,228	2,272
Transfers out	-	120,000	120,000	-
Total charges to appropriations	1,981,177	2,114,296	2,108,455	5,841
FUND BALANCES - ENDING	\$ 1,099,921	\$ 916,771	\$ 1,326,922	\$ 410,151

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Environmental Programs Special Revenue Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 487,886	\$ 822,582	\$ 822,582	\$ -
RESOURCES (INFLOWS):				
Intergovernmental - State	30,000	23,444	16,478	(6,966)
Use of money and property	24,394	20,000	26,670	6,670
Current service charges	535,000	544,008	520,976	(23,032)
Amount available for appropriation	<u>1,077,280</u>	<u>1,410,034</u>	<u>1,386,706</u>	<u>(23,328)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Environmental services	708,667	744,859	590,204	154,655
Total charges to appropriations	<u>708,667</u>	<u>744,859</u>	<u>590,204</u>	<u>154,655</u>
FUND BALANCES - ENDING	<u>\$ 368,613</u>	<u>\$ 665,175</u>	<u>\$ 796,502</u>	<u>\$ 131,327</u>

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Recreation Special Revenue Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ -	\$ -	\$ -	\$ -
RESOURCES (INFLOWS):				
Use of money and property	150,000	150,000	145,952	(4,048)
Current service charges	776,000	816,000	793,839	(22,161)
Transfers in	630,978	625,978	578,525	(47,453)
Amount available for appropriation	1,556,978	1,591,978	1,518,316	(73,662)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Community services	1,531,978	1,567,978	1,506,538	61,440
Capital outlay	25,000	25,000	9,690	15,310
Total charges to appropriations	1,556,978	1,592,978	1,516,228	76,750
FUND BALANCES - ENDING	\$ -	\$ (1,000)	\$ 2,088	\$ 3,088

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Library Debt Service Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
FUND BALANCES - BEGINNING	\$ 16,505	\$ 554,076	\$ 554,076	\$ -
RESOURCES (INFLOWS):				
Property taxes	1,412,260	1,412,260	1,126,029	(286,231)
Amount available for appropriation	1,428,765	1,966,336	1,680,105	(286,231)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Debt service:				
Principal	60,000	60,000	60,000	-
Interest and fiscal charges	785,760	785,760	783,756	2,004
Total charges to appropriations	845,760	845,760	843,756	2,004
FUND BALANCES - ENDING	\$ 583,005	\$ 1,120,576	\$ 836,349	\$ (284,227)

City of Saratoga

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Park Development Capital Projects Fund

For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 479,488	\$ 479,488	\$ 479,488	\$ -
RESOURCES (INFLOWS):				
Current service charges	103,500	103,500	82,800	(20,700)
Amount available for appropriation	582,988	582,988	562,288	(20,700)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Transfers out	546,719	546,719	546,719	-
Total charges to appropriations	546,719	546,719	546,719	-
FUND BALANCES - ENDING	<u>\$ 36,269</u>	<u>\$ 36,269</u>	<u>\$ 15,569</u>	<u>\$ (20,700)</u>



FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds

Cable T.V. Trust - This fund accounts for funds of the Saratoga Community Access T.V. Foundation.

Assessment Districts Bonds - This fund accumulates the monies for payment of bonds for Village Parking Districts #2 and #3, the Leonard Road Improvement District and the Saratoga Public Financing Authority which are financed by assessments placed on the County tax roll.

Deposits - This fund accounts for deposits paid to the City which are subject to refund or held solely in custodial capacity.

City of Saratoga
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2003

	Cable T.V. Trust	Assessment District Bonds	Deposits	Total Agency Funds
ASSETS				
Cash and investments	\$ 167,428	\$ 34,822	\$ 584,051	\$ 786,301
Restricted cash and investments	-	330,109	-	330,109
Accounts receivable	-	42,946	-	42,946
Total assets	\$ 167,428	\$ 407,877	\$ 584,051	\$ 1,159,356
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 1,214	\$ 1,214
Deposits payable	167,428	-	582,837	750,265
Payable to bondholders	-	407,877	-	407,877
Total liabilities	\$ 167,428	\$ 407,877	\$ 584,051	\$ 1,159,356

City of Saratoga
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2003

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
<u>Cable T.V. Trust</u>				
Assets:				
Cash and investments	\$ 120,133	\$ 66,525	\$ (19,230)	\$ 167,428
Liabilities:				
Deposits payable	\$ 120,133	\$ 66,525	\$ (19,230)	\$ 167,428
<u>Assessment District Bonds</u>				
Assets:				
Cash and investments	\$ 17,880	\$ 29,658	\$ (12,716)	\$ 34,822
Restricted cash and investments	325,228	4,881	-	330,109
Accounts receivable	42,946	-	-	42,946
Total assets	\$ 386,054	\$ 34,539	\$ (12,716)	\$ 407,877
Liabilities:				
Accounts payable	\$ 10	\$ 3,573	\$ (3,583)	\$ -
Due to assessment district bondholders	386,044	34,539	(12,706)	407,877
Total liabilities	\$ 386,054	\$ 38,112	\$ (16,289)	\$ 407,877
<u>Deposits</u>				
Assets:				
Cash and investments	\$ 596,951	\$ 197,900	\$ (210,800)	\$ 584,051
Liabilities:				
Accounts payable	\$ 2,000	\$ 105,238	\$ (106,024)	\$ 1,214
Deposits payable	594,951	191,950	(204,064)	582,837
Total liabilities	\$ 596,951	\$ 297,188	\$ (310,088)	\$ 584,051
<u>Total Agency Funds</u>				
Assets:				
Cash and investments	\$ 734,964	\$ 294,083	\$ (242,746)	\$ 786,301
Restricted cash and investments	325,228	4,881	-	330,109
Accounts receivable	42,946	-	-	42,946
Total assets	\$ 1,103,138	\$ 298,964	\$ (242,746)	\$ 1,159,356
Liabilities:				
Accounts payable	\$ 2,010	\$ 108,811	\$ (109,607)	\$ 1,214
Due to assessment district bondholders	386,044	34,539	(12,706)	407,877
Deposits payable	715,084	258,475	(223,294)	750,265
Total liabilities	\$ 1,103,138	\$ 401,825	\$ (345,607)	\$ 1,159,356





City of Saratoga
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules by Source
June 30, 2003 and 2002

	2003	2002
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land and land improvements	\$ 4,830,840	\$ 4,830,840
Buildings and structures	4,860,089	4,851,752
Machinery and equipment	1,973,716	1,731,302
Infrastructure	98,829,447	98,829,447
Construction in progress	22,924,027	8,988,339
Total governmental funds capital assets	133,418,119	119,231,680
Accumulated depreciation	(14,693,195)	(13,126,264)
Total governmental funds capital assets, net	\$ 118,724,924	\$ 106,105,416
INVESTMENTS IN GOVERNMENTAL FUNDS		
CAPITAL ASSETS BY SOURCE:		
General Fund	\$ 109,584,004	\$ 109,355,397
Special revenue funds	1,553,469	1,529,826
Capital projects funds	22,229,231	8,295,042
Donations	51,415	51,415
Accumulated depreciation	(14,693,195)	(13,126,264)
Total governmental funds capital assets	\$ 118,724,924	\$ 106,105,416

City of Saratoga
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2003

FUNCTION AND ACTIVITY	Land and Land Improvements	Buildings and Structures	Machinery and Equipment	Infrastructure
General and intergovernmental services:				
Management services	\$ -	\$ 240,458	\$ 97,387	\$ -
Administrative services	-	167,586	141,777	-
Intergovernmental services	118,184	3,096,786	79,818	-
Total general and intergovernmental services	118,184	3,504,830	318,982	-
Public safety:				
Police services	-	-	70,306	-
Code enforcement	-	-	69,412	-
Total public safety	-	-	139,718	-
Public works:				
Streets and sidewalks	134,696	30,628	677,702	98,829,447
Parks/open space	2,529,529	92,622	468,094	-
Total public works	2,664,225	123,250	1,145,796	98,829,447
Community services	305,967	1,232,009	272,381	-
Community development services	1,742,464	-	96,839	-
Total governmental funds capital assets	4,830,840	4,860,089	1,973,716	98,829,447
Accumulated depreciation	-	(1,885,005)	(1,226,321)	(11,581,869)
Total governmental funds capital assets, net	\$ 4,830,840	\$ 2,975,084	\$ 747,395	\$ 87,247,578

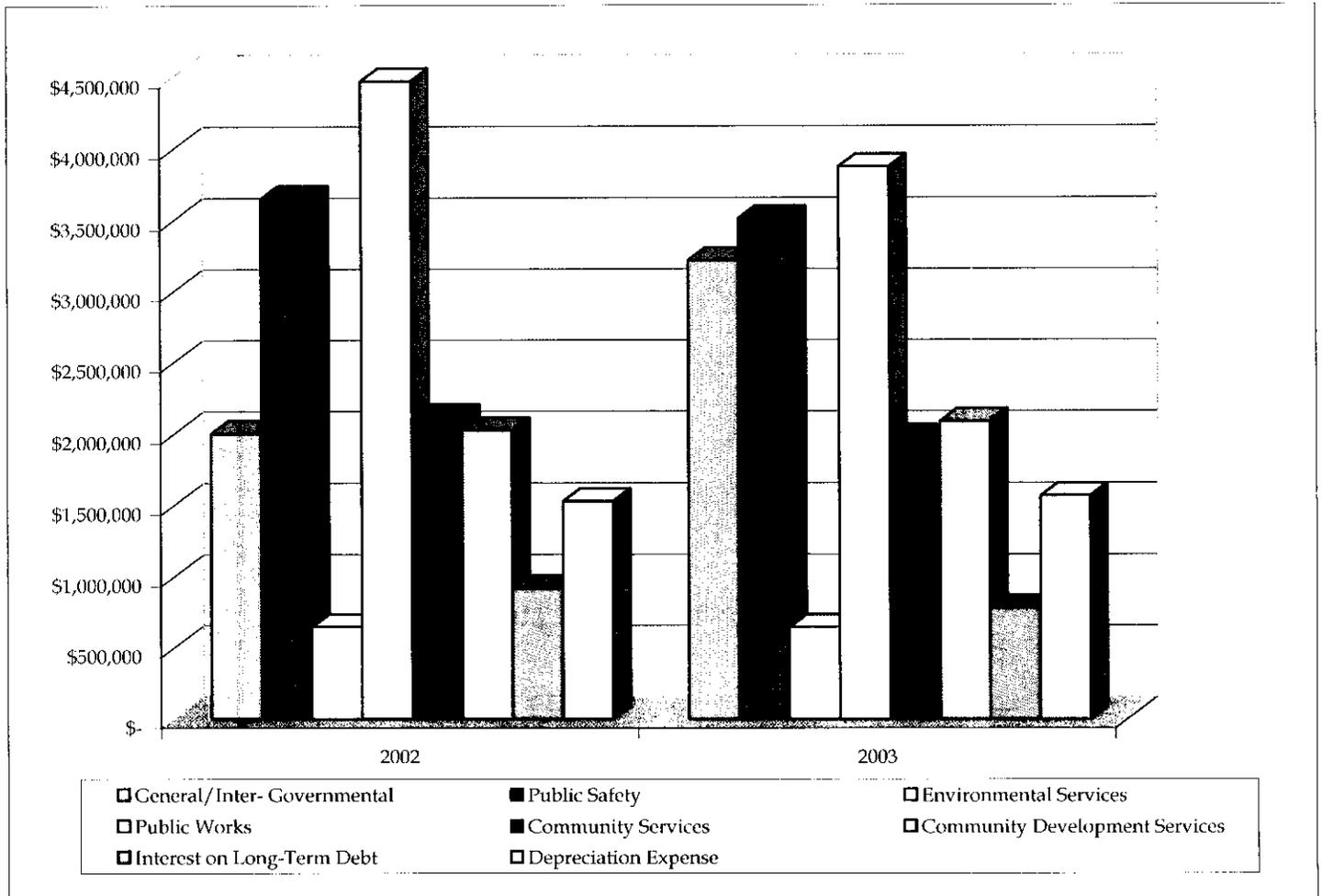
Construction in Progress	Total
\$ 31,172	\$ 369,017
-	309,363
-	3,294,788
<u>31,172</u>	<u>3,973,168</u>
-	70,306
-	69,412
<u>-</u>	<u>139,718</u>
971,203	100,643,676
-	3,090,245
<u>971,203</u>	<u>103,733,921</u>
7,545,847	9,356,204
<u>14,375,805</u>	<u>16,215,108</u>
22,924,027	133,418,119
<u>-</u>	<u>(14,693,195)</u>
<u>\$ 22,924,027</u>	<u>\$ 118,724,924</u>

City of Saratoga
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the year ended June 30, 2003

	Governmental Funds Capital Assets			Governmental Funds Capital Assets
	July 1, 2002	Additions	Deletions	June 30, 2003
FUNCTION AND ACTIVITY				
General and intergovernmental services:				
Management services	\$ 303,708	\$ 65,309	\$ -	\$ 369,017
Administrative services	309,363	-	-	309,363
Intergovernmental services	3,294,788	-	-	3,294,788
Total general and intergovernmental services	3,907,859	65,309	-	3,973,168
Public safety:				
Police services	70,306	-	-	70,306
Code enforcement	57,796	11,616	-	69,412
Total public safety	128,102	11,616	-	139,718
Public works:				
Streets and sidewalks	100,060,646	583,030	-	100,643,676
Parks/open space	3,089,073	1,172	-	3,090,245
Total public works	103,149,719	584,202	-	103,733,921
Community services	3,680,998	5,675,206	-	9,356,204
Community development services	8,365,002	7,850,106	-	16,215,108
Total governmental funds capital assets	119,231,680	14,186,439	-	133,418,119
Accumulated depreciation	(13,126,264)	(1,566,931)	-	(14,693,195)
Total governmental funds capital assets, net	\$ 106,105,416	\$ 12,619,508	\$ -	\$ 118,724,924

City of Saratoga

Government-Wide Expense - By Function

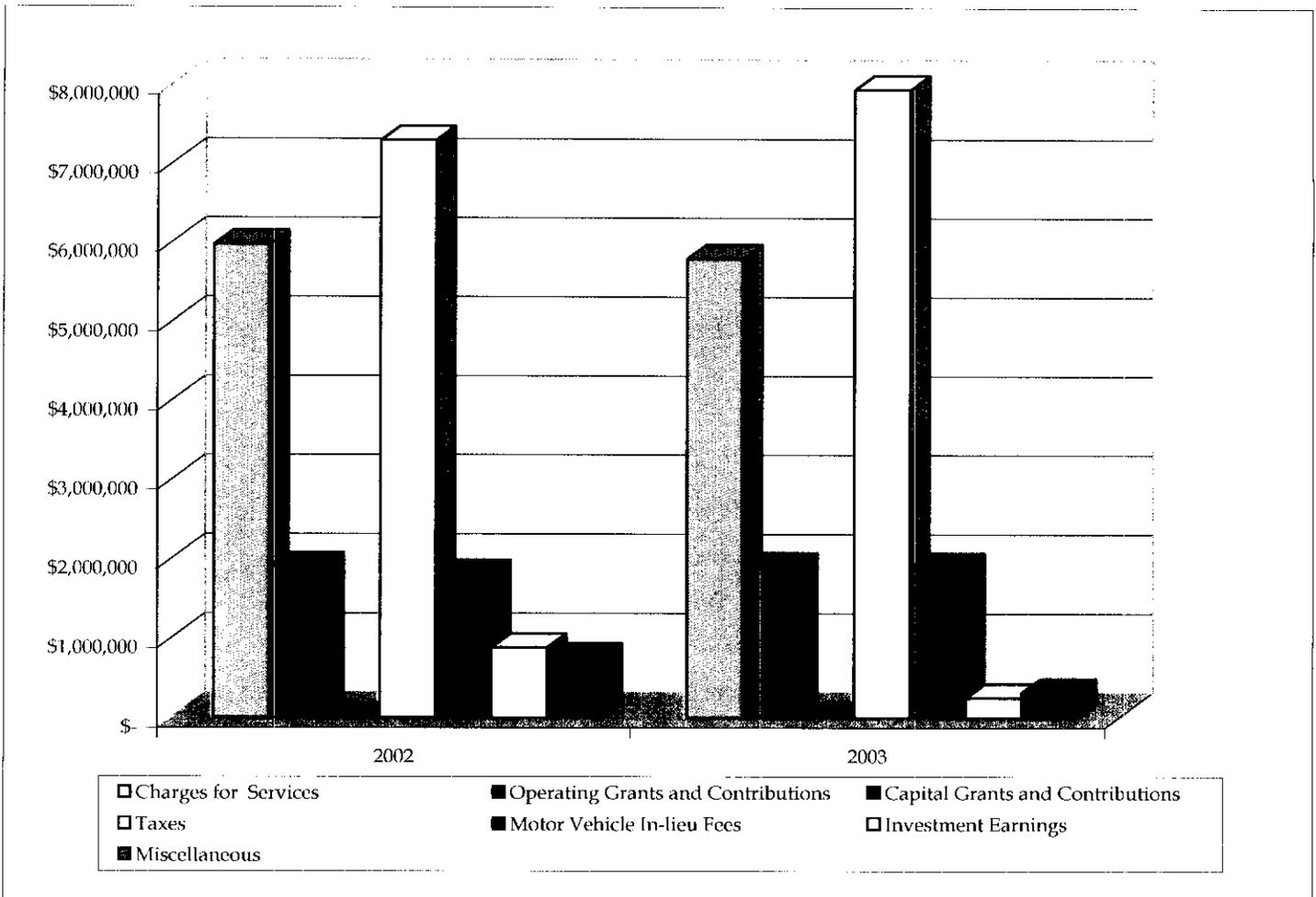


Fiscal Year	General/Inter-Governmental	Public Safety	Environmental Services	Public Works	Community Services	Community Development Services	Interest on Long-Term Debt	Depreciation Expense	Total
2002	\$ 2,005,244	\$ 3,653,114	\$ 650,184	\$ 4,476,568	\$ 2,120,523	\$ 2,025,887	\$ 919,625	\$ 1,529,505	\$17,380,650
2003	3,218,231	3,512,550	647,935	3,874,717	1,975,659	2,086,160	782,506	1,566,931	17,664,689

Note: The fiscal year ended June 30, 2002 was the first year that the City implemented GASB Statement No. 34.

Source: City of Saratoga Annual Financial Report

City of Saratoga
Government-Wide Revenues - By Sources

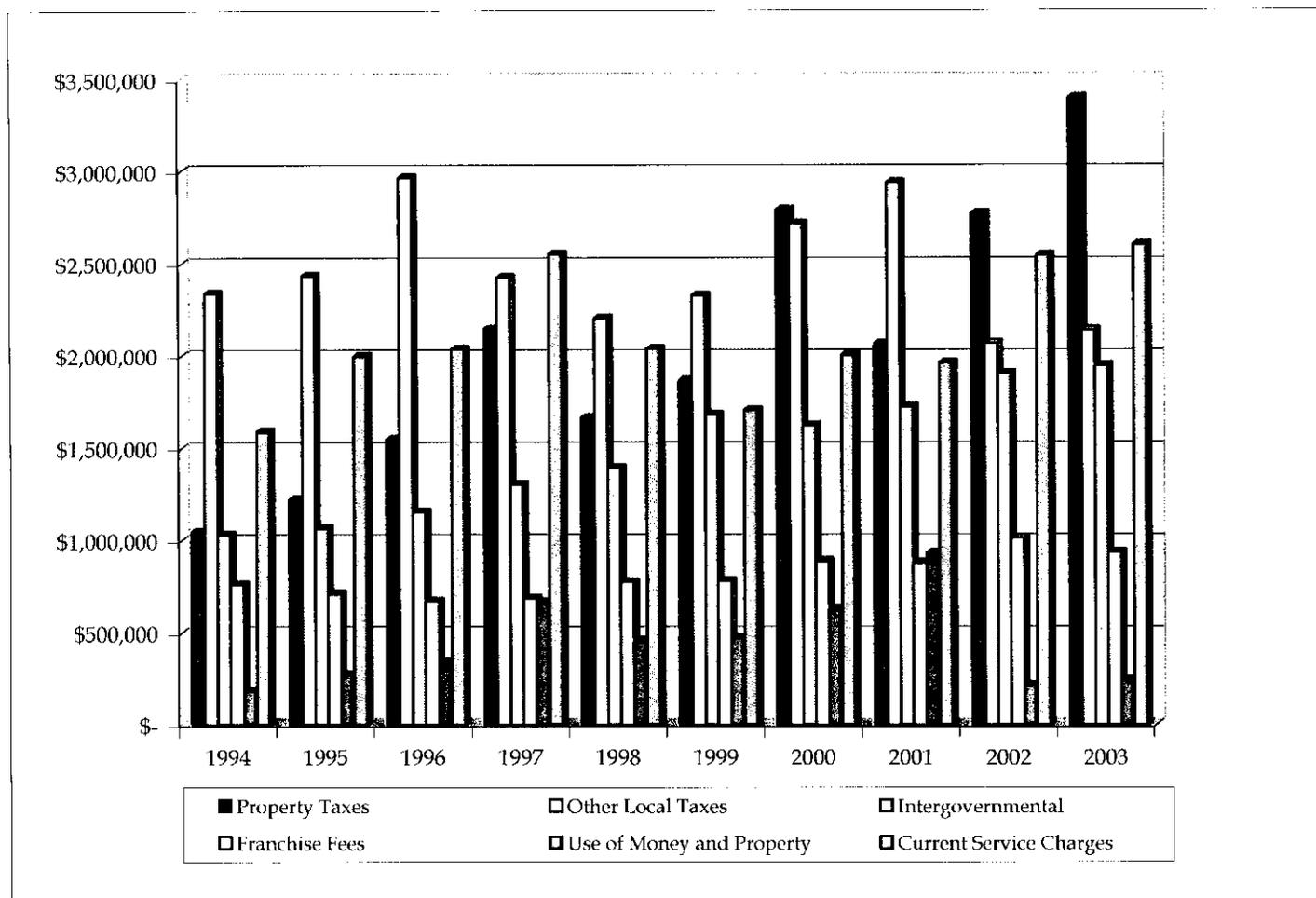


Fiscal Year	Program Revenues			General Revenues				Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Motor Vehicle In-lieu Fees	Investment Earnings	Miscellaneous	
2002	\$ 5,972,829	\$ 1,901,648	\$ -	\$ 7,298,947	\$ 1,807,802	\$ 878,734	\$ 754,252	\$ 18,614,212
2003	5,796,502	1,901,933	-	7,952,843	1,896,606	246,671	315,165	18,109,720

Note: The fiscal year ended June 30, 2002 was the first year that the City implemented GASB Statement No. 34.

Source: City of Saratoga Annual Financial Report

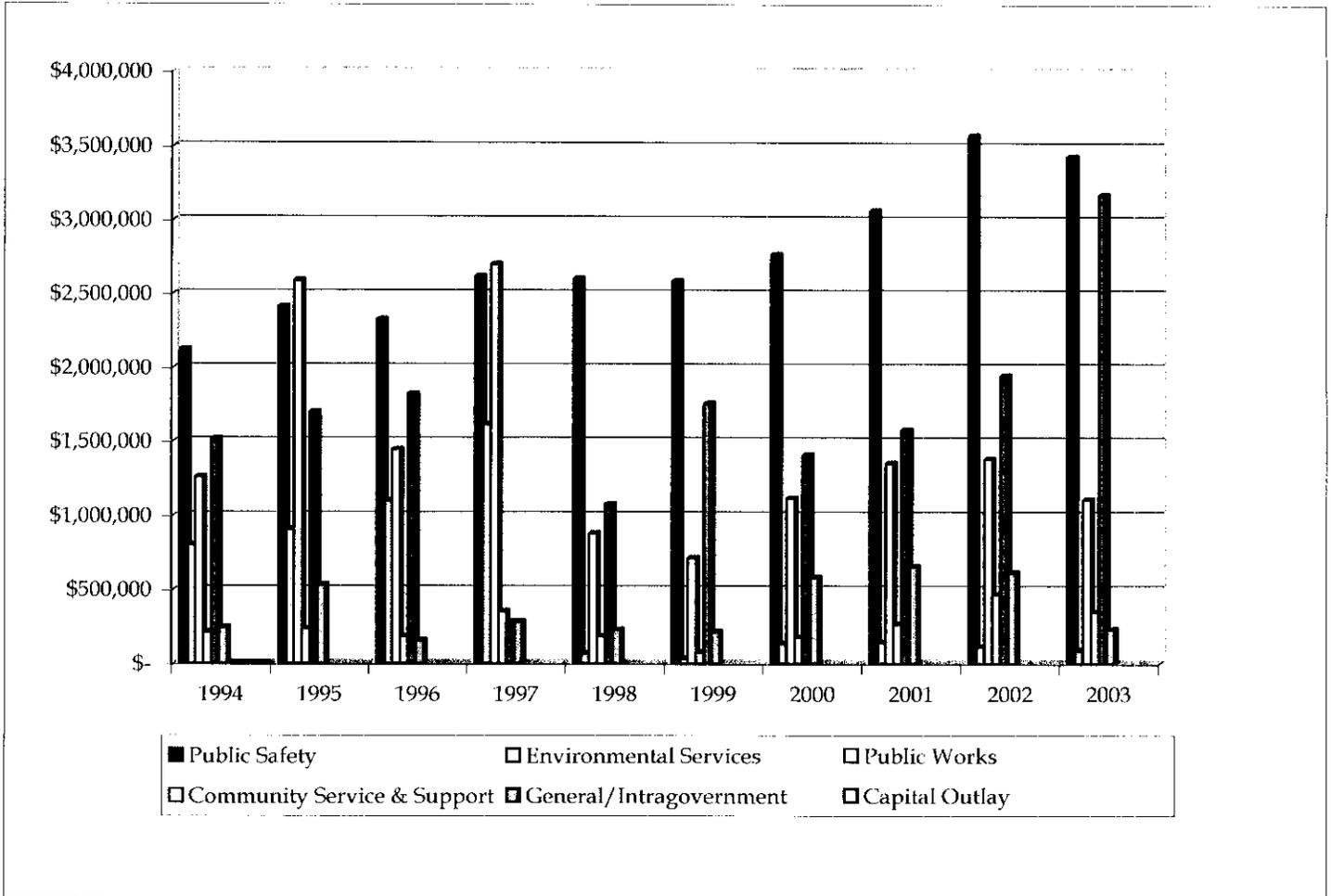
City of Saratoga
General Fund Revenues - By Source
Last ten fiscal years



Fiscal Year	Property Taxes	Other Local Taxes	Inter-governmental	Franchise Fees	Use of Money and Property	Current Services Charges	Total
1994	\$ 1,045,975	\$ 2,338,826	\$ 1,029,463	\$ 758,611	\$ 183,061	\$ 1,587,425	\$ 6,943,361
1995	1,221,096	2,434,070	1,064,052	707,822	272,425	1,996,874	7,696,339
1996	1,546,162	2,965,069	1,152,968	669,467	343,295	2,036,854	8,713,815
1997	2,142,454	2,424,825	1,301,443	685,083	665,966	2,552,050	9,771,821
1998	1,664,144	2,202,826	1,392,591	772,258	457,382	2,037,182	8,526,383
1999	1,864,766	2,328,071	1,680,670	777,560	472,198	1,705,692	8,828,957
2000	2,790,294	2,718,358	1,623,583	886,618	630,833	2,005,183	10,654,869
2001	2,065,051	2,938,209	1,725,765	876,652	930,430	1,962,122	10,498,229
2002	2,772,021	2,067,288	1,901,892	1,010,609	216,562	2,546,937	10,515,309
2003	3,400,228	2,138,618	1,947,205	932,808	242,228	2,602,924	11,264,011

Note: Year 2003 property tax receipts include one time Special Assessment.
 Source: City of Saratoga Annual Financial Report

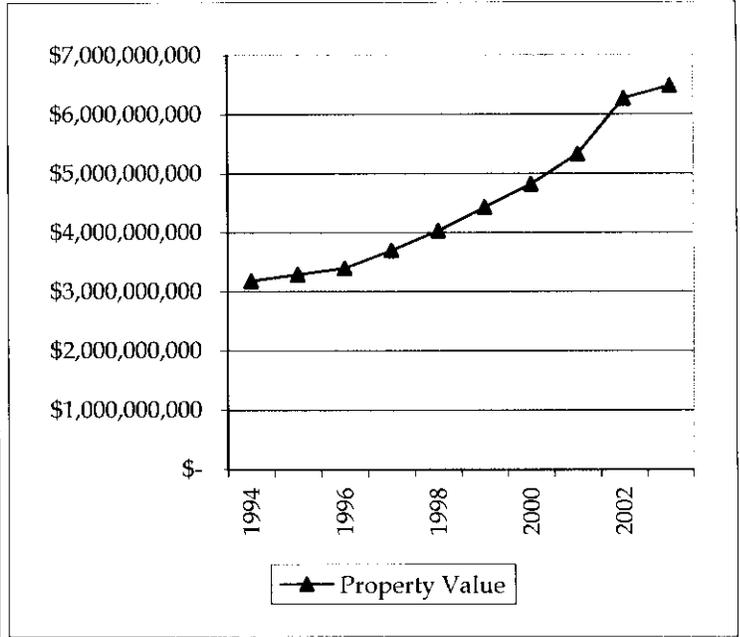
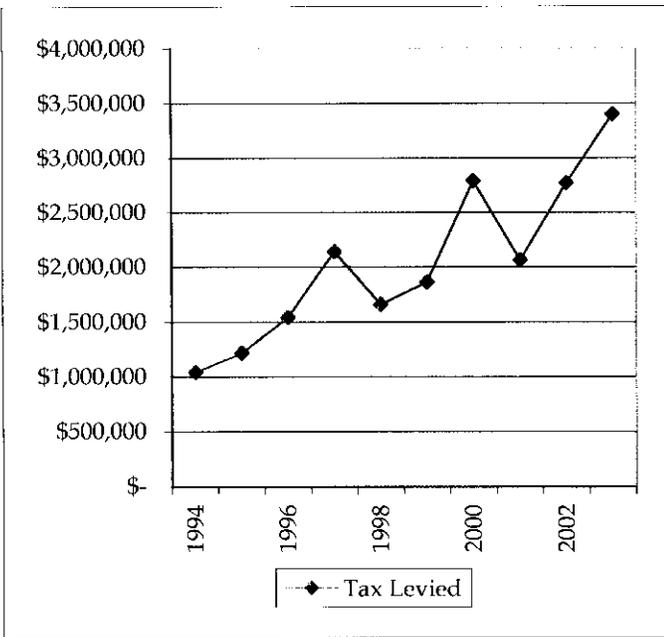
City of Saratoga
General Fund Expenditures - By Function
 Last ten fiscal years



Fiscal Year	General / Inter-governmental	Public Safety	Development Services	Public Works	Community Services	Capital Outlay	Total
1994	\$ 1,515,310	\$ 2,119,313	\$ 801,058	\$ 1,258,065	\$ 209,890	\$ 240,882	\$ 6,144,518
1995	1,698,219	2,411,207	907,232	2,587,008	234,788	531,607	8,370,061
1996	1,819,188	2,322,425	1,098,931	1,444,155	177,837	154,695	7,017,231
1997	279,737	2,616,973	1,616,532	2,697,413	349,019	280,500	7,840,174
1998	1,074,696	2,598,233	65,502	877,204	179,928	226,310	5,021,873
1999	1,754,995	2,581,940	30,947	712,822	72,880	212,223	5,365,807
2000	1,404,530	2,761,741	129,849	1,113,870	172,549	578,612	6,161,151
2001	1,574,597	3,062,160	140,883	1,349,838	262,696	651,814	7,041,988
2002	1,943,301	3,570,910	111,520	1,378,334	465,241	614,171	8,083,477
2003	3,168,878	3,431,591	85,994	1,104,505	343,864	228,607	8,363,439

Source: City of Saratoga Annual Financial Report

City of Saratoga
Property Tax Levies and Collections (General Fund)
Last ten fiscal years

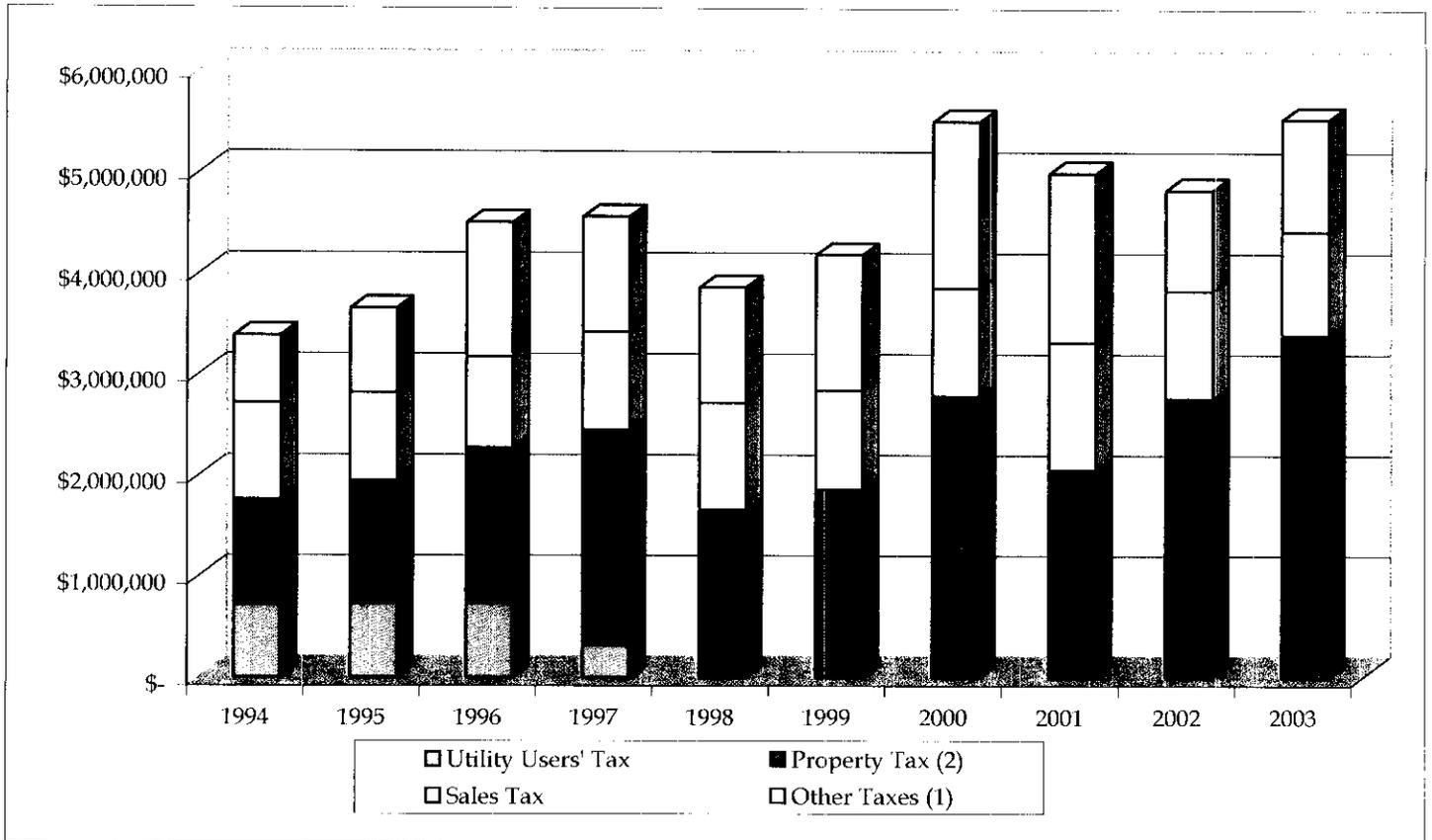


Fiscal Year	Property Tax Levies and Collections	Value of Property Subject to Local Tax Rate
1994	\$ 1,045,975	\$ 3,181,662,768
1995	1,221,096	3,289,435,553
1996	1,546,162	3,398,224,679
1997	2,142,454	3,697,796,461
1998	1,664,144	4,029,381,944
1999	1,864,766	4,432,656,416
2000	2,790,294	4,823,743,087
2001	2,065,051	5,331,749,683
2002	2,772,021	6,271,461,110
2003	3,400,228	6,489,250,969

Note: Year 2003 property tax receipts include one time Special Assessment.

Sources: City of Saratoga Annual Financial Report
 California Municipal Statistics Inc.

City of Saratoga
General Fund Tax Revenue
Last ten fiscal years



Fiscal Year	Utility User's Tax	Property Tax (2)	Sales Tax	Other Taxes (1)	Total
1994	\$ 715,239	\$ 1,045,975	\$ 958,436	\$ 665,151	\$ 3,384,801
1995	725,373	1,221,096	872,134	836,563	3,655,166
1996	729,468	1,546,162	896,799	1,338,802	4,511,231
1997	312,464	2,142,454	966,900	1,145,461	4,567,279
1998	-	1,664,144	1,057,677	1,145,149	3,866,970
1999	-	1,864,766	979,192	1,348,879	4,192,837
2000	-	2,790,294	1,071,122	1,647,236	5,508,652
2001	-	2,065,051	1,255,726	1,682,483	5,003,260
2002	-	2,772,021	1,066,607	1,000,681	4,839,309
2003	-	3,400,228	1,028,329	1,110,289	5,538,846

Notes: (1) Other Taxes include: Transient Occupancy Tax, Real Property Transfer Tax, Construction Tax, Business License Tax. 2002 Statement of Revenues, Expenditures, & Changes in Fund Balance classifies Business License as a fee associated with activity. For comparative purposes, the inclusion of 2002 Business Licenses would total \$1,276,043.

(2) Property Tax levy's are remitted in full by Santa Clara County which handles delinquencies and retains all interest and penalties.

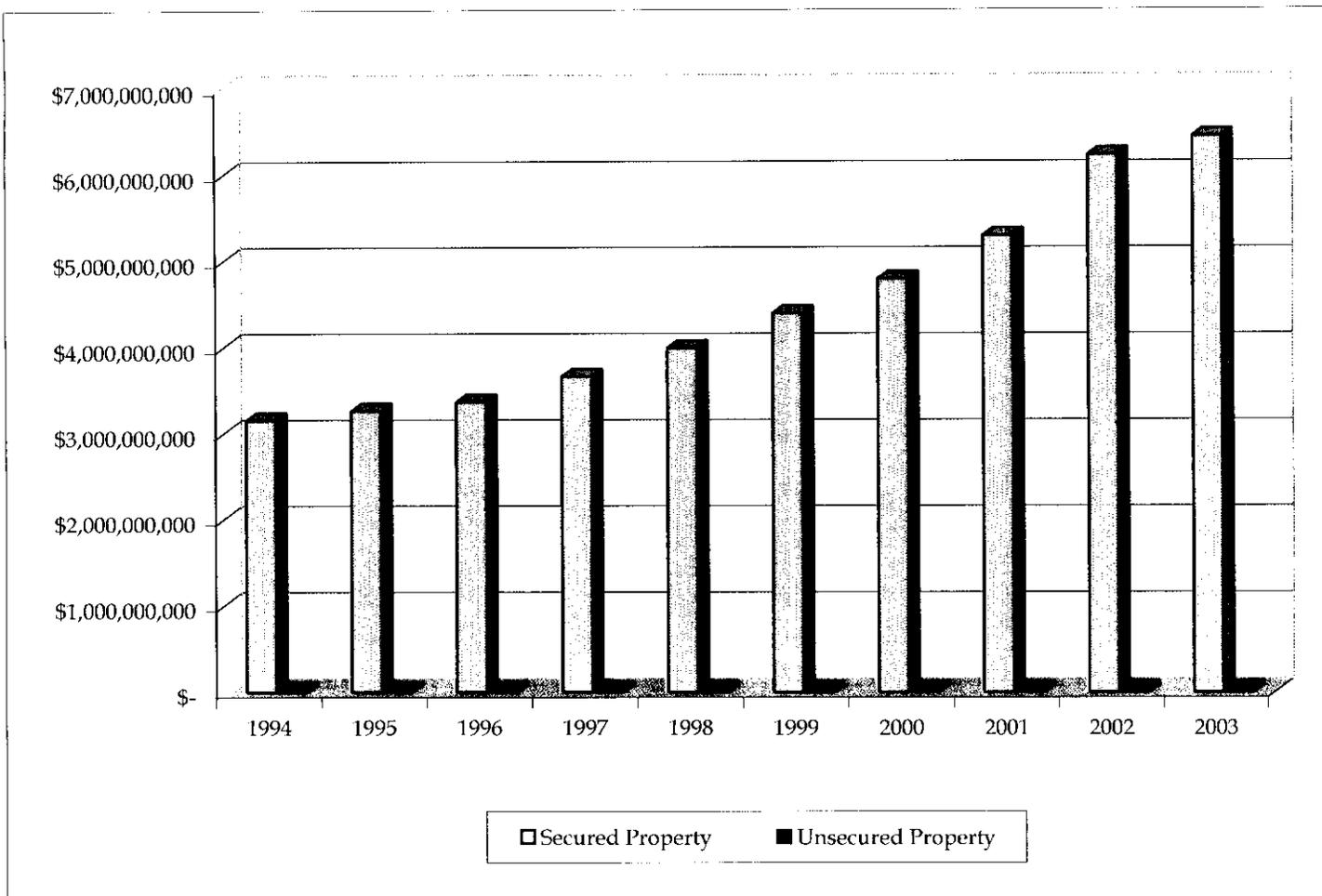
Year 2000 property tax receipts include settlement proceeds, Year 2003 property tax receipts include one time Special Assessment.

Source: City of Saratoga Finance Department

City of Saratoga

Assessed and Estimated Actual Market Value of Taxable Property

Last ten fiscal years



Fiscal Year	Secured Property	Unsecured Property	Total Assessed	Estimated Market
1994	\$ 3,153,176,308	\$ 28,486,460	\$ 3,181,662,768	\$ 3,181,662,768
1995	3,261,741,964	27,693,589	3,289,435,553	3,289,435,553
1996	3,363,964,334	34,260,345	3,398,224,679	3,398,224,679
1997	3,660,513,753	37,282,708	3,697,796,461	3,697,796,461
1998	3,990,741,994	38,639,950	4,029,381,944	4,029,381,944
1999	4,392,456,823	40,199,593	4,432,656,416	4,432,656,416
2000	4,789,325,625	34,417,462	4,823,743,087	4,823,743,087
2001	5,292,676,050	39,073,633	5,331,749,683	5,331,749,683
2002	6,227,826,411	43,634,699	6,271,461,110	6,271,461,110
2003	6,441,614,970	47,635,999	6,489,250,969	6,489,250,969

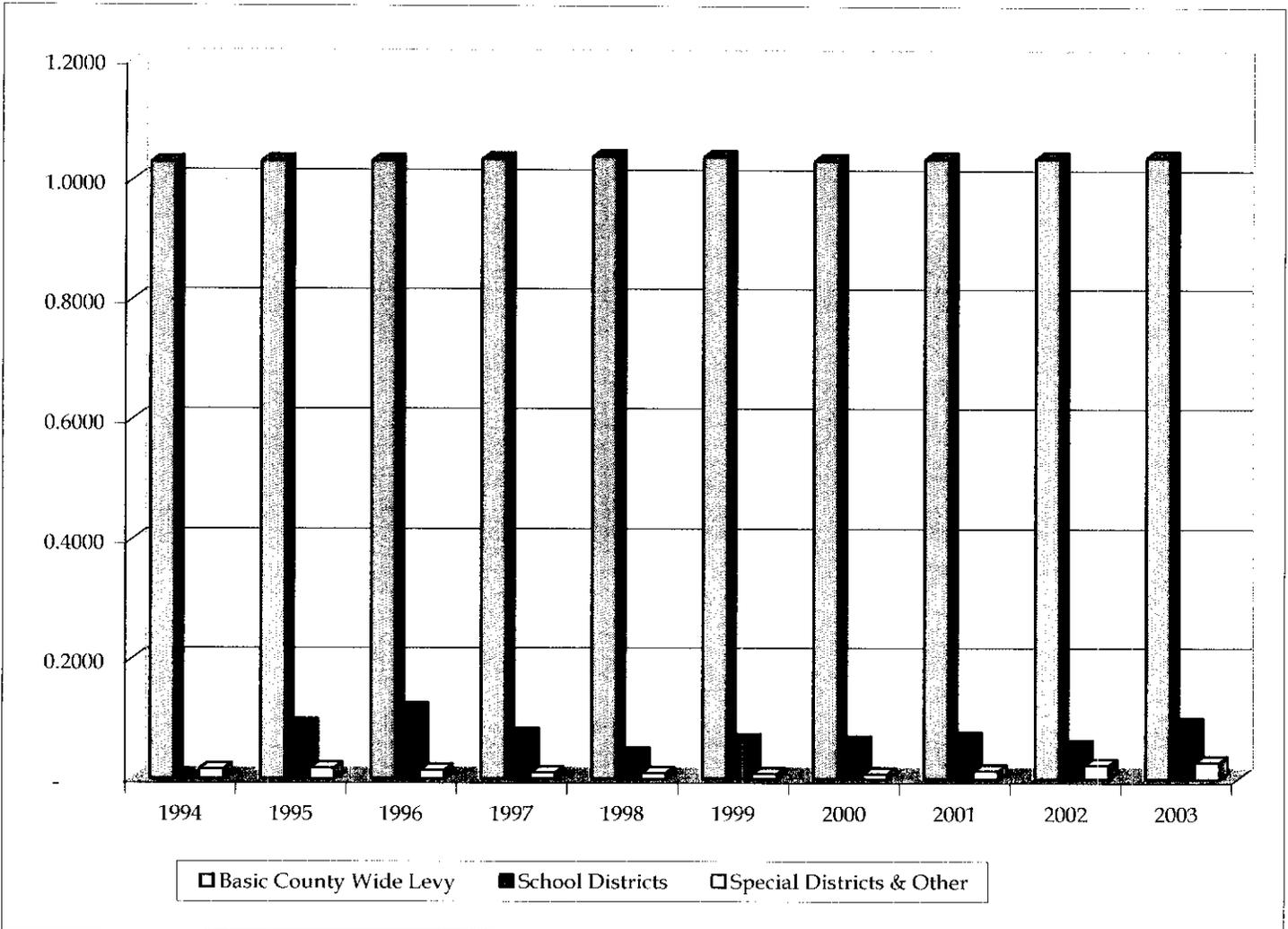
Note: The California Constitution requires properties to be assessed at full market value on the date of purchase but limits increases in assessed valuation to 2% annually.

Source: California Municipal Statistics, Inc.

City of Saratoga

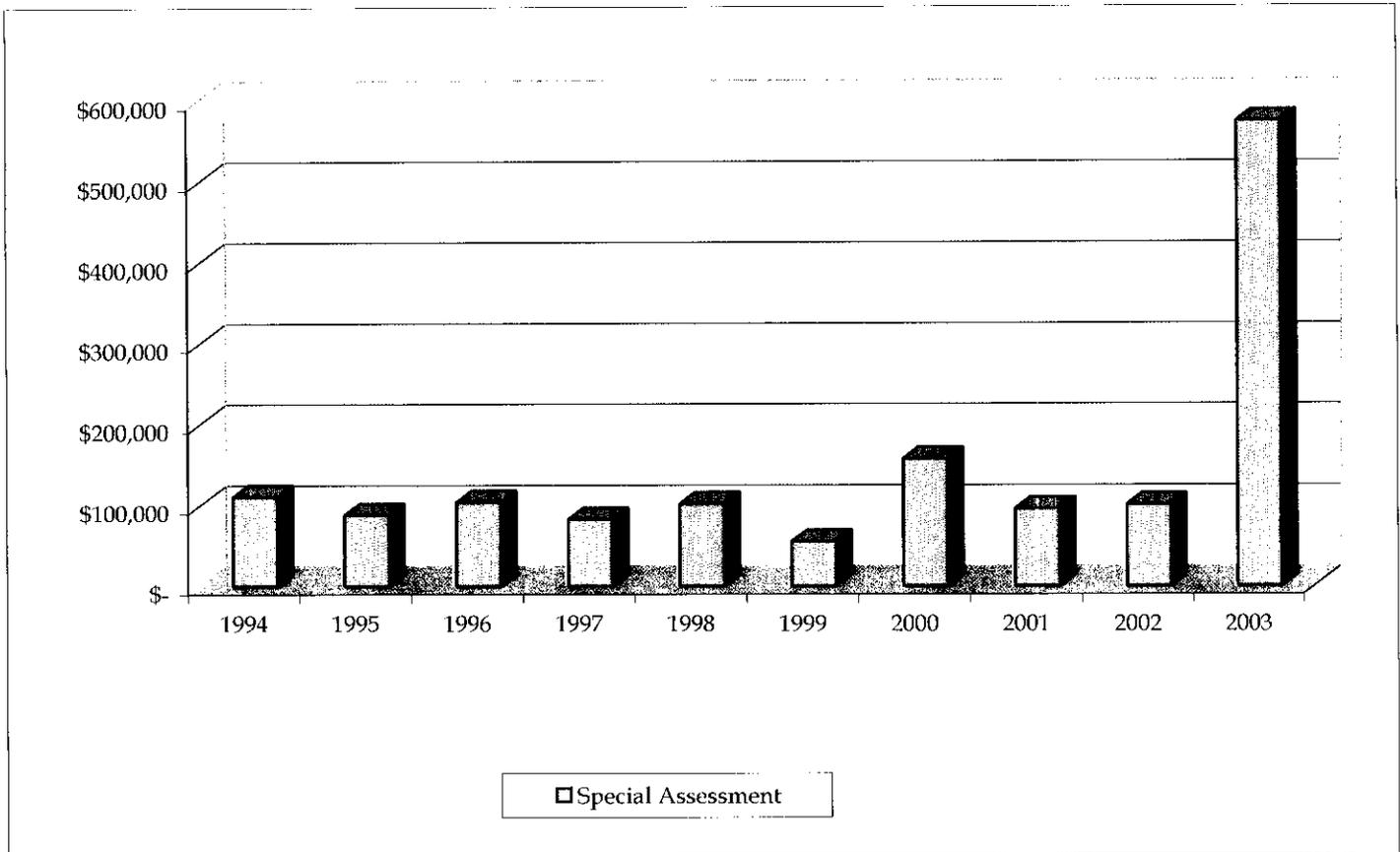
Property Tax Rates (Per \$100 of Assessed Valuation) - All Overlapping Governments

Last ten fiscal years



Fiscal Year	Basic County Wide Levy	School Districts	Special Districts and Other
1994	1.0305	-	0.0165
1995	1.0332	0.0903	0.0180
1996	1.0338	0.1170	0.0147
1997	1.0365	0.0743	0.0102
1998	1.0412	0.0415	0.0098
1999	1.0405	0.0647	0.0082
2000	1.0343	0.0612	0.0085
2001	1.0380	0.0685	0.0135
2002	1.0388	0.0544	0.0229
2003	1.0412	0.0917	0.0282

City of Saratoga
Special Assessment Billings and Collections
Last ten fiscal years

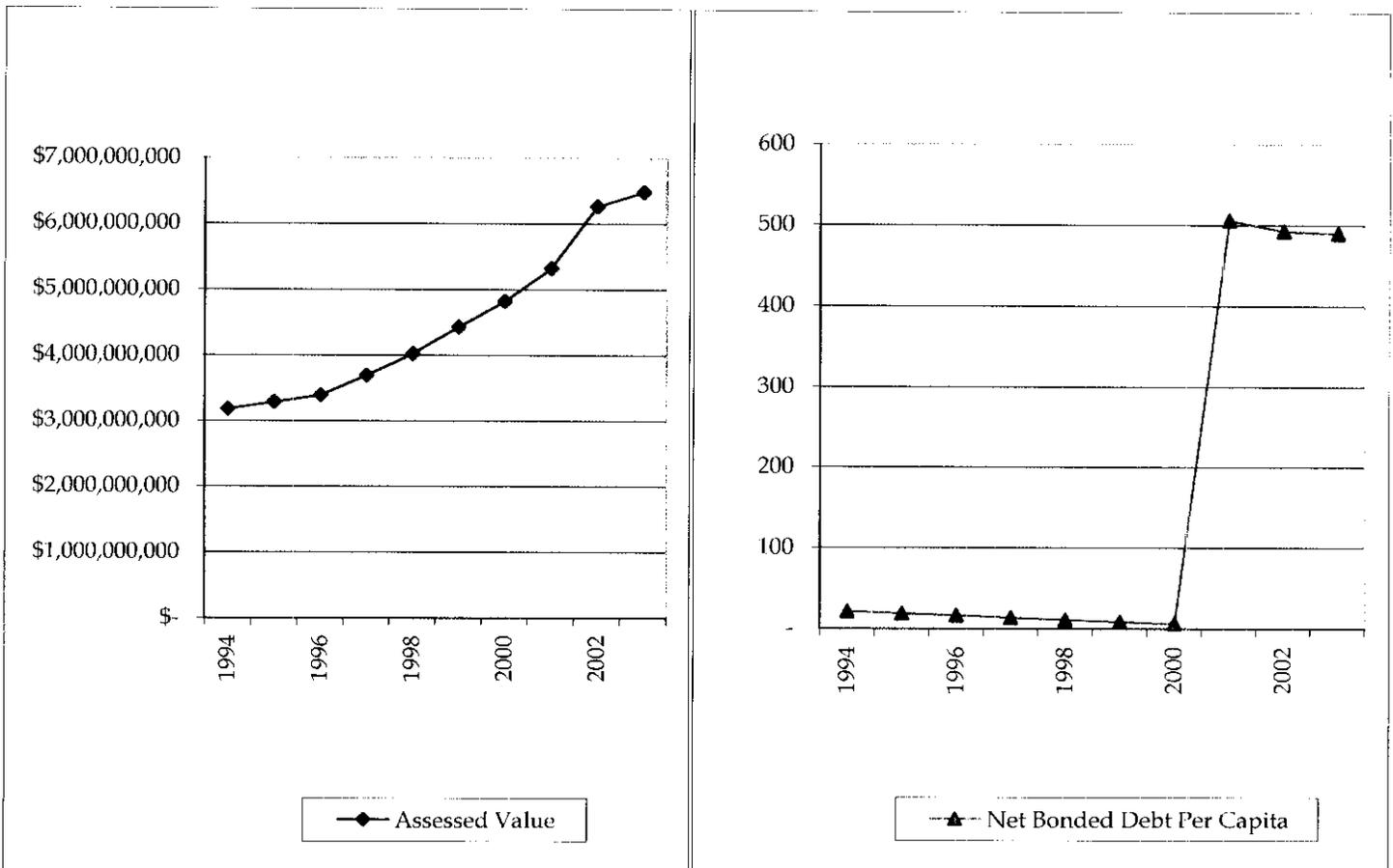


Fiscal Year	Special Assessment Billings and Collections
1994	\$ 111,010
1995	88,623
1996	104,292
1997	83,101
1998	102,164
1999	55,505
2000	157,936
2001	95,973
2002	101,162
2003	574,469

Note: Year 2003 comprises of Lighting and Landscaping and one time special assessment in General Fund
Source: City of Saratoga Annual Financial Report

City of Saratoga

Ratio of General Obligation Bonded Debt to Assessed Value and Bonded Debt Per Capita Last ten fiscal years



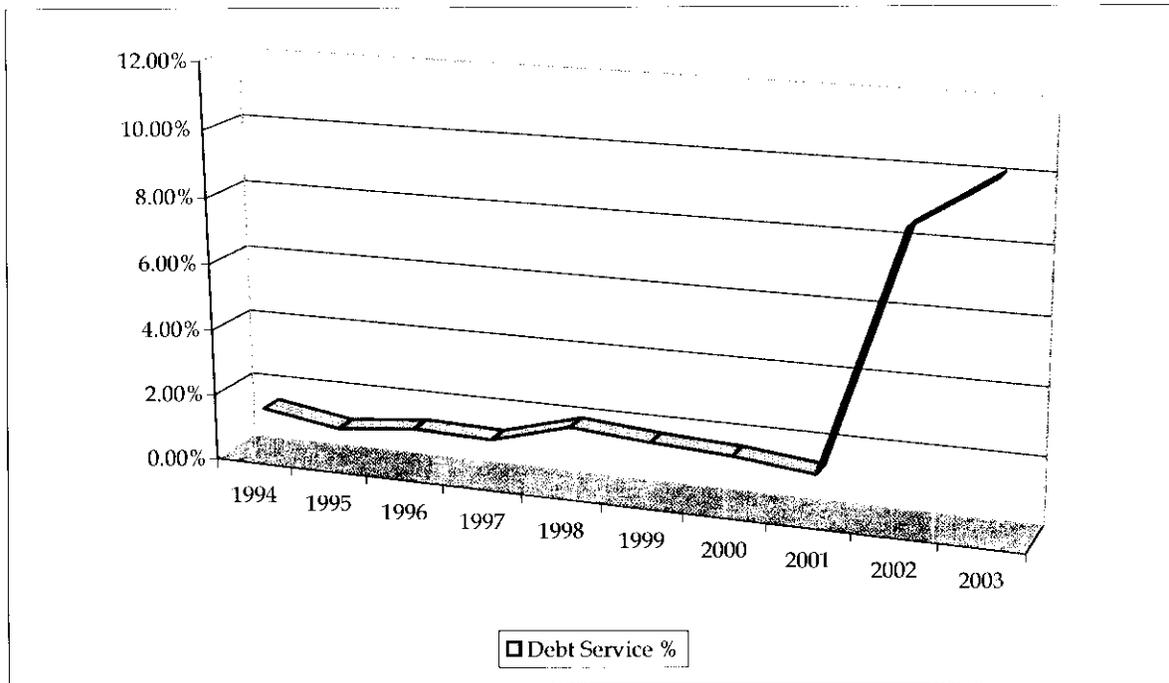
Fiscal Year	Population	Assessed Value	Bonded Debt	Net Bonded Debt Per Capita
1994	28,709	\$ 3,181,662,768	\$ 615,000	21
1995	29,576	3,289,435,553	555,000	19
1996	29,579	3,398,224,679	490,000	17
1997	30,591	3,697,796,461	415,000	14
1998	31,097	4,029,381,944	340,000	11
1999	31,255	4,432,656,416	265,000	8
2000	31,320	4,823,743,087	185,000	6
2001	29,843	5,331,749,683	15,100,000	506
2002	30,444	6,271,461,110	15,000,000	493
2003	30,482	6,489,250,969	14,940,000	490

Note: Includes Library General Obligation Bonds only

Sources: County of Santa Clara Tax Rate and Information Publication
California Municipal Statistics Inc.

City of Saratoga

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Expenditures - Last ten fiscal years

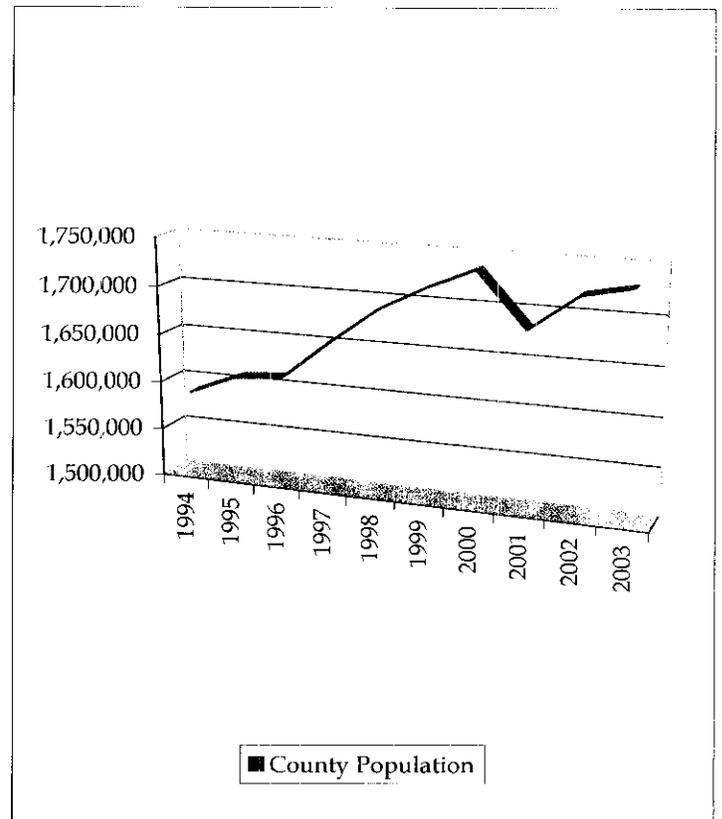
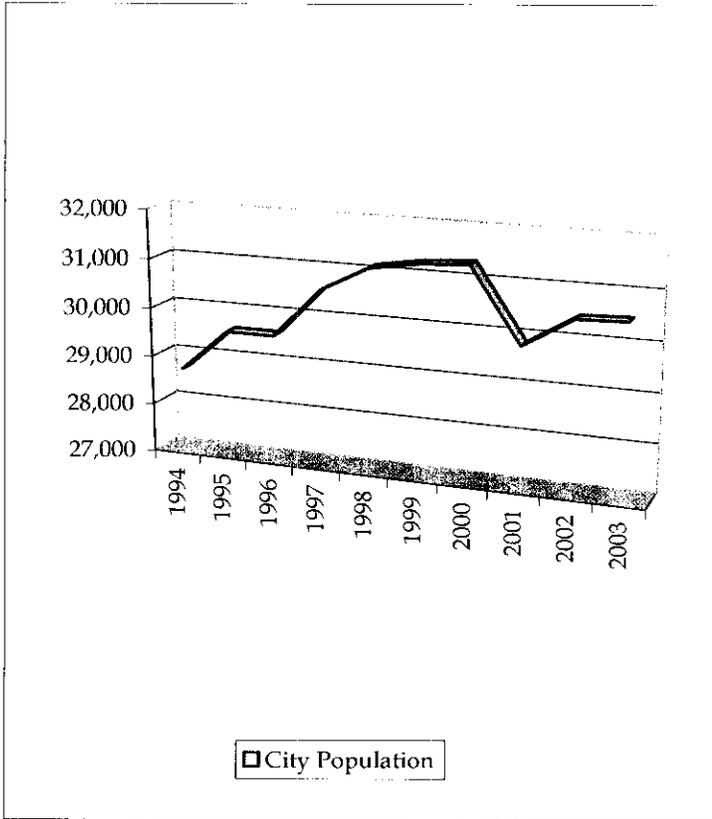


Fiscal Year	Principal	Interest	Total Debt Service	Total General Fund Expenditures	Percent of Debt Service to General Fund Expenditures
1994	\$ 55,000	\$ 36,590	\$ 91,590	\$ 6,144,518	1.49%
1995	60,000	33,644	93,644	8,370,061	1.12%
1996	65,000	30,307	95,307	7,017,231	1.36%
1997	75,000	26,700	101,700	7,840,174	1.30%
1998	75,000	22,178	97,178	5,021,873	1.94%
1999	75,000	18,071	93,071	5,365,807	1.73%
2000	80,000	18,783	98,783	6,161,151	1.60%
2001	85,000	9,774	94,774	7,041,988	1.35%
2002	99,973	592,462	692,435	8,083,477	8.57%
2003	60,000	783,756	843,756	8,363,439	10.09%

Note: Includes General Obligation Bonds

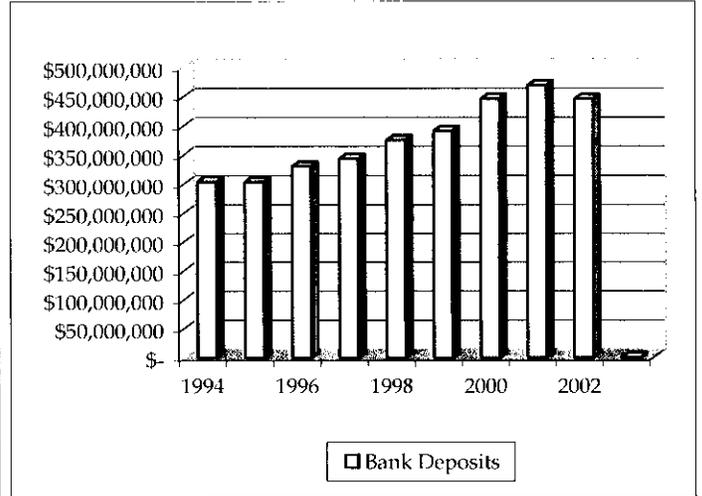
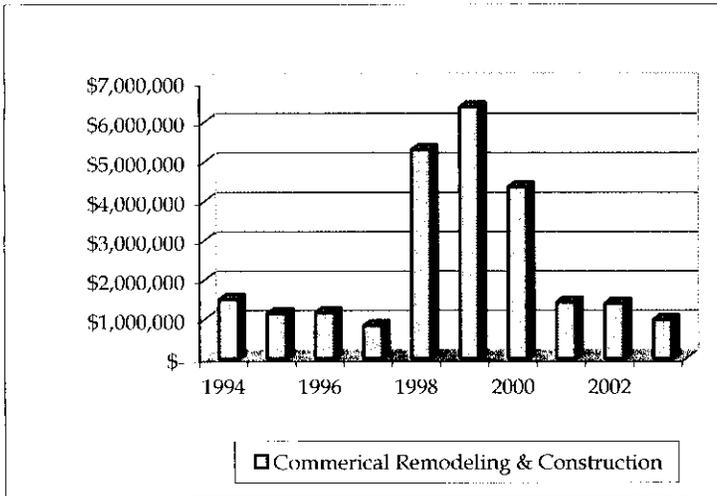
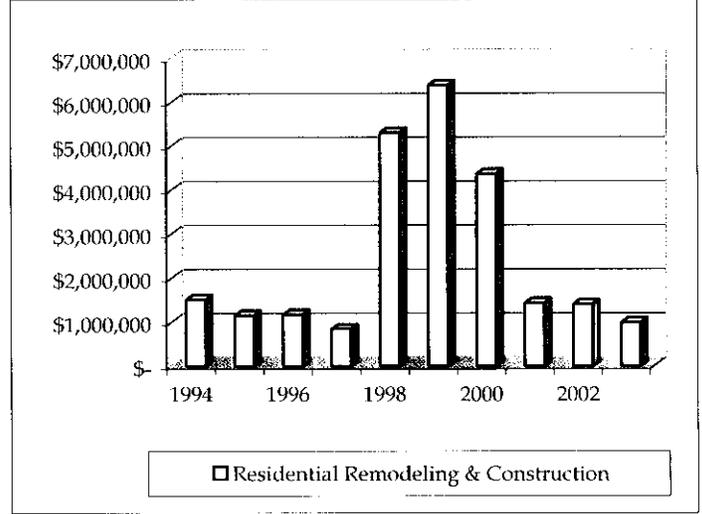
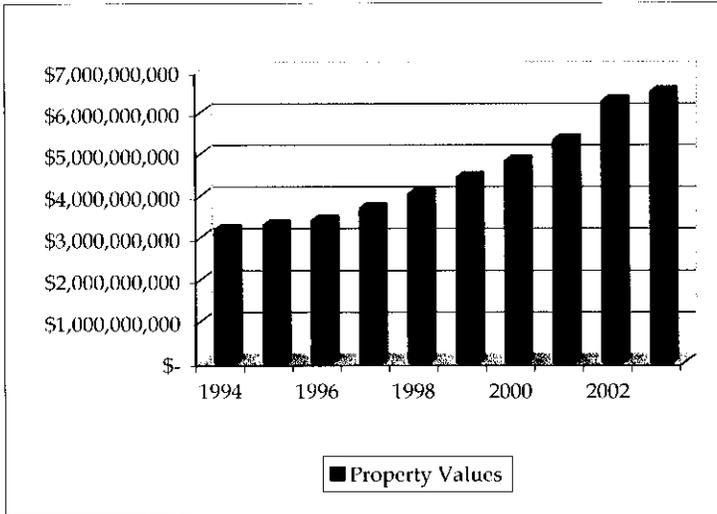
Source: City of Saratoga Finance Department

City of Saratoga
Demographic Statistics
Last ten fiscal years



Fiscal Year	City Population	Santa Clara County Population	City Population % of County
1994	28,709	1,587,768	1.81%
1995	29,576	1,607,673	1.84%
1996	29,579	1,612,258	1.83%
1997	30,591	1,653,061	1.85%
1998	31,097	1,689,908	1.84%
1999	31,255	1,715,374	1.82%
2000	31,320	1,736,722	1.80%
2001	29,843	1,682,585	1.77%
2002	30,444	1,719,565	1.77%
2003	30,482	1,729,917	1.76%

City of Saratoga
Property Values, Remodeling and Construction
Last ten fiscal years



Fiscal Year	Property Values	Commercial Remodeling and Construction		Residential Remodeling and Construction		Bank Deposits
		Number of Permits	Value	Number of Permits	Value	
1994	\$ 3,181,662,768	94	\$ 1,509,805	2,653	\$ 23,020,867	\$ 304,441,000
1995	3,289,224,679	57	1,147,719	3,194	35,922,169	304,179,000
1996	3,398,224,679	69	1,171,533	2,535	66,013,893	331,014,000
1997	3,697,796,461	52	843,020	1,834	44,982,977	343,982,200
1998	4,029,381,944	47	5,300,593	1,844	48,230,194	376,130,000
1999	4,432,656,416	66	6,383,068	1,916	66,218,156	391,733,000
2000	4,823,743,087	57	4,362,875	1,960	65,901,107	446,758,000
2001	5,331,749,683	61	1,438,538	1,631	68,500,341	469,940,000
2002	6,271,461,110	42	1,405,295	1,685	53,474,165	446,251,000
2003	6,489,250,969	41	987,768	1,346	82,162,747	N/A

Source: City of Saratoga Finance Department

Bank deposits from Findley Reports and Sheshenoff Information Services

City of Saratoga
Computation of Legal Debt Margin
June 30, 2003

Assessed value	\$ 6,489,250,969
Bonded debt limit (15% of assessed value)	\$ 973,387,645
Amount of debt subject to limit:	
Total long-term debt	14,940,000
Legal debt margin	\$ 988,327,645

City of Saratoga
Computation of Direct and Overlapping Debt
June 30, 2003

	Percentage Applicable to City of Saratoga	Amount Applicable to City of Saratoga
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County Flood Control and Water Conservation District, Zone NC-1	11.988%	\$ 25,774
Santa Clara County Flood Control and Water Conservation District, Zone W-1	3.7300	262,592
Foothill-De Anza Community College District	1.7410	1,777,375
Campbell Union High School District	5.8740	3,154,808
Fremont Union High School District	3.5450	4,779,546
Los Gatos Joint Union High School District	40.7520	29,954,758
Campbell Union School District	7.2840	4,643,427
Cupertino Union School District	6.2950	7,861,168
Moreland School District	13.2710	6,178,887
Saratoga Union School District	85.7630	44,768,494
Saratoga Fire Protection District	97.5360	5,763,146
City of Saratoga	100.0000	14,940,000
City of Saratoga 1915 Act Bonds	100.0000	360,000
Total Gross Direct And Overlapping Tax And Assessment Debt		124,469,975
Less: Santa Clara County FC and WCD, Zone NC-1 (100% self-supporting)		(25,774)
Total Net Direct And Overlapping Tax And Assessment Debt		\$ 124,444,201
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Santa Clara County General Fund Obligations	3.56%	\$ 21,609,595
Santa Clara County Board of Education Certificates of Participation	3.563	677,683
Foothill-DeAnza Community College District Certificates of Participation	1.71	451,782
West Valley Community College District Certificates of Participation	10.911	2,701,564
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	40.752	1,907,194
Cupertino Union School District Certificates of Participation	6.295	463,627
Moreland School District Certificates of Participation	13.271	771,045
Saratoga Union School District Certificates of Participation	86.145	6,891,600
Midpeninsula Regional Open Space Park District General Fund Obligations	6.251	6,758,280
Santa Clara Valley Water District Certificates of Participation	3.563	7,256,762
Santa Clara County Central Fire District Certificates of Participation	14.489	19,515
Total Direct And Overlapping General Fund Obligation Debt		\$ 49,508,647
Gross Combined Total Debt		\$ 173,978,622
Net Combined Total Debt		\$ 173,952,848 (1)

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

Ratios to Assessed Valuation:

Direct Debt (\$14,900,000)	0.23%
Total Gross Direct and Overlapping Tax and Assessment Debt	1.92%
Total Net Direct and Overlapping Tax and Assessment Debt	1.92%
Gross Combined Total Debt	2.68%
Net Combined Total Debt	2.68%

Source: California Municipal Statistics, Inc.

City of Saratoga
Principal Taxpayers
June 30, 2003

<u>Assessee</u>	<u>Use</u>	<u>Assessed Value</u>	<u>Percent of Total Assessed Value</u>
Saratoga Office Center Partners I.I.C	Office Building	\$ 28,000,033	0.43%
Navico Corporation	Residential Properties	21,635,160	0.34%
San Jose Water Works	Water Company	14,002,453	0.22%
Michael T. and Salvatore P. LaBarbera	Shopping Center	12,648,000	0.20%
Sobrato Construction Corporation	Vacant	11,730,000	0.18%
Hayfield House LLC	Residential Properties	10,761,805	0.17%
John and Karen Chapman	Single Family Residence	10,415,700	0.16%
David J. and Terri E. Morrison	Office Building	9,238,305	0.14%
William B and Marilyn I. Bean	Single Family Residence	9,224,514	0.14%
Argonaut Associates, LLC	Commercial	8,585,519	0.13%
David L. House	Single Family Residence	8,425,516	0.13%
S. and Malini Srinivasan	Single Family Residence	8,248,800	0.13%
Public Storage Props IX, Inc.	Warehousing	8,209,133	0.13%
Howell & McNeil Development, LLC	Single Family Residence	8,181,000	0.13%
Paul L. and Helga A. Hulme	Single Family Residence	7,466,572	0.12%
Classics at Azule Crossing, LP	Residential Properties	7,367,340	0.11%
Edward and Deloise A. Jordan	Single Family Residence	5,939,406	0.09%
Stephen J. Luczo	Single Family Residence	5,170,788	0.08%
Peter and June Cartwright	Single Family Residence	5,155,480	0.08%
James S. and Lynda J. Morley	Single Family Residence	5,020,348	0.08%
Total		\$ 205,425,872	3.19%
Total assessed valuation		\$ 6,441,614,970	

City of Saratoga
Miscellaneous Statistics
June 30, 2003

Date of Incorporation	
Form of Government	Council-Manager
Employees:	
Public Safety	1
City manger's office	5
Recreation	10
Public works / maintenance	22
Community development	12
Administrative services	9
Total employees	<u>59</u>
Area	12.25 square miles
Miles of Streets	150 137 public / 13 private
Length of Storm Drains	45 miles
Fire Protection:	
Saratoga Fire District:	
Number of stations	1
Number of firefighters	24
Number of reserve firefighters	15-20
Central Fire District:	
Number of stations	2
Number of firefighters	18
Number of reserve firefighters	40
Police Protection:	
Number of stations	1
Number of police officers	76
Number of support personnel	6
Water Utility:	
San Jose Water Company:	
Number of meters	10,121
Average daily consumption	792 gallons per household
Length of water mains	133 miles
Length of storm drains	45 miles
Sewer:	
West Valley Sanitation District:	
Number of connections	8,549
Length of sewer lines	123 miles
Cupertino Sanitation District:	
Number of connections	2,100
Length of sewer lines	36 miles
Culture and Recreation:	
Parks	15
Acres in parks	81 acres
Taxable Sales	\$ 102,832,900
Registered Voters	18,855
Population	30,482