COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2002

City of Saratoga, California

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CITY OF SARATOGA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2002

Prepared By:

ADMINISTRATIVE SERVICES DEPARTMENT

City of Saratoga
Comprehensive Annual Financial Report
For the year ended June 30, 2002

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CITY of SARATOGA

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

Incorporated October 22, 1956

COUNCIL MEMBERS
Dean Baker
Stan Bogosian
John Mehaffey
Chris Grant
Ann Wallenstein

October 28, 2002

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

The Comprehensive Annual Financial Report (CAFR) of the City of Saratoga for the year ended June 30, 2002, 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, 2001.

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.

Although the local recession provided ample signs of a slowdown, Saratoga's sustained economy

drove-up assessed valuations of real property by 17.61% from 2001 to 2002. In addition, the City's 2001 passing of the Library General Obligation Bond allowed the City to realize additional tax equity allocation (TEA) revenues as a result of a special legislation signed by California's Governor. SB 1883, which was approved in 2000, restored the eligibility of (four) cities in Santa Clara County to receive TEA funds subsequent to a vote of the people reinstating, increasing or imposing a new tax. In addition, the City's surplus from the "good times" enabled the City to dedicate reserves to long-term capital projects and to make major service improvements such as the new 5-year capital improvement program (CIP) budget ($13 million), improvements to Congress Springs Park, pavement management program ($1.2 million), and increased traffic patrols.

On the other hand, the tragic events of September 11th, corporate layoffs and accounting scandals also proved to adversely affect the economy resulting in an 11% decline of sales tax revenues from the previous year and a significant decline of development revenues and other taxes such as transfer, construction, and transient occupancy by as much as 50%. Fortunately the City had other revenues and receipts from one-time projects to assist in the offset of this decline.

Saratoga continues to support policies and practices intended to maintain the City's financial integrity. For example, a minimum $2.3 million General Fund operating reserve is maintained and a $200,000 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. 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 2001-2002 audit.

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for the CAFR for the fiscal year ended June 30, 2001. 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, Karen Caselli, and Joyce Lan. 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, 2001

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 2000-2001

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 20, 2002

Genie Roberts

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

CITY OF SARATOGA

ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL

As of JUNE 30, 2002

CITY COUNCIL

Nick Streit – Mayor
Evan Baker – Vice Mayor
Stan Bogosian
John Mehaffey
Ann Waltonsmith

CITY STAFF

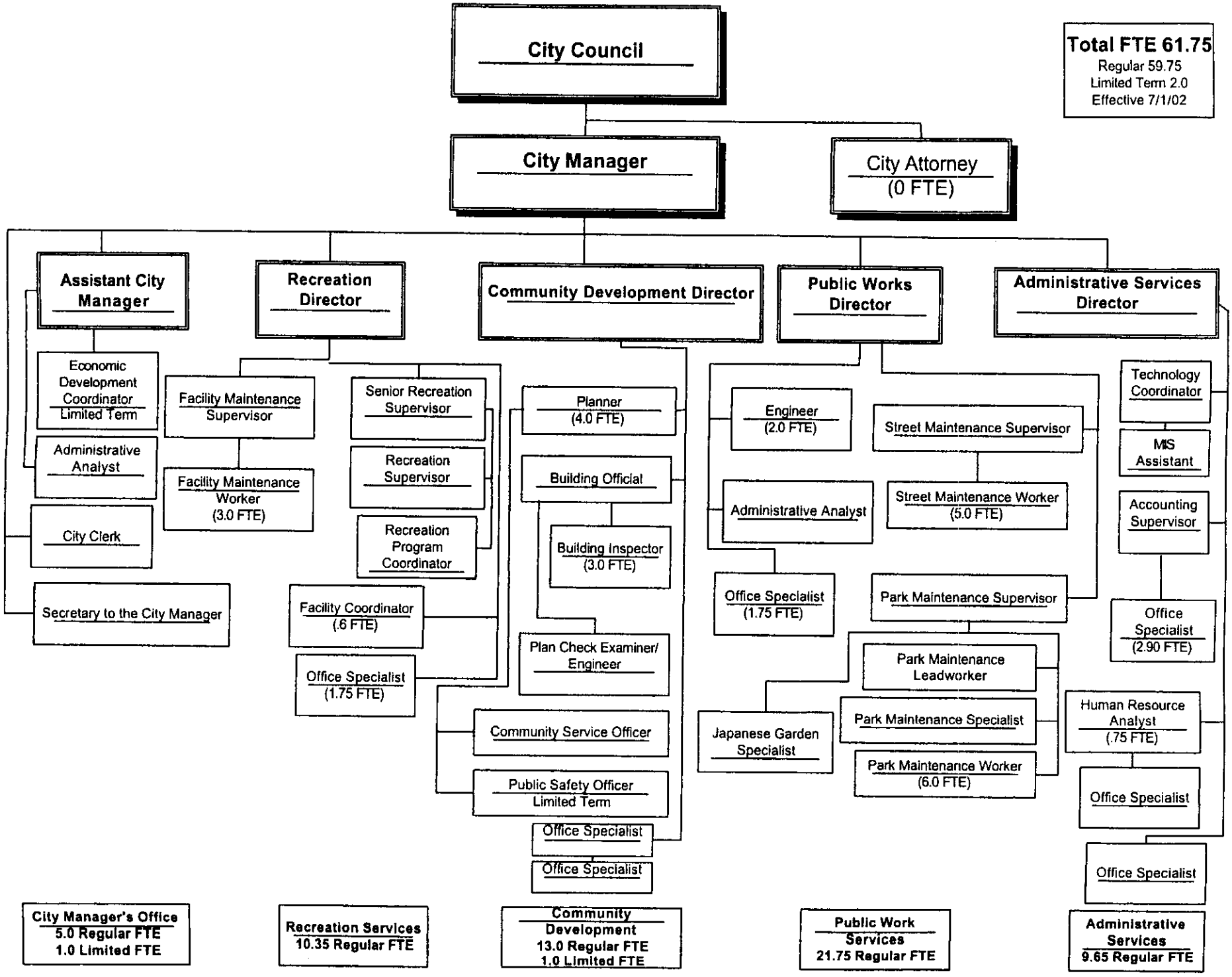
Dave Anderson – City Manager
Lorie Tinfow – Assistant City Manager
Cathleen Boyer – City Clerk
Jesse Baloca – Administrative Services Director
Tom Sullivan – Community Development Director
John Cherbone – Public Works Director
Joan Pisani – Recreation Director

CITY ATTORNEY

Richard S. Taylor – Shute, Mihaly & Weinberger

INDEPENDENCE AUDITOR

Caporicci & Larson


City Council
Total FTE 61.75
Regular 59.75
Limited Term 2.0
Effective 7/1/02
City Manager
City Attorney
(0 FTE)
Assistant City Manager
Recreation Director
Community Development Director
Public Works Director
Administrative Services Director
Economic Development Coordinator Limited Term
Administrative Analyst
City Clerk
Secretary to the City Manager
Facility Maintenance Supervisor
Facility Maintenance Worker (3.0 FTE)
Senior Recreation Supervisor
Recreation Supervisor
Recreation Program Coordinator
Facility Coordinator (.6 FTE)
Office Specialist (1.75 FTE)
Planner (4.0 FTE)
Building Official
Building Inspector (3.0 FTE)
Plan Check Examiner/ Engineer
Community Service Officer
Public Safety Officer Limited Term
Office Specialist
Office Specialist
Engineer (2.0 FTE)
Administrative Analyst
Office Specialist (1.75 FTE)
Street Maintenance Supervisor
Street Maintenance Worker (5.0 FTE)
Park Maintenance Supervisor
Park Maintenance Leadworker
Park Maintenance Specialist
Park Maintenance Worker (6.0 FTE)
Japanese Garden Specialist
Technology Coordinator
MIS Assistant
Accounting Supervisor
Office Specialist (2.90 FTE)
Human Resource Analyst (.75 FTE)
Office Specialist
Office Specialist
City Manager's Office
5.0 Regular FTE
1.0 Limited FTE
Recreation Services
10.35 Regular FTE
Community Development
13.0 Regular FTE
1.0 Limited FTE
Public Work Services
21.75 Regular FTE
Administrative Services
9.65 Regular FTE

C&L
Caporicci & Larson
Certified Public Accountants

Offices located in:
Bay Area
Orange County
Sacramento

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, 2002, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2002, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

As discussed in Note 1 to the basic financial statements, the City adopted Statements of the Governmental Accounting Standards Board No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and, No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Oakland, California 94612

Orange County
3184-D Airway Avenue
Costa Mesa, California 92626

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

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

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.

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 taken as a whole. The introductory section and statistical tables 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.

Caporicci & Larson

Oakland, California
October 4, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Saratoga provides this Management Discussion and Analysis, a new 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 ended June 30, 2002. Please consider this information in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FINANCIAL HIGHLIGHTS

During economic recessed conditions, the City experienced a mix of major revenues that continued to show slight growth and was fortunate to offset the downturn in volatile development and retail related revenue streams. Financial highlights of the year include the following:

- The City's net assets increased by over $1.2 million or 1.0% over the prior year. The City does not have any business-type assets.

- The results of activities produced an increase to nets assets by $1.2 million in fiscal year 2002 and $4.5 million in fiscal year 2001. Although both fiscal years favored an increase to net assets, the net results from activities decreased by $3.2 million or 72.4% from fiscal year 2001 to 2002.

- Fiscal year 2002 revenues showed very little change, decreasing slightly by only $4 thousand or .02% from 2001. Change in 2002 revenue activity from 2001 was the result of offsetting activity that reflects the following major highlights:
    - $2.3 million in one-time capital grants received in 2001 and not in 2002 where $2.1 supports the funding of the City's Gateway capital improvement project;
    - The increase of property taxes of approximately $1.8 million primarily reflects a 17.61% growth in assessed valuations from 2001 to 2002, additional Tax Equity Allocation revenues as a result of a special legislation from passing of 2001 voter approved Library General Obligation Bonds, and property tax proceeds to be used for the new Library General Obligation Bonds debt service payments; and the
    - Decline of sales tax, local taxes, and interest earnings by more than $0.8 million.

- The cost of all City programs increased by $3.2 million or 22.9%, and was largely supported by the increase in revenues that support program expenses. Changes to City program expenses reflect the following major highlights:
    - $375 thousand increase to general and intergovernmental services;
    - $500 thousand increase for public safety services that primarily reflects increases to police and animal control services;
    - $800 thousand increase for public works services such as streets and roads that were offset by pavement management grant funding;

- $779 thousand increase in debt service interest reflects the final payment of the City's 1976 Library General Obligation Bond and payment on the City's new 2001 Library General Obligation Bond, which is supported by the increase in voter approved property tax revenues;
- $470 thousand for recreation and other community services where the direct costs are primarily supported by the increase in fees that reflect greater community participation levels; and
- $294 thousand recognized as an expense for depreciation.

- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease in fund balance by $5.5 million or 44.2% that primarily reflects the dedication of surplus reserves to the City's new 5-year Capital Improvement Program (CIP).

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 basis 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 ended June 30, 2002 financials in a new format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). Therefore, for this government-wide financial analysis and for comparative purposes, the City is presenting the fiscal year 2001 in a similar format.

Statement of Net Assets

The City's Net Assets comparing 2002 to 2001 is as follows:

Statement of Net Assets
(in Thousands)

	Governmental Activities	
	2002	2001
Current Assets	$ 29,659	$ 34,281
Capital Assets	106,105	99,666
Total Assets	135,764	133,947
Current Liabilities	2,098	1,645
Long-term Debt	15,085	15,090
Total Liabilities	17,183	16,735
Net Assets:		
Invested in Capital Assets, net of debt	91,105	84,566
Restricted	18,435	18,394
Unrestricted	9,041	14,387
Total Net Assets	$ 118,581	$ 117,347

The City's net assets total $118.6 million at the end of 2002, compared to $117.3 million in 2001. The largest portion of the City's net assets $91.1 million or 76.8% 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, $18.4 million or 15.5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $9 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, 2002 and 2001 is as follows:

Changes in Net Assets
(in Thousands)

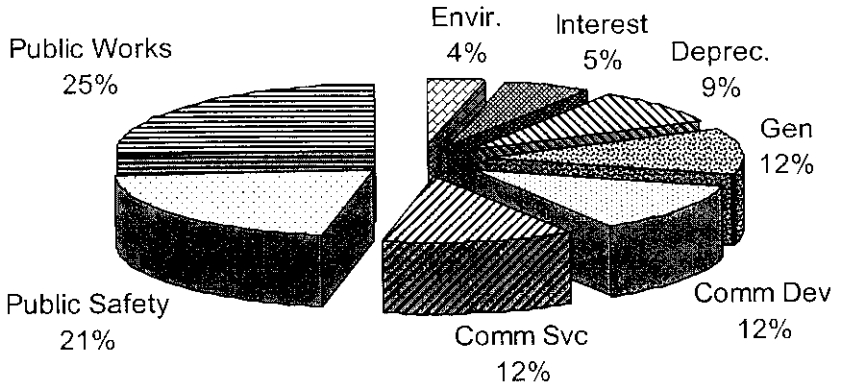
	Governmental Activities	
	2002	2001
Program Revenues:		
Charges for services	$ 5,972	$ 5,576
Operating grants and contributions	1,902	1,773
Capital grants and contributions	-	2,300
Total Program Revenues	7,874	9,649
General Revenues:		
Property taxes	4,044	2,171
Sales taxes	1,067	1,349
Franchise taxes	1,011	877
Local taxes	1,177	1,478
Motor vehicle in-lieu fees	1,808	1,756
Investment earnings	879	1,132
Miscellaneous	754	206
Total General Revenues	10,740	8,969
Total Revenues	18,614	18,618
Expenses:		
General and intergovernmental services	2,005	1,630
Public safety	3,653	3,157
Environmental services	650	724
Public works	4,477	3,678
Community services	2,121	1,651
Community development services	2,026	1,923
Interest on long-term debt	920	141
Depreciation expenses	1,529	1,235
Total expenses	17,381	14,139
Increase (decrease) in net assets	$ 1,233	$ 4,479

As mentioned earlier, the City's net assets increased by $1.2 million or 0.9% over the prior year. Most of the City's general service programs are supported by General Revenues that represent $10.7 million or 57.7% of total citywide revenues. The increase of property taxes of approximately $1.8 million primarily reflects a 17.61% growth in assessed valuations from 2001 to 2002, additional Tax Equity Allocation revenues as a result of a special legislation from passing of 2001 voter approved Library General Obligation Bonds, and property tax proceeds to be used for the new Library General Obligation Bonds debt service payments.

Charges for service revenues represent 32.1% 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 $17.4 million and is an increase of $3.2 million or 22.9%. The increase in debt service interest reflects the final payment of the City's 1976 Library General Obligation Bond and payment on the City's new 2001 Library General Obligation Bond.

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, 2002. A highlight of significant changes from the City's original budget to the final budget is summarized as follows:

Revenues

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

- A conservative 15% decline in retail activity and sales tax revenues;
- Reduction in transfer tax by 30% and transient occupancy tax by 44% to and an increase in construction tax by 49% to reflect a specific housing development project;
- An increase in youth sports donations to support park projects and improvements.

Expenses and Transfers

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

- $5.3 million operating transfers undesignated reserves to the City's new 5-year Capital Improvement Program for projects relating to public safety, infrastructure, facilities, and parks and trails;
- Re-appropriation of encumbrances outstanding from the year ended June 30, 2001 to July 1, 2002 for approximately $375k;

- Amendment to the Law Enforcement contract for an additional six months of traffic patrol officer support;
- $25k for a consultant to assist with projects related to financial reporting and record keeping; and
- $125k for park upgrades, community center remodeling, and a civic center master plan.

CAPITAL ASSETS

As of June 30, 2002, the City had $106.1 million invested in a variety of capital assets, as reflected in the following schedule, which represents an increase of $6.4 million or 6.5% above the prior year.

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

	Governmental Activities	
	2002	2001
Land	$ 4,831	$ 4,831
Buildings and Structures	3,088	3,209
Machinery and Equipment	791	665
Infrastructure	88,407	89,558
Construction in Progress	8,988	1,403
Total	$ 106,105	$ 99,666

The following reconciliation summarizes the change in Capital Assets, which primarily reflects the addition of Construction in Progress for the new Library Expansion Project and the beginning phases for various Public Works Capital Improvement Projects (CIP's) as part of the City's new multiple-year 5-year CIP budget program and the inclusion of depreciation.

Changes in Capital Assets
(In Thousands)

	Governmental Activities	
	2002	2001
Beginning Balance	$ 99,666	$ 10,384
Additions:		
CIP	7,585	-
Infrastructure	9	98,820
Machinerery and Equipment	379	-
Retirements:		
Inventory Adjustments	(1,073)	(913)
Depreciation	(461)	(8,625)
Ending Balance	$ 106,105	$ 99,666

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

Oustanding Debt, at year-end
(In Thousands)

	Governmental Activities	
	2002	2001
1976 General Obligation Bond	$ -	$ 100
2001 General Obligation Bond	15,000	15,000
Claims Payable	50	50
Compensated Absences	316	132
Total	$ 15,366	$ 15,282

The current portions of long-term debt ($281 thousand and $19 thousand for 2002 and 2001, respectively) are classified as current liabilities in the City's Statement of Net Assets.

During the year, the City made final payment of $100,000 towards a 1976 general obligation bond, which was payable from lease revenues received from the County of Santa Clara for the Saratoga Library. In March 2000, residents of Saratoga approved an increase in their property tax rate to pay for the debt service payments on new Library General Obligation Bonds in the amount of $15 million for a new Library Expansion Project. The Library bonds were issued in May 2001, and the first debt service payment (interest only) began February 2002.

The change in compensated absences primarily reflects the way that annual leave is recognized to a more conservative approach. Further information on the City's outstanding debt can be found in the notes to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

During the difficult economic times for the Bay Area/Silicon Valley region of Northern California, the City's finances remain stable in its ability to maintain existing operations with current revenues. As of the end of the year, signs of recovery are anticipated but growth remains questionable. The City's primary focus for the new fiscal year is on its need to exercise caution and on maintaining operational balance.

Property tax revenues continue to increase along with assessed valuations that have increased by 3.47% for Saratoga and 5.52% for all of Santa Clara County but not to the extent of prior dot.com boom years. The 2000-2001 fiscal year began with an assessed valuation growth of 17.61% for Saratoga and 15.56% for Santa Clara County.

Although low interest rates may spur homeowners to refinancing, temporarily boosting retail sales, we anticipate that the Bay Area unemployment rate, which continues to be higher than the national average, may counter any return of the 11% decline in sales tax revenues experience this last fiscal year.

Even though Cities have been fortunately spared to-date from the loss of State funding from motor-vehicle license fee revenues, the potential threat of a future loss remains unknown till after January 1, 2003.

Major initiatives for the fiscal year 2002-2003 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

- Utilize existing reserves to acquire a new North Campus property for the expansion of City services.

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

CALIFORNIA

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City of Saratoga
Statement of Net Assets
June 30, 2002

	Primary Government Governmental Activities
ASSETS	
Current assets:	
Cash and investments	$ 18,646,024
Restricted cash and investments	9,656,985
Receivables:	
Accounts	602,547
Interest	162,646
Loans	455,561
Deposits	135,000
Total current assets	29,658,763
Noncurrent assets:	
Capital assets:	
Non-depreciable	59,001,944
Depreciable, net	47,103,472
Total capital assets	106,105,416
Total noncurrent assets	106,105,416
Total assets	135,764,179
LIABILITIES	
Current liabilities:	
Accounts payable	870,888
Accrued payroll	105,361
Interest payable	327,190
Deposits payable	8,107
Deferred revenue	455,561
Claims payable	50,000
Long-term debt - due within one year	281,184
Total current liabilities	2,098,291
Noncurrent liabilities:	
Long-term debt - due in more than one year	15,084,793
Total noncurrent liabilities	15,084,793
Total liabilities	17,183,084
NET ASSETS	
Investment in capital assets, net of related debt	91,105,416
Restricted for:	
Capital projects	17,546,194
Debt service	554,076
Special projects	334,448
Total restricted	18,434,718
Unrestricted	9,040,961
Total net assets	$ 118,581,095

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, 2002

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Totals
Primary government:					
Governmental activities:					
General and intergovernmental services	$ 2,005,244	$ 1,589,985	$ -	$ -	$ 1,589,985
Public safety	3,653,114	237,718	259,988	-	497,706
Environmental services	650,184	626,192	35,178	-	661,370
Public works	4,476,568	155,661	1,383,228	-	1,538,889
Community services	2,120,523	1,062,673	10,000	-	1,072,673
Community development services	2,025,887	2,300,600	213,254	-	2,513,854
Interest on long-term debt	919,625	-	-	-	-
Depreciation expense	1,529,505	-	-	-	-
Total	$ 17,380,650	$ 5,972,829	$ 1,901,648	$ -	$ 7,874,477

General revenues:

Taxes:

Property taxes

Sales taxes

Franchise taxes

Local taxes

Total taxes

Motor vehicle in-lieu fees

Investment earnings

Miscellaneous

Total general revenues

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	
$	(415,259)
	(3,155,408)
	11,186
	(2,937,679)
	(1,047,850)
	487,967
	(919,625)
	(1,529,505)
	(9,506,173)
	4,044,295
	1,066,607
	1,010,609
	1,177,436
	7,298,947
	1,807,802
	878,734
	754,252
	10,739,735
	1,233,562
	117,347,533
$	118,581,095

CITY OF SARATOGA

CALIFORNIA

CITY OF SARATOGA

CALIFORNIA

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.

Streets and Roads Special Revenue Fund

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.

Development Services Special Revenue Fund

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

Library Expansion Capital Project Fund

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

Capital Improvement Capital Project 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, 2002

	Major Funds			
	General	Community Development Block Grant	Streets and Roads	Development Services
ASSETS				
Cash and investments	$ 6,730,082	$ 91,437	$ 2,211,737	$ 1,686,291
Restricted cash and investments	8,542	122,403	-	-
Receivables:				
Accounts	283,777	-	24,575	66,653
Interest	129,668	-	-	-
Loans	-	455,561	-	-
Deposits	135,000	-	-	-
Due from other funds	9,142	-	-	-
Advances to other funds	137,111	-	-	-
Total assets	$ 7,433,322	$ 669,401	$ 2,236,312	$ 1,752,944
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 354,647	$ -	$ 104,256	$ 17,678
Accrued payroll	58,997	299	10,592	18,639
Due to other funds	-	-	-	-
Deposits payable	-	-	-	-
Deferred revenue	-	455,561	-	-
Advances from other funds	-	137,111	-	-
Claims payable	50,000	-	-	-
Total liabilities	463,644	592,971	114,848	36,317
Fund Balances:				
Reserved for:				
Encumbrances	164,713	1,500	113,783	2,500
Deposits	135,000	-	-	-
Petty cash	300	-	-	-
AT&T settlement	16,103	-	-	-
Advances to other funds	137,111	-	-	-
Debt service	-	-	-	-
Unreserved, designated for				
Unrealized investment gain	54,040	-	-	-
Operations	2,316,262	-	-	-
PERS	104,751	-	-	-
MIS	165,000	-	-	-
Unreserved, undesignated	3,876,398	74,930	2,007,681	1,714,127
Total fund balances	6,969,678	76,430	2,121,464	1,716,627
Total liabilities and fund balances	$ 7,433,322	$ 669,401	$ 2,236,312	$ 1,752,944

See accompanying Notes to the Basic Financial Statements.

Major Funds			
Library Expansion	Capital Improvement	Other Governmental Funds	Total Governmental Funds
$ -	$ 5,787,856	$ 2,138,621	$ 18,646,024
9,526,040	-	-	9,656,985
1,750	-	225,792	602,547
32,978	-	-	162,646
-	-	-	455,561
-	-	-	135,000
-	-	-	9,142
-	-	-	137,111
$ 9,560,768	$ 5,787,856	$ 2,364,413	$ 29,805,016
$ 263,274	$ 24,644	$ 106,389	$ 870,888
-	-	16,834	105,361
-	-	9,142	9,142
-	-	8,107	8,107
-	-	-	455,561
-	-	-	137,111
-	-	-	50,000
263,274	24,644	140,472	1,636,170
587,152	198,949	36,192	1,104,789
-	-	-	135,000
-	-	-	300
-	-	-	16,103
-	-	-	137,111
-	-	554,076	554,076
10,157	-	-	64,197
-	-	-	2,316,262
-	-	-	104,751
-	-	-	165,000
8,700,185	5,564,263	1,633,673	23,571,257
9,297,494	5,763,212	2,223,941	28,168,846
$ 9,560,768	$ 5,787,856	$ 2,364,413	$ 29,805,016

CITY OF SARATOGA

CALIFORNIA

City of Saratoga

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets

June 30, 2002

Total Fund Balances - Total governmental funds	$	28,168,846
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		59,001,944
Depreciable capital assets, net		47,103,472
Total capital assets		106,105,416
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.		(327,190)
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:		
Long-term liabilities - due within one year		(281,184)
Long-term liabilities - due in more than one year		(15,084,793)
Total long-term liabilities		(15,365,977)
Net Assets of Governmental Activities	$	118,581,095

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, 2002

	Major Funds			
	General	Community Development Block Grant	Streets and Roads	Development Services
REVENUES:				
Property taxes	$ 2,772,021	$ -	$ -	$ -
Special assessments	-	-	-	-
Other local taxes	2,067,288	-	-	-
Intergovernmental - State	1,885,194	-	1,055,845	-
Intergovernmental - Federal	16,698	147,263	252,705	-
Franchise fees	1,010,609	-	-	-
Use of money and property	216,562	65,991	74,678	78,572
Current service charges	956,953	-	155,660	1,806,154
Reimbursement of interfund cost allocations	1,589,985	-	-	-
Total revenues	10,515,310	213,254	1,538,888	1,884,726
EXPENDITURES:				
Current:				
General and intergovernmental services	1,943,301	-	-	-
Public safety	3,570,910	-	-	-
Environmental services	-	-	59,077	-
Public works	1,378,334	-	2,804,438	-
Community services	465,241	122,405	-	-
Community development services	111,520	-	-	1,892,680
Capital outlay	614,171	39,067	365,373	14,070
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	8,083,477	161,472	3,228,888	1,906,750
REVENUES OVER (UNDER) EXPENDITURES	2,431,833	51,782	(1,690,000)	(22,024)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	1,689,999	-
Operating transfers out	(7,536,952)	-	-	-
Total other financing sources (uses)	(7,536,952)	-	1,689,999	-
Net change in fund balances	(5,105,119)	51,782	(1)	(22,024)
FUND BALANCES:				
Beginning of year	12,074,797	24,648	2,121,465	1,738,651
End of year	$ 6,969,678	$ 76,430	$ 2,121,464	$ 1,716,627

See accompanying Notes to the Basic Financial Statements.

Major Funds			
Library Expansion	Capital Improvement	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ 1,234,190	$ 4,006,211
-	-	101,162	101,162
-	-	-	2,067,288
-	-	135,178	3,076,217
-	-	-	416,666
-	-	-	1,010,609
381,437	337,435	346,460	1,501,135
5,300	-	1,920,872	4,844,939
-	-	-	1,589,985
386,737	337,435	3,737,862	18,614,212
-	-	-	1,943,301
-	-	80,529	3,651,439
-	-	591,107	650,184
-	-	237,919	4,420,691
-	-	1,490,032	2,077,678
-	-	-	2,004,200
5,136,716	120,213	1,673,958	7,963,568
-	-	100,000	100,000
-	-	592,435	592,435
5,136,716	120,213	4,765,980	23,403,496
(4,749,979)	217,222	(1,028,118)	(4,789,284)
-	5,545,990	551,953	7,787,942
-	-	(250,990)	(7,787,942)
-	5,545,990	300,963	-
(4,749,979)	5,763,212	(727,155)	(4,789,284)
14,047,473	-	2,951,096	32,958,130
$ 9,297,494	$ 5,763,212	$ 2,223,941	$ 28,168,846

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, 2002

Net Change in Fund Balances - Total governmental funds	$ (4,789,284)
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 was the amount of capital assets recorded in the current period.	7,963,568
Depreciation expense on capital assets 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, depreciation expense was not reported as expenditures in governmental funds.	(1,529,505)
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.	(184,027)
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	100,000
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.	(327,190)
Change in Net Assets of Governmental Activities	$ 1,233,562

See accompanying Notes to the Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds

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

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
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	Agency Funds
ASSETS	
Cash and investments	$ 734,964
Restricted cash and investments	325,228
Accounts receivable	42,946
Total assets	$ 1,103,138
LIABILITIES	
Accounts Payable	$ 2,010
Due to assessment district bondholders	386,044
Deposits payable	715,084
Total liabilities	$ 1,103,138

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, 2002

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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 30,444 at June 30, 2002. 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, 2002, the City's staff comprised 62 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 2 City employees.

- 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 16 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

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 #1 - The Lighting and Landscaping Assessment District #1 (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.

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
- Operating 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. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

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. The agency funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting as are the governmental funds explained above.

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.

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets, Continued

The following conditions were defined:

Condition	Rating
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, 2002. 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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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.

J. 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.

K. 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. 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."

M. 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.

N. 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.

O. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Implementation of New GASB Pronouncements

In 2002, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*
- Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*
- Statement No. 38, *Certain Financial Statement Note Disclosures*

GASB Statement No. 34 is a new financial reporting requirement for local governments in the United States. The City has implemented this pronouncement and has restructured much of the information that it has presented in the past. The main goal is to make the reports more comprehensive and easier to understand and use.

GASB Statement No. 37 address selected issues and amends GASB Statement No. 21, *Accounting for Escheat Property*, and No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* These Statements make selective changes including accounting for Escheat Property, Management's Discussion and Analysis, Capitalization of Construction - Period Interest, Modified Approach for Reporting Infrastructure, Program Revenues and Major Fund Criteria.

GASB Statement No. 38 establishes and modifies disclosure requirements related to Summary of Significant Accounting Policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

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 $3,578,350 at June 30, 2002. Bank balances before reconciling items were $5,160,425 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.

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

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.

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.

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2001, 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.

As of June 30, 2002, the City had $19,492,008 invested in LAIF as cash and investments and $3,663,433 invested in LAIF as restricted cash and investments, which had invested 3.086% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.002780144 was used to calculate the fair value of the investments in LAIF.

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.

2. CASH AND INVESTMENTS, Continued

C. Credit Risk, Continued

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.

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, 2002:

	Government-Wide Statement of Net Assets Governmental Activities	Fiduciary Funds Statement of Net Assets	Totals
Pooled cash and investments	$ 18,646,024	$ 734,964	$ 19,380,988
Restricted cash and investments	9,656,985	325,228	9,982,213
Totals	$ 28,303,009	$ 1,060,192	$ 29,363,201

2. CASH AND INVESTMENTS, Continued

D. Summary of Cash and Investments, Continued

Deposits and investments were categorized as follows at June 30, 2002:

	Category 1	Not Required to be Categorized	Fair Value
City Treasury:			
Demand Deposits:			
Cash deposit	$ 3,578,350	$ -	$ 3,578,350
Certificates of deposit	1,136,542	-	1,136,542
Total demand deposits	4,714,892	-	4,714,892
Investments:			
Local agency investment fund	-	19,492,008	19,492,008
Total investments	-	19,492,008	19,492,008
Total deposits and investments	4,714,892	19,492,008	24,206,900
Cash and Investments with Fiscal Agents:			
Cash deposits	1,167,705	-	1,167,705
Money market mutual funds	-	165,163	165,163
Guaranteed investment contract		160,000	160,000
Local agency investment fund	-	3,663,433	3,663,433
Total cash and investments with fiscal agents	1,167,705	3,988,596	5,156,301
Totals	$ 5,882,597	$ 23,480,604	$ 29,363,201

At June 30, 2002, 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, 2002, are shown below:

Maturity	Fair Value
Current to one year	$ 24,206,900

3. LOANS RECEIVABLE

At June 30, 2002, the City had the following loan receivable:

Housing Rehabilitation Loan Program	$ 455,561

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, 2002, the City had outstanding SHARP loans of $455,561. During the year ended June 30, 2002, the City received $56,748 in repayments from all participants.

4. INTERFUND TRANSACTIONS

A. Due to/from Other Funds

At June 30, 2002, the City had the following due to/from other funds:

	Due To Other Funds
Due From Other Funds	Transportation Development Act
General Fund	$ 9,142

The above due to/from other funds were short-term receivables or payables in the normal course of the City's operation.

4. INTERFUND TRANSACTIONS, Continued

B. Long-Term Advances

At June 30, 2002, the City had the following long-term advances:

Advances To Other Funds	Advances From Other Funds: Community Development Block Grant Special Revenue Fund
General Fund	$ 137,111

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.

C. Operating Transfers

Operating transfers for the year ended June 30, 2002 were as follows:

	Operating Transfers Out		
Operating Transfers In	General Fund	Park Development Capital Projects Fund	Totals
Capital Projects Funds:			
Streets and Roads	$ 1,689,999	$ -	$ 1,689,999
Capital Improvement	5,295,000	250,990	5,545,990
Special Revenue Fund:			
Recreation	551,953	-	551,953
Total	$ 7,536,952	$ 250,990	$ 7,787,942

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

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002, consisted of the following:

	Primary Government				
	Balance July 1, 2001	Additions	Retirements	Inventory Adjustments	Balance June 30, 2002
Governmental Activities:					
Capital assets, not being depreciated:					
Land and land improvements	$ 4,797,848	$ -	$ -	$ 32,992	$ 4,830,840
Construction in progress	-	7,585,193	-	1,403,146	8,988,339
Infrastructure:					
Street payment system	45,182,765	-	-	-	45,182,765
Totals capital assets, not being depreciated	49,980,613	7,585,193	-	1,436,138	59,001,944
Capital assets, being depreciated:					
Buildings and structures	6,176,179	-	-	(1,324,427)	4,851,752
Machinery and equipment	2,537,454	378,375	-	(1,184,527)	1,731,302
Infrastructure:					
Bridges	1,554,653	9,001	-	-	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	62,351,314	387,376	-	(2,508,954)	60,229,736
Accumulated depreciation	-	(1,529,505)	-	(11,596,759)	(13,126,264)
Totals capital assets, being depreciated, net	62,351,314	(1,142,129)	-	(14,105,713)	47,103,472
Governmental activities capital assets, net	$ 112,331,927	$ 6,443,064	$ -	$ (12,669,575)	$ 106,105,416

Depreciation expense for the depreciable capital assets was $1,529,505 in 2002.

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.

6. LONG-TERM DEBT

A summary of the City's long-term debt transactions for the year ended June 30, 2002, is presented below.

Description	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002	Classification: Amounts Due Within One Year	Classification: Amounts Due in More than One Year
General Obligation Bonds:						
1976 Library Bonds	$ 100,000	$ -	$ (100,000)	$ -	$ -	$ -
2001 Library Bonds	15,000,000	-	-	15,000,000	60,000	14,940,000
Claims Payable	50,000	-	-	50,000	-	50,000
Compensated Absences	131,950	184,027	-	315,977	221,184	94,793
Totals	$ 15,281,950	$ 184,027	$ (100,000)	$ 15,365,977	$ 281,184	$ 15,084,793

General Obligation 1976 Library Bonds - Original Issue $1,200,000

On December 15, 1976, the City issued General Obligation 1976 Library Bonds of $1,200,000. The proceeds of the bonds were used to construct a library and associated site improvements which are leased to County of Santa Clara. Lease revenues received from the County are pledged for repayment of the bonds. Interest on the bonds is payable on June 15 and December 15 of each year, at 5% to a maximum of 7%. Principal is due annually on December 15. The bonds mature on December 15, 2001. At June 30, 2002, the General Obligations 1976 Library Bonds were paid in full.

6. LONG-TERM DEBT, Continued

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, 2002, the outstanding balance of the bonds was $15,000,000.

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

For the Year Ending June 30,	Principal	Interest	Totals
2003	$ 60,000	$ 783,756	$ 843,756
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 - 2012	1,655,000	3,411,930	5,066,930
2013 - 2017	2,140,000	2,891,280	5,031,280
2018 - 2022	2,555,000	2,309,550	4,864,550
2023 - 2027	3,290,000	1,564,011	4,854,011
2028 - 2032	4,250,000	580,651	4,830,651
Totals	$ 15,000,000	$ 14,568,202	$ 29,568,202

6. LONG-TERM DEBT, Continued

Claims Payable

At June 30, 2002, the claims payable has been accrued. See Note 10 Risk Management for more information. The total amount of the claims payable was $50,000 at June 30, 2002.

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to $315,977at June 30, 2002.

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.

	Original Amount	Outstanding at June 30, 2002
Parking Assessment Districts #2 and #3	$ 1,244,900	$ 440,000
Leonard Road Improvement Assessment District	101,686	70,000
Saratoga Public Financing Authority 1993 Revenue Bonds	1,600,000	660,000

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.

8. RESERVED AND DESIGNATED FUND BALANCES

Fund balances at June 30, 2002, have been reserved and designated for the following purposes:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Totals
Reserved for:					
Encumbrances	$ 164,713	$ 153,975	$ -	$ 786,101	$ 1,104,789
Deposits	135,000	-	-	-	135,000
Petty cash	300	-	-	-	300
AT&T settlement	16,103	-	-	-	16,103
Debt service	-	-	554,076	-	554,076
Advances to other funds	137,111	-	-	-	137,111
Total reserved	453,227	153,975	554,076	786,101	1,947,379
Designated for:					
Unrealized investment gain	54,040	-	-	10,157	64,197
Operations	2,316,262	-	-	-	2,316,262
PERS	104,751	-	-	-	104,751
MIS	165,000	-	-	-	165,000
Total designated	2,640,053	-	-	10,157	2,650,210
Unreserved, Undesignated	3,876,398	4,950,923	-	14,743,936	23,571,257
Total fund balances	$ 6,969,678	$ 5,104,898	$ 554,076	$ 15,540,194	$ 28,168,846

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, 2002, the City contributed $88,195 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, 2002, the City contributed $166,255 for current year coverage.

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 $100,000 reported at June 30, 2002, 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	Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2000	$ 100,000	$ 6,530	$ (6,530)	$ 100,000
2001	100,000	15,279	(15,279)	100,000
2002	100,000	32,061	(32,061)	100,000

9. RISK MANAGEMENT, Continued

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.

The following represents summary audited financial information of ABAG for the fiscal year ended June 30, 2001:

Total assets	$ 33,366,139
Total liabilities	$ 15,749,511
Fund equity	$ 17,616,628
Total revenues	$ 1,430,000
Total expenses	$ 1,472,804
Net increase in fund equity	$ (42,804)

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 $239,614 for the year ended June 30, 2002. The City employer is required to contribute for fiscal year 2001-2002 at an actuarially determined rate of 0% of annual covered payroll for miscellaneous employees.

10. RETIREMENT PLANS, Continued

Pension Plan, Continued

Annual Pension Cost - For fiscal year 2001-2002, the City's annual pension cost of $241,114 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2000 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, 2000, was 30 years for miscellaneous employees.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/00	$ 177,433	100%	$0
6/30/01	188,080	100%	0
6/30/02	241,114	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, 2002, 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. SUBSEQUENT EVENTS

Early May 2002, the City issued a non-refundable good faith purchase deposit of $135,000 for the application to bid on a property owned by the Grace Methodist Church. The cost of the property, now known as the North Campus, was purchased for $4.5 million utilizing $1 million from a Hillside CIP reserve and $3.5 million from unallocated General Fund reserves on July 18, 2002. The following options were considered for potential use of the property:

1. Move Senior Center programs to new site and move Sheriff's Office to current Senior Center.
2. Demolish sanctuary and education buildings and use portable from library for community meeting space and recreation use.
3. Demolish sanctuary and education buildings, purchase library portable and move Sheriff's Office in portable on Church property.
4. Renovate administration building only, for office, recreation and community meeting room usage, deferring the rehabilitation of other buildings on the site.
5. Demolish existing buildings on the property and provide grass and irrigation for open space and sports league practice.
6. Mothball existing buildings and utilize open space for a day use park.

14. IMPLEMENTATION OF GASB PRONOUNCEMENTS AND PRIOR PERIOD ADJUSTMENTS

The City has recorded the implementation of new GASB pronouncements. Accordingly, the City's equity as of July 1, 2001 has been restated as follows:

	Equity, As Previously Reported	Implementation of New GASB Pronouncements	Equity, as restated
Government-Wide Financial Statements:			
Government activities	$ 32,958,130	$ 84,389,403	$ 117,347,533

With the implementation of new GASB pronouncements, the capital assets including infrastructure, long-term debt, and interest payable were recorded in the Government-Wide Financial Statements; however, these were not recorded in the Fund Financial Statements.

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, contacts, 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.

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
For the Year Ended June 30, 2002

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final	Amounts	Variance with Final Budget
Fund Balances - Beginning	$ 10,425,256	$ 12,074,796	$ 12,074,797	$ 1
Resources (inflows):				
Property taxes	2,096,398	2,117,003	2,772,021	655,018
Special assessments	296,366	295,366	-	(295,366)
Other local taxes	2,384,500	2,223,235	2,067,288	(155,947)
Intergovernmental - State	1,588,800	1,588,800	1,885,194	296,394
Intergovernmental - Federal	-	16,698	16,698	
Franchise fees	845,000	858,310	1,010,609	152,299
Use of money and property	458,200	458,200	216,562	(241,638)
Current service charges	599,927	990,548	956,953	(33,595)
Reimbursement of interfund cost allocations	1,845,085	1,845,085	1,589,985	(255,100)
Operating transfers in	-	262,091	-	(262,091)
Amount available for appropriations	10,114,276	10,655,336	10,515,310	122,065
Charges to Appropriations (outflows):				
Current:				
General and intergovernmental services	2,865,605	1,814,459	1,943,301	(128,842)
Public safety	3,190,809	3,495,422	3,570,910	(75,488)
Public works	949,660	1,472,862	1,378,334	94,528
Community services	274,582	531,853	465,241	66,612
Community development services	96,854	131,818	111,520	20,298
Capital outlay	610,358	978,241	614,171	364,070
Operating transfers out	3,590,851	7,797,049	7,536,952	260,097
Total charges to appropriations	11,578,719	16,221,704	15,620,429	601,275
resources over (under) charges to appropriations	(1,464,443)	(5,566,368)	(5,105,119)	461,249
Fund Balances - Ending	$ 8,960,813	$ 6,508,428	$ 6,969,678	$ 461,250

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Community Development Block Grant Fund
For the Year Ended June 30, 2002

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final	Amounts	Variance with Final Budget
Fund Balances - Beginning	$ 119,659	$ 24,649	$ 24,648	$ (1)
Resources (inflows):				
Intergovernmental - Federal	180,874	180,874	147,263	(33,611)
Use of money and property	3,000	3,000	65,991	62,991
Operating transfers in	15,359	57,981	-	(57,981)
Amount available for appropriations	199,233	241,855	213,254	(28,601)
Charges to Appropriations (outflows):				
Community services	129,233	129,233	122,405	6,828
Capital outlays	137,271	137,271	39,067	98,204
Total charges to appropriations	266,504	266,504	161,472	105,032
resources over (under) charges to appropriations	(67,271)	(24,649)	51,782	76,431
Fund Balances - Ending	$ 52,388	$ -	$ 76,430	$ 76,430

on, Continued

, Continued

, Streets and Road [illegible] *Fund*

	Budg[illegible]ted Amounts			Actual	Favorable (Unfavorable) Variance with
	Origina[illegible]		Final	Amounts	Final Budget
	$ 1,806,0[illegible]0		$ 2,121,460	$ 2,121,465	$ 5
	2,321,0[illegible]2		2,321,002	1,055,845	(1,265,157)
	971,6[illegible]2		971,652	252,705	(718,947)
		–	-	74,678	74,678
	259,7[illegible]0		259,700	155,660	(104,040)
	3,316,2[illegible]4		1,816,274	1,689,999	(126,275)
ations	6,868,6[illegible]8		5,368,628	3,228,887	(2,139,741)
ows):					
	365,0[illegible]6		365,006	59,077	305,929
	2,918,4[illegible]8		4,369,093	2,804,438	1,564,655
	5,013,8[illegible]2		2,023,425	365,373	1,658,052
s	8,297,[illegible]6		6,757,524	3,228,888	3,528,636
	(1,428,[illegible]8)		(1,388,896)	(1)	1,388,895
	$ 377,[illegible]2		$ 732,564	$ 2,121,464	$ 1,388,900

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Development Services Fund
For the Year Ended June 30, 2002

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance with
	Original	Final	Amounts	Final Budget
Fund Balances - Beginning	$ 1,461,334	$ 1,738,649	$ 1,738,651	$ 2
Resources (inflows):				
Use of money and property	-	-	78,572	78,572
Current service charges	1,616,000	1,785,780	1,806,154	20,374
Amount available for appropriations	1,616,000	1,785,780	1,884,726	98,946
Charges to Appropriations (outflows):				
Community development services	1,856,687	1,935,722	1,892,680	43,042
Capital outlays	20,135	23,411	14,070	9,341
Total charges to appropriations	1,876,822	1,959,133	1,906,750	52,383
resources over (under) charges to appropriations	(260,822)	(173,353)	(22,024)	151,329
Fund Balances - Ending	$ 1,200,512	$ 1,565,296	$ 1,716,627	$ 151,331

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.

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

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.

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:

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

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

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, 2002, the City's street system was rated at a PCI index of 70 on the average with the detail condition as follows:

Condition	% of Streets
Excellent to Good	78%
Fair	13%
Poor to Substandard	9%

The City expended $2,214,717 on street maintenance for the year ended June 30, 2002. These routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the year 2005 is a minimum of $4,500,000. ($1,500,000 projected budget each year for the years ending June 30, 2003, 2004, and 2005.)

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 three years is presented below:

Fiscal Year	Budget	Actual Expenditures	Funded by General Fund	Funded by Gas Tax Fund	Total Funded
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

As of June 30, 2002, 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 $9,700,000 for all streets.

3. DEFINED PENSION PLAN

A schedule of funding progress for the year ended June 30, 2002 including the past three actuarial valuations is presented below.

Miscellaneous Employees

Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
6/30/1998	$ 15,721,109	$ 11,459,289	$ 4,261,820	137.2%	$ 2,127,638	200.3%
6/30/1999	17,347,660	12,626,128	4,721,532	137.4%	2,489,253	189.7%
6/30/2000	18,956,430	13,716,661	5,239,769	138.2%	2,569,891	203.9%

* Latest information available.

CITY OF SARATOGA

CALIFORNIA

CITY OF SARATOGA

CALIFORNIA

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Lighting and Landscaping Assessment District #1 - 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.

Transportation Development - This fund accounts for grants received from the State of

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

Debt Service Fund

Library Debt - 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, 2002

	Special Revenue				
	Traffic Safety	Lighting and Landscaping Assessment District #1	Environmental Programs	Recreation	Transportation Development Act
ASSETS					
Cash and investments	$ 91,606	$ 125,624	$ 795,017	$ 51,947	$ -
Accounts receivable	18,944	594	84,097	186	9,142
Total assets	$ 110,550	$ 126,218	$ 879,114	$ 52,133	$ 9,142
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 773	$ 606	$ 55,398	$ 30,228	$ -
Accrued payroll	-	916	1,134	13,798	-
Due to other funds	-	-	-	-	9,142
Deposits payable	-	-	-	8,107	-
Total liabilities	773	1,522	56,532	52,133	9,142
Fund Balances:					
Reserved for:					
Encumbrances	-	-	36,192	-	-
Debt service	-	-	-	-	-
Unreserved, undesignated	109,777	124,696	786,390	-	-
Total fund balances	109,777	124,696	822,582	-	-
Total liabilities and fund balances	$ 110,550	$ 126,218	$ 879,114	$ 52,133	$ 9,142

Local Law Enforcement	Debt Service: Library	Capital Projects: Park Development	Total Other Governmental Funds
$ 134,308	$ 441,247	$ 498,872	$ 2,138,621
-	112,829	-	225,792
$ 134,308	$ 554,076	$ 498,872	$ 2,364,413
$ -	$ -	$ 19,384	$ 106,389
986	-	-	16,834
-	-	-	9,142
-	-	-	8,107
986	-	19,384	140,472
-	-	-	36,192
-	554,076	-	554,076
133,322	-	479,488	1,633,673
133,322	554,076	479,488	2,223,941
$ 134,308	$ 554,076	$ 498,872	$ 2,364,413

City of Saratoga

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the year ended June 30, 2002

	Special Revenue				
	Traffic Safety	Lighting and Landscaping Assessment District #1	Environmental Programs	Recreation	Transportation Development Act
REVENUES:					
Property taxes	$ -	$ 119,542	$ -	$ -	$ -
Special assessments	-	101,162	-	-	-
Intergovernmental - State	-	-	35,178	-	-
Use of money and property	768	5,574	31,520	149,170	-
Current service charges	132,034	-	594,671	816,767	-
Total revenues	132,802	226,278	661,369	965,937	-
EXPENDITURES:					
Current:					
Public safety	20,968	-	-	-	-
Environmental services	-	-	591,107	-	-
Public works	-	237,919	-	-	-
Community services	-	-	-	1,490,032	-
Capital outlay	-	-	3,029	35,963	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	20,968	237,919	594,136	1,525,995	-
REVENUES OVER (UNDER) EXPENDITURES	111,834	(11,641)	67,233	(560,058)	-
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	-	551,953	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	551,953	-
Net change in fund balances	111,834	(11,641)	67,233	(8,105)	-
FUND BALANCES:					
Beginning of year	(2,057)	136,337	755,349	8,105	-
End of year	$ 109,777	$ 124,696	$ 822,582	$ -	$ -

Local Law Enforcement	Debt Service Library	Capital Projects Park Development	Total Other Governmental Funds
$ -	$ 1,114,648	$ -	$ 1,234,190
-	-	-	101,162
100,000	-	-	135,178
5,376	115,579	38,473	346,460
-	-	377,400	1,920,872
105,376	1,230,227	415,873	3,737,862
59,561	-	-	80,529
-	-	-	591,107
-	-	-	237,919
-	-	-	1,490,032
-	-	1,634,966	1,673,958
-	100,000	-	100,000
-	592,435	-	592,435
59,561	692,435	1,634,966	4,765,980
45,815	537,792	(1,219,093)	(1,028,118)
-	-	-	551,953
-	-	(250,990)	(250,990)
-	-	(250,990)	300,963
45,815	537,792	(1,470,083)	(727,155)
87,507	16,284	1,949,571	2,951,096
$ 133,322	$ 554,076	$ 479,488	$ 2,223,941

CITY OF SARATOGA

CALIFORNIA

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City of Saratoga
Capital Assets Used in the Operation of Governmental Funds
Schedule by Source
June 30, 2002

		2002
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land and land improvements	$	4,830,840
Buildings and structures		4,851,752
Machinery and equipment		1,731,302
Infrastructure		98,829,447
Construction in progress		8,988,339
Total governmental funds capital assets		119,231,680
Accumulated depreciation		(13,126,264)
Total governmental funds capital assets, net	$	106,105,416
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
General Fund	$	109,355,397
Special revenue funds		1,529,826
Capital projects funds		8,295,042
Donations		51,415
Accumulated depreciation		(13,126,264)
Total governmental funds capital assets	$	106,105,416

City of Saratoga
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2002

FUNCTION AND ACTIVITY	Land and Land Improvements	Buildings and Structures	Machinery and Equipment	Infrastructure
General and intergovernmental services:				
Management services	$ -	$ 240,458	$ 33,165	$ -
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	254,760	-
Public safety:				
Police services	-	-	70,306	-
Code enforcement	-	-	57,796	-
Total public safety	-	-	128,102	-
Public works:				
Streets and sidewalks	134,696	30,628	519,879	98,829,447
Parks/open space	2,529,529	92,622	466,922	-
Total public works	2,664,225	123,250	986,801	98,829,447
Community services	305,967	1,223,672	271,028	-
Community development services	1,742,464	-	90,611	-
Total governmental funds capital assets	4,830,840	4,851,752	1,731,302	98,829,447
Accumulated depreciation	-	(1,763,712)	(940,680)	(10,421,872)
Total governmental funds capital assets, net	$ 4,830,840	$ 3,088,040	$ 790,622	$ 88,407,575

Construction in Progress	Totals
$ 30,085	$ 303,708
-	309,363
-	3,294,788
30,085	3,907,859
-	70,306
-	57,796
-	128,102
545,996	100,060,646
-	3,089,073
545,996	103,149,719
1,880,331	3,680,998
6,531,927	8,365,002
8,988,339	119,231,680
-	(13,126,264)
$ 8,988,339	$ 106,105,416

City of Saratoga

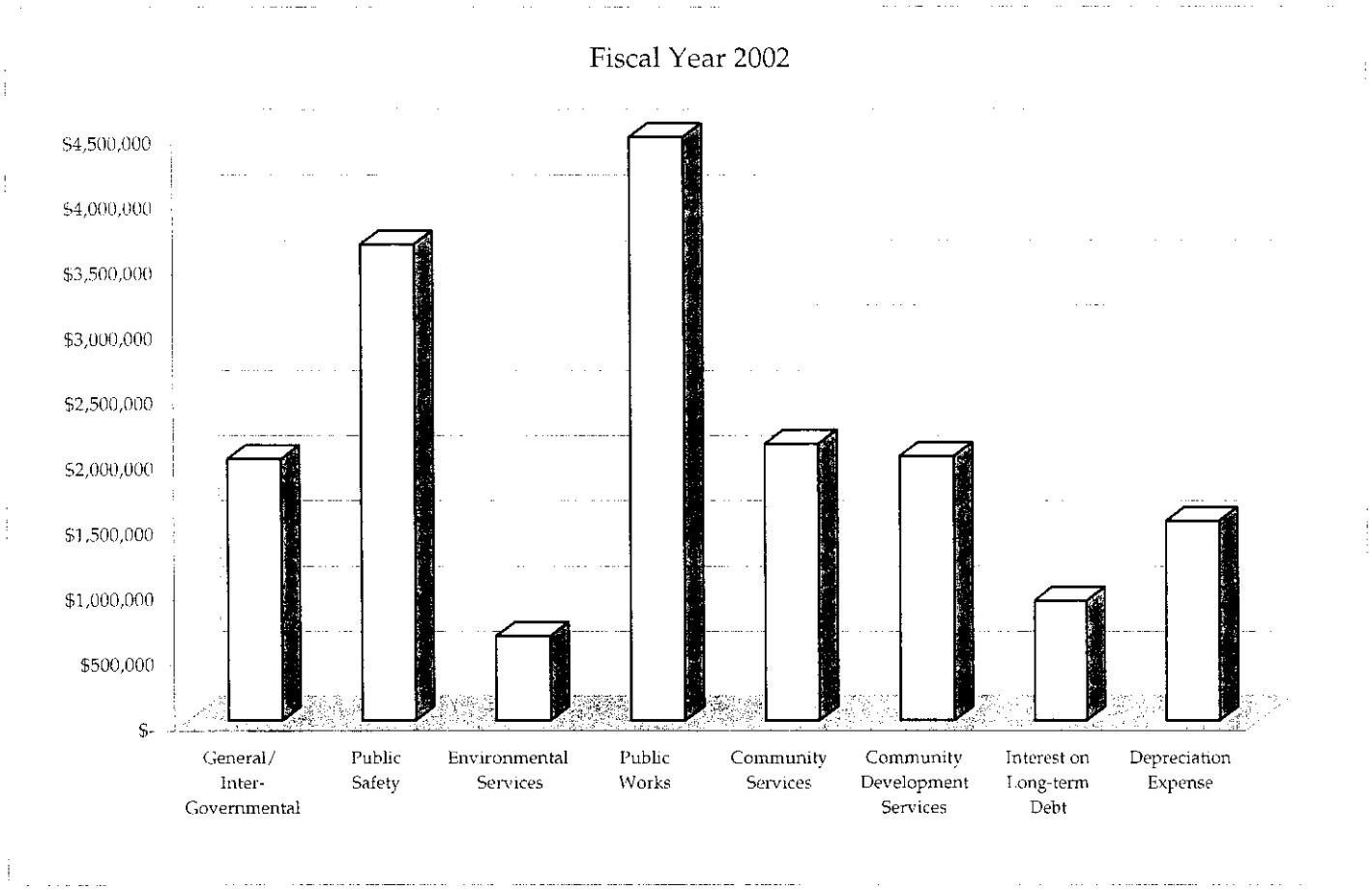
Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes by Function and Activity

For the year ended June 30, 2002

FUNCTION AND ACTIVITY	Governmental Funds Capital Assets July 1, 2001	Additions	Deletions	Inventory Adjustments	Governmental Funds Capital Assets June 30, 2002
General and intergovernmental services:					
Management services	$ 536,511	$ 34,054	$ -	$ (266,857)	$ 303,708
Administrative services	553,853	58,389	-	(302,879)	309,363
Intergovernmental services	3,294,788	-	-	-	3,294,788
Total general and intergovernmental services	4,385,152	92,443	-	(569,736)	3,907,859
Public safety:					
Police services	70,306	-	-	-	70,306
Code enforcement	180,046	16,303	-	(138,553)	57,796
Total public safety	250,352	16,303	-	(138,553)	128,102
Public works:					
Streets and sidewalks	99,282,240	687,978	-	90,428	100,060,646
Parks/open space	3,630,626	25,394	-	(566,947)	3,089,073
Total public works	102,912,866	713,372	-	(476,519)	103,149,719
Community services	2,979,898	602,489	-	98,611	3,680,998
Community development services	1,803,659	6,547,963	-	13,380	8,365,002
Total governmental funds capital assets	112,331,927	7,972,570	-	(1,072,817)	119,231,680
Accumulated depreciation	-	(1,529,505)	-	(11,596,759)	(13,126,264)
Total governmental funds capital assets, net	$ 112,331,927	$ 6,443,065	$ -	$ (12,669,576)	$ 106,105,416

City of Saratoga
Government-Wide Expenses - By Function

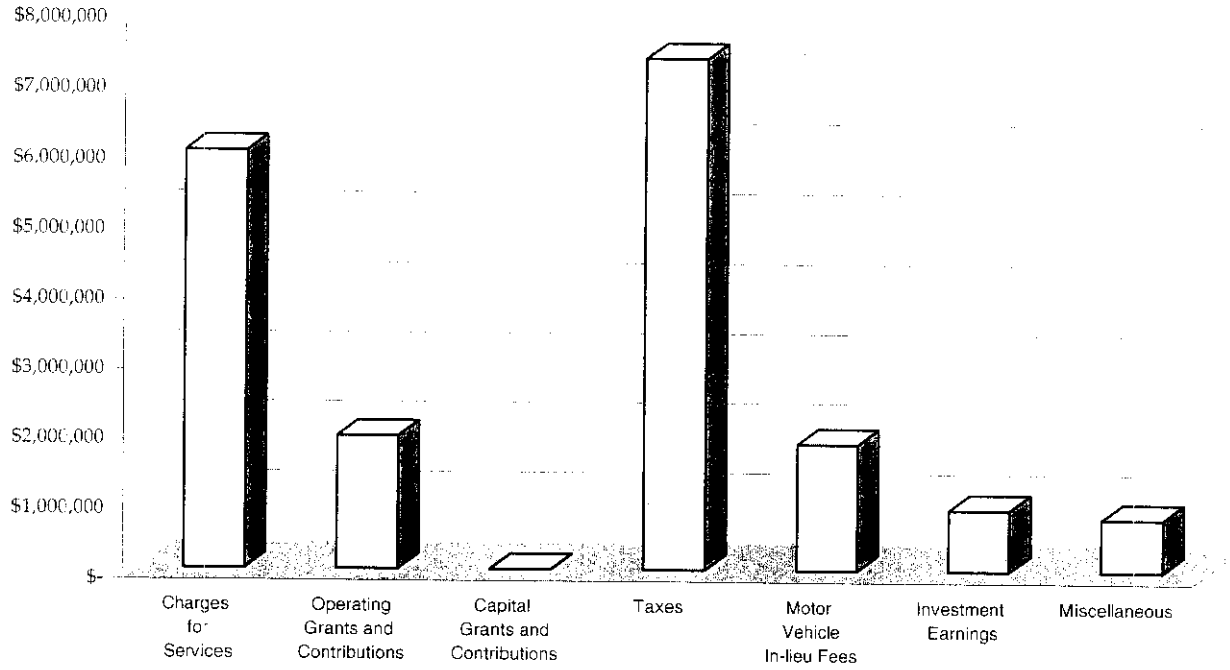


Fiscal Year	General/ Inter-Governmental	Public Safety	Environmental Services	Public Works	Community Services	Community Development Services	Interest on Long-term Debt	Depreciation Expense	Total
2002	$ 2,005,244	$ 3,653,114	$ 650,184	$ 4,476,568	$ 2,120,523	$ 2,025,887	$ 919,625	$ 1,529,505	$ 17,380,650

* The fiscal year ended June 30, 2002 was the fisrt year that the City implemented GASB Statement No. 34.

Source: City of Saratoga Annual Financial Report

City of Saratoga
Government - Wide Revenues

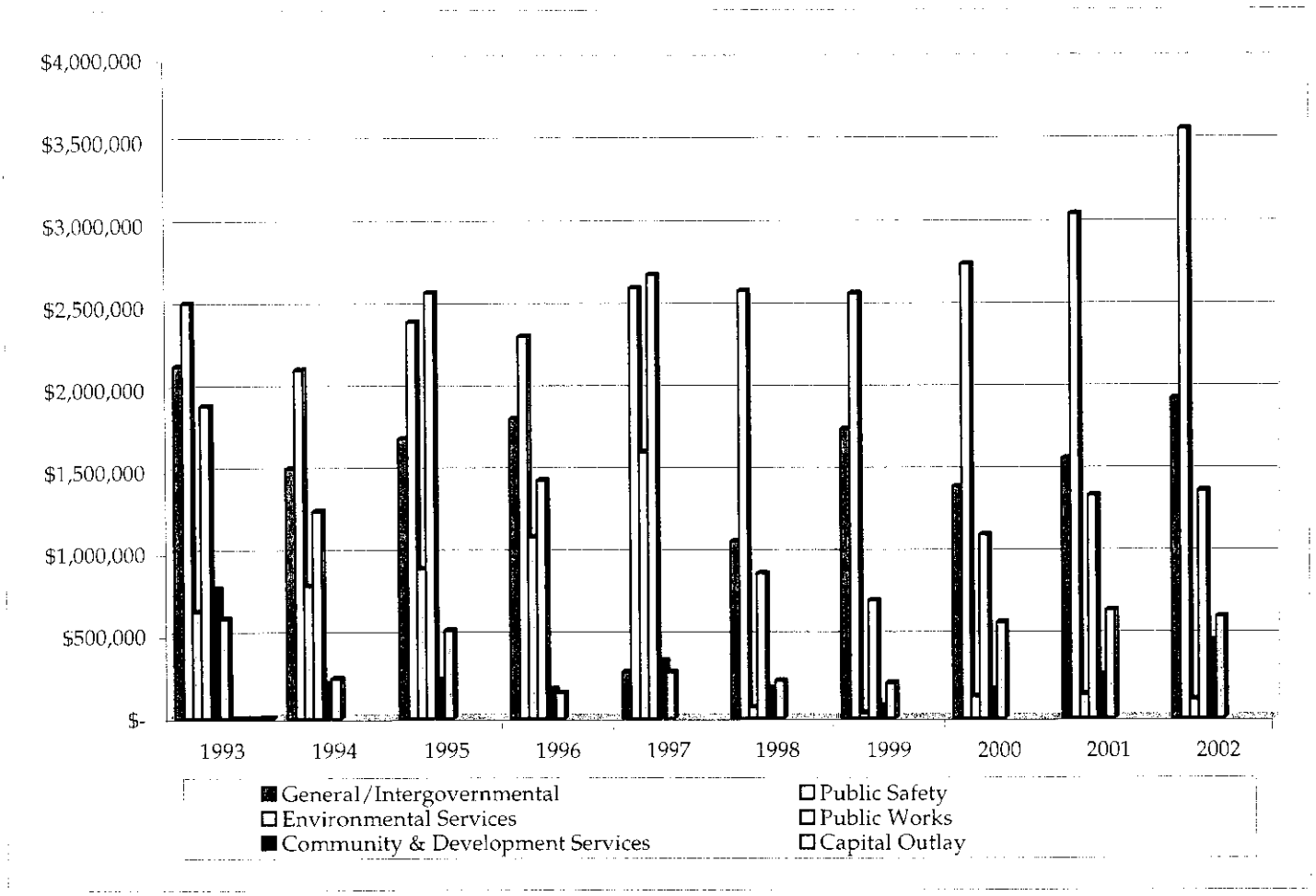


	Program Revenues			General Revenues				
Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Motor Vehicle In-lieu Fees	Investment Earnings	Miscellaneous	Total
2002	$ 5,972,829	$ 1,901,648	$ -	$ 7,298,947	$ 1,807,802	$ 878,734	$ 754,252	$ 18,614,212

* 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

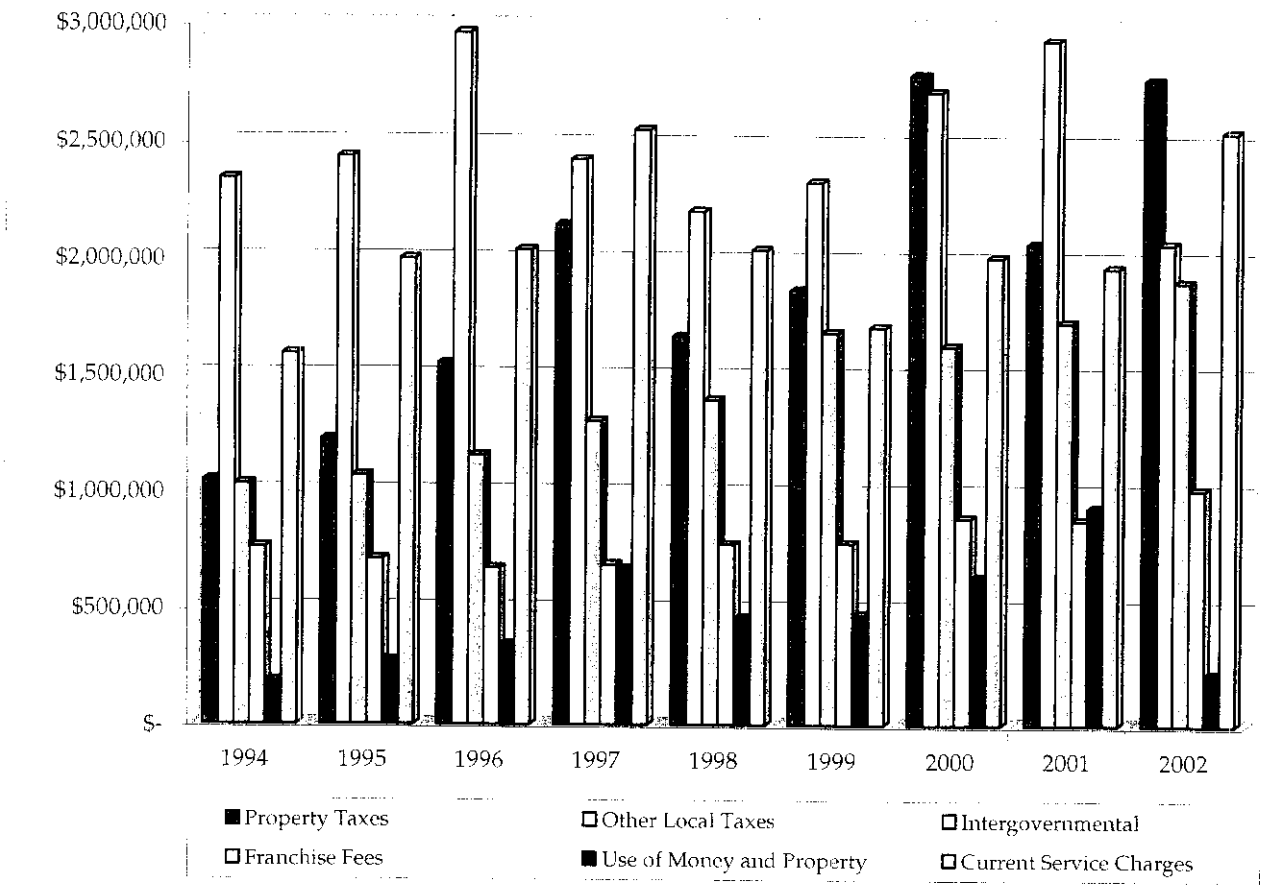
City of Saratoga
General Fund Expenditures - By Function
Last ten fiscal years



Fiscal Year	General / Inter-Governmental	Public Safety	Development Services	Public Works	Community Services	Capital Outlay	Totals
1993	$ 2,139,162	$ 2,523,782	$ 645,466	$ 1,896,690	$ 786,702	$ 601,792	$ 8,593,594
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

Source: City of Saratoga Annual Financial Report

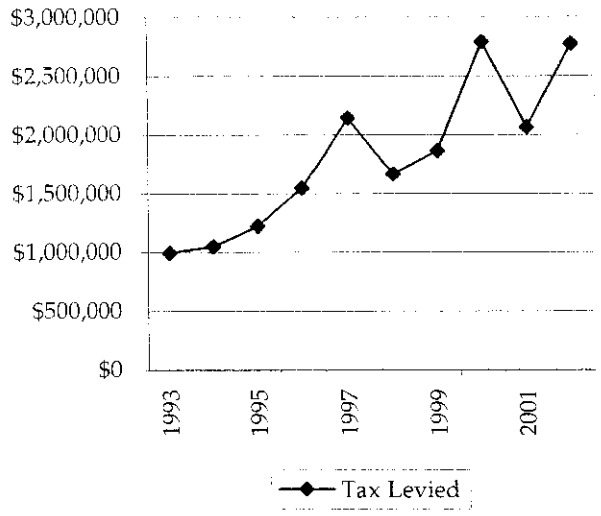
City of Saratoga
General Fund Revenues - By Source
Last ten fiscal years

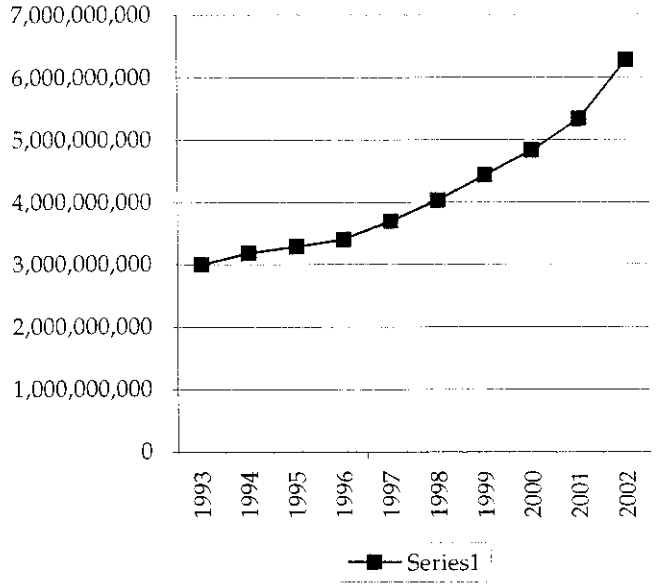


Fiscal Year	Property Taxes	Other Local Taxes	Inter-governmental	Franchise Fees	Use of Money and Property	Current Services Charges	Totals
1994	$ 1,045,975	$ 2,338,826	$ 1,029,463	$ 758,611	$ 183,061	$ 1,587,425	$ 6,943,361
1995	1,221,096	2,434,070	1,064,052	707,822	272,425	1,996,874	7,696,339
1996	1,546,162	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

Source: City of Saratoga Annual Financial Report

City of Saratoga
Property Tax Levies and Collections
Last ten fiscal years

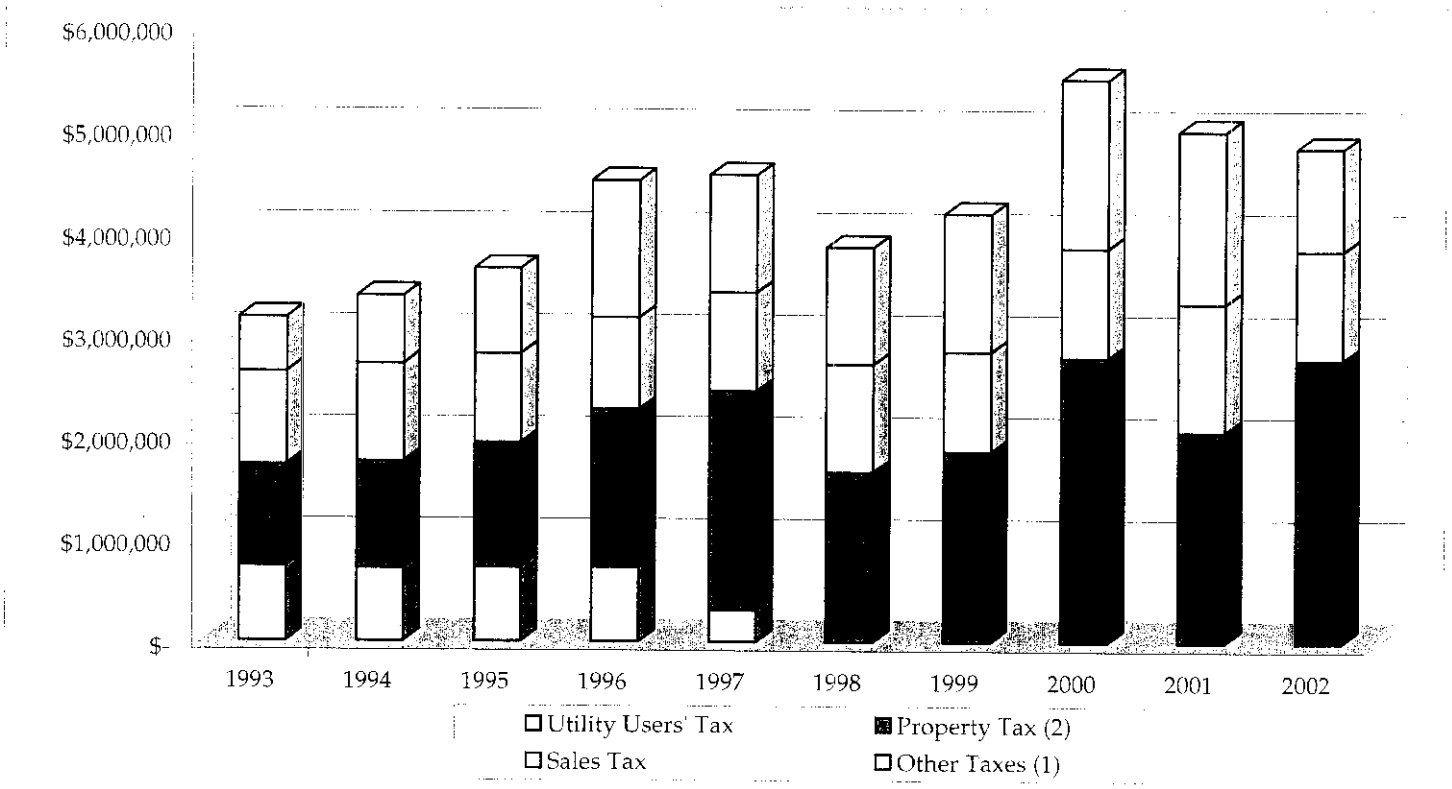




Fiscal Year	Property Tax Levies and Collections	Value of Property Subject to Local Tax Rate
1993	$ 991,862	$ 2,996,971,420
1994	1,045,975	3,181,662,768
1995	1,221,096	3,289,435,553
1996	1,546,162	3,398,224,679
1997	2,142,454	3,697,796,461
1998	1,664,144	4,029,381,944
1999	1,864,766	4,432,656,416
2000	2,790,294	4,823,743,087
2001	2,065,051	5,331,749,683
2002	2,772,021	6,271,461,110

Sources: City of Saratoga Annual Financial Report
California Municipal Statistics Inc. (1990-1992)
County of Santa Clara Tax Rates and Information Publication (2001-2002)

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)	Totals
1993	$ 735,562	$ 991,862	$ 910,834	$ 533,604	$ 3,171,862
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

* Year 2000 property tax receipts include settlement proceeds.

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

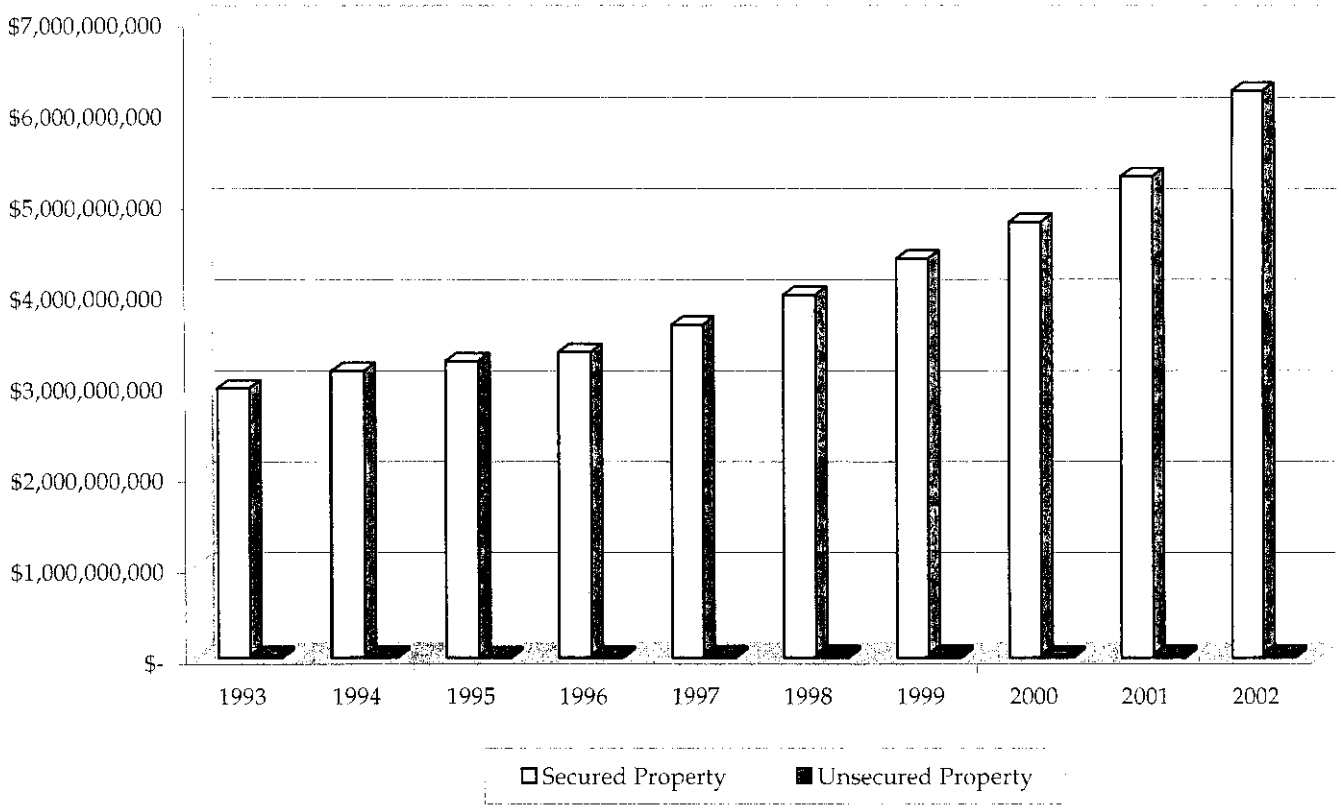
(2) Property Tax levy's are remitted in full by Santa Clara County which handles delinquencies and retains all interest and penalties.

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
1993	$ 2,966,543,181	$ 30,428,239	$ 2,996,971,420	$ 2,996,971,420
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

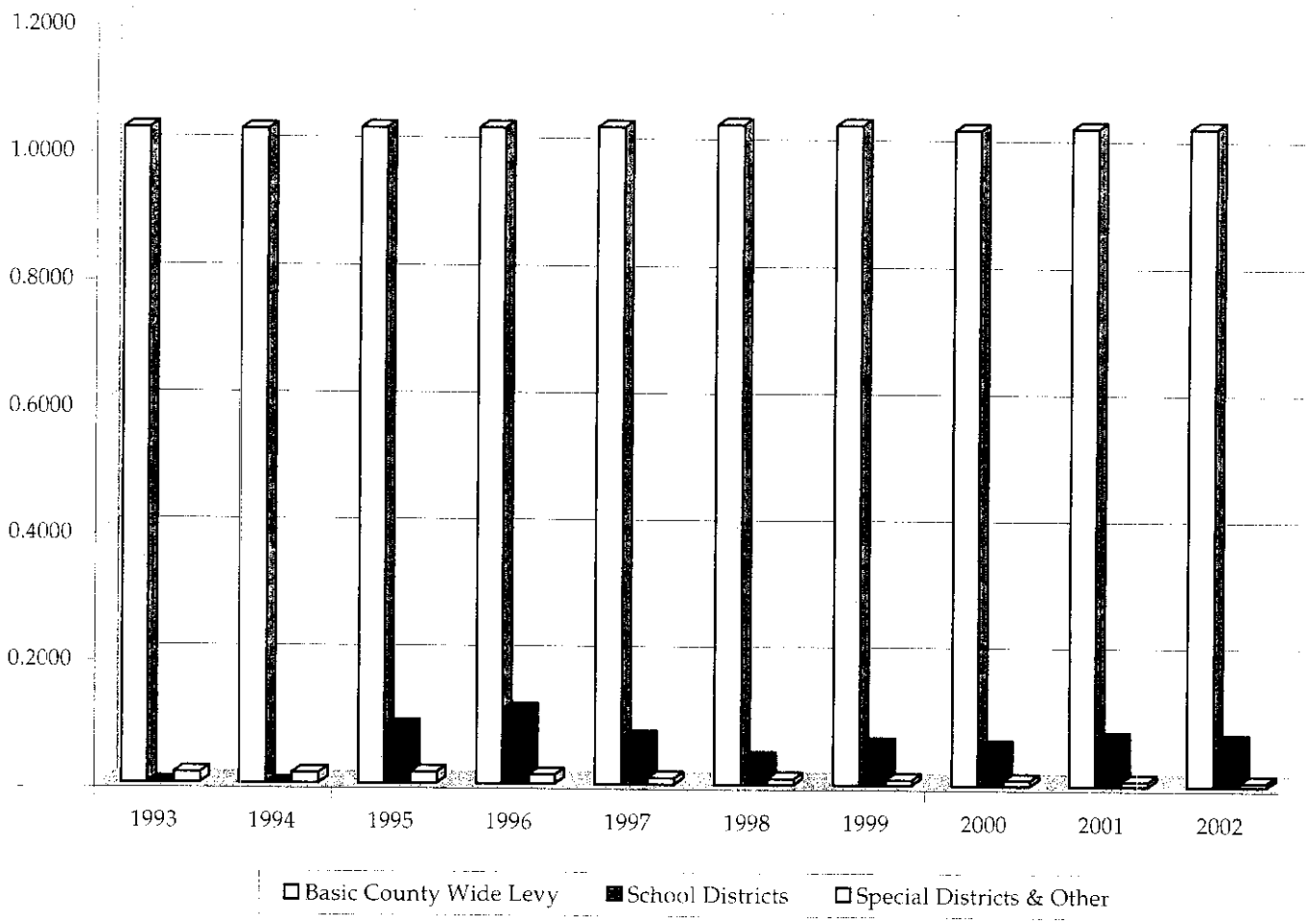
Source: California Municipal Statistics Inc.

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

City of Saratoga

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

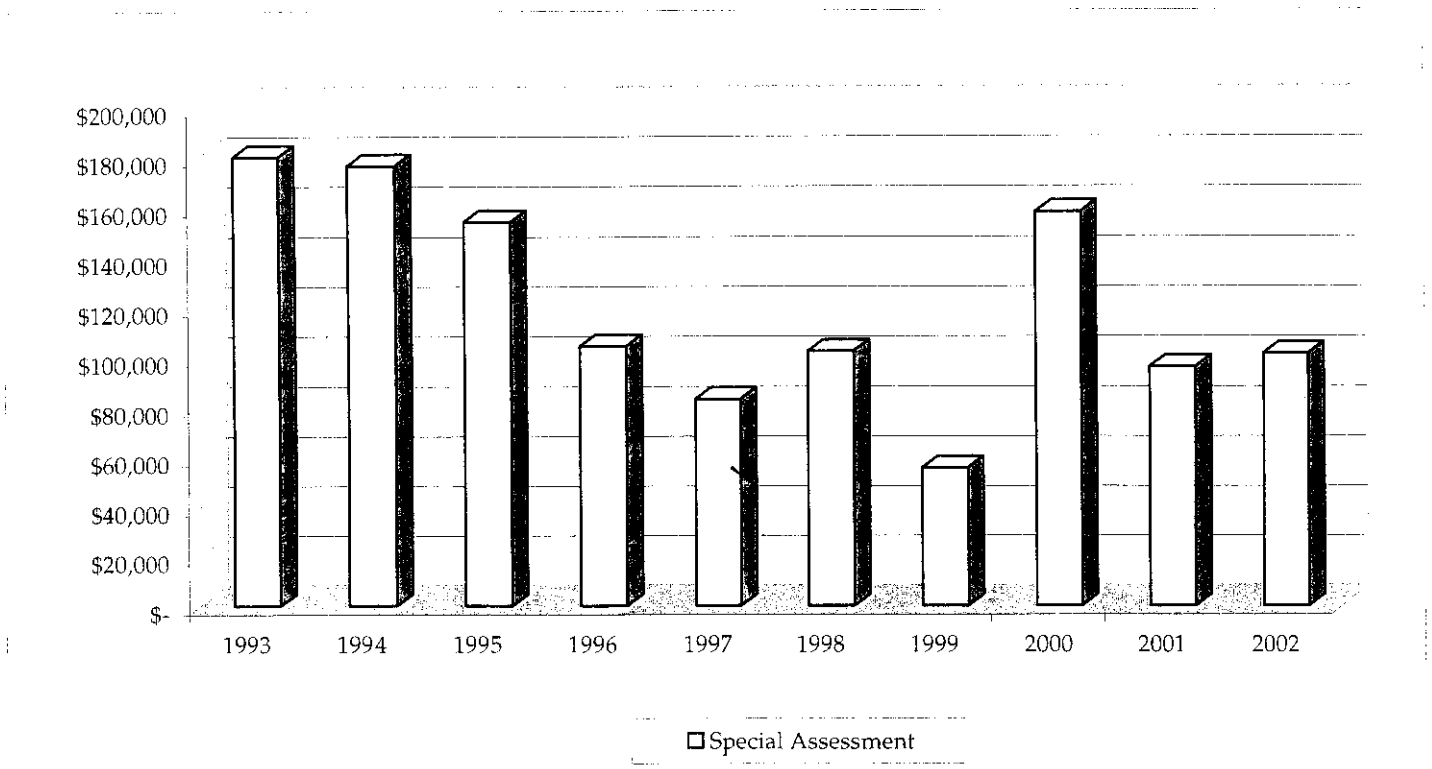
Last ten fiscal years



Fiscal Year	Basic County Wide Levy	School Districts	Special Districts and Other
1993	1.0313	-	0.0165
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	0.0745	0.0075
2002	1.0388	0.0711	0.0062

Source: California Municipal Statistics Inc.

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



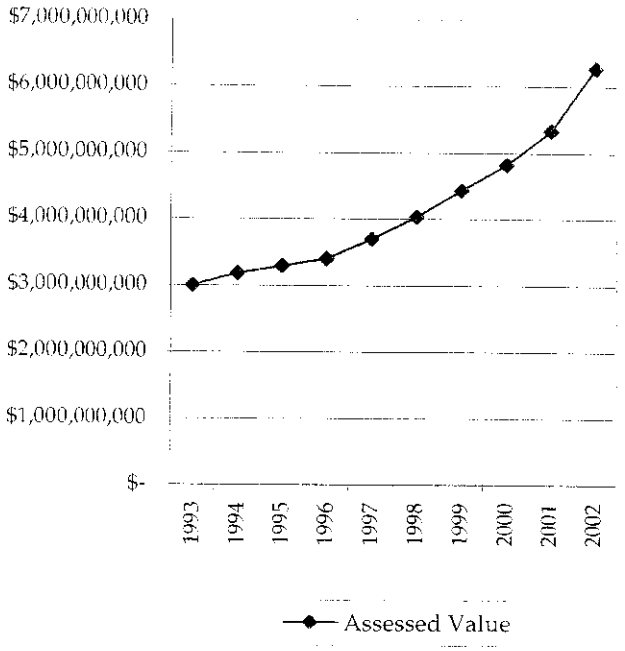
Fiscal Year	Special Assessment Billings and Collections
1993	$ 180,068
1994	176,280
1995	154,097
1996	104,292
1997	83,101
1998	102,164
1999	55,505
2000	157,936
2001	95,973
2002	101,162

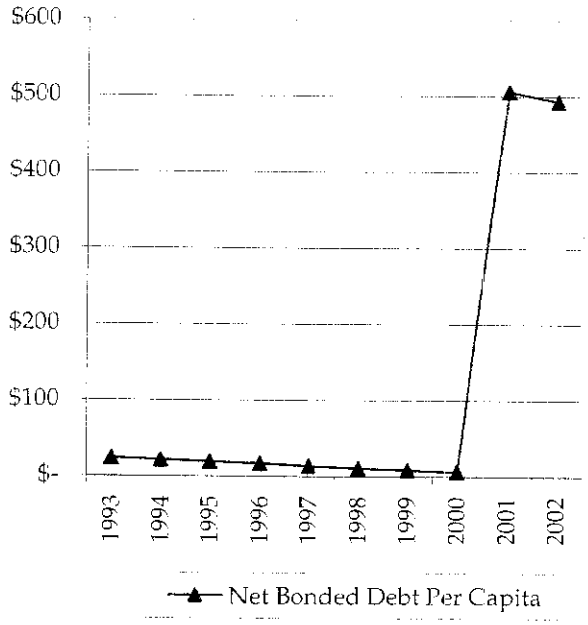
Source: City of Saratoga Annual Financial Report
Comprises Parking Districts #1 and #4 and Lighting and Landscaping District #1 in 1992-1998
Prior years also include Parking Districts #2 and #3

City of Saratoga

Ratio of General Obligation Bonded Debt to Assessed Value and Bonded Debt Per Capita

Last ten fiscal years





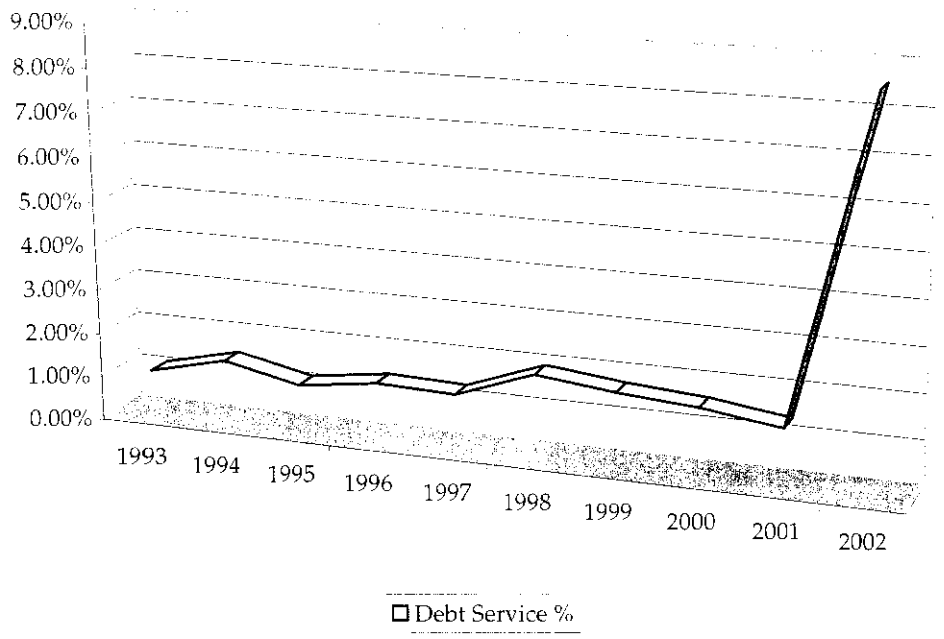
Fiscal Year	Population	Assessed Value	Bonded Debt	Net Bonded Debt Per Capita
1993	28,390	$ 2,996,971,420	$ 670,000	$ 24
1994	28,709	3,181,662,768	615,000	21
1995	29,576	3,289,435,553	555,000	19
1996	29,579	3,398,224,679	490,000	17
1997	30,591	3,697,796,461	415,000	14
1998	31,097	4,029,381,944	340,000	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

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

Note: Includes Library Bonds only

City of Saratoga

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

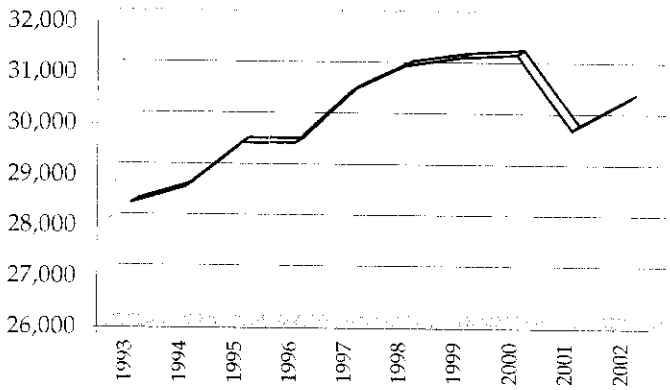


Fiscal Year	Principal	Interest	Total Debt Service	Total General Fund Expenditures	Percent of Debt Service to General Fund Expenditures
1993	$ 50,000	$ 42,523	$ 92,523	$ 8,593,594	1.08%
1994	55,000	36,590	91,590	6,144,518	1.49%
1995	60,000	33,644	93,644	8,370,061	1.12%
1996	65,000	30,307	95,307	7,017,231	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%

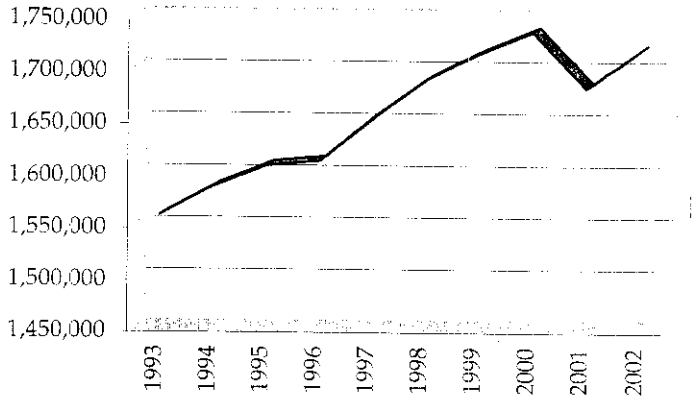
Includes General Obligation Bonds

Source: City of Saratoga Finance Department

City of Saratoga
Demographic Statistics
Last ten fiscal years



City Population

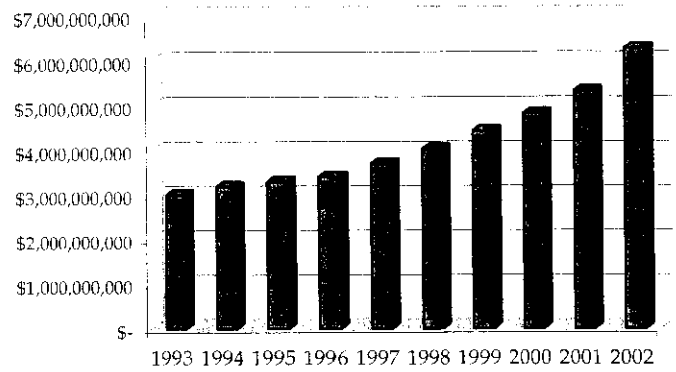


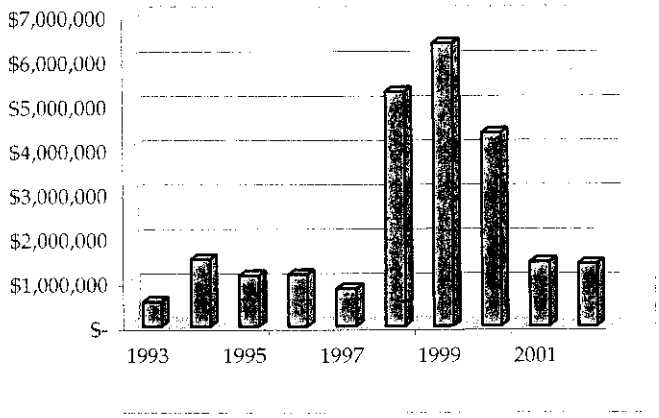
Santa Clara County Population

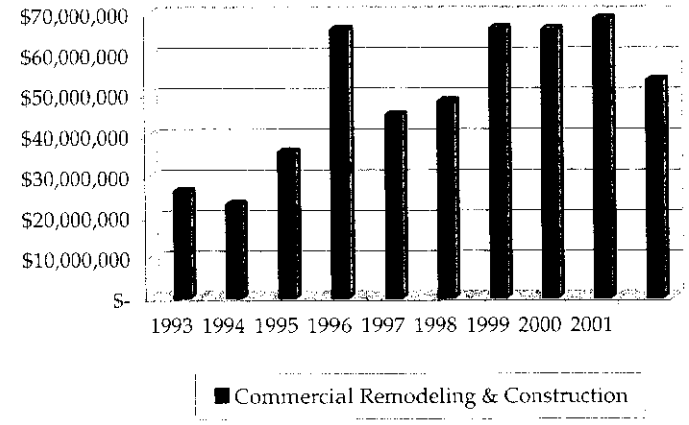
Fiscal Year	City Population	Santa Clara County Population	City Population % of County
1993	28,390	1,559,755	1.82%
1994	28,709	1,587,768	1.81%
1995	29,576	1,607,673	1.84%
1996	29,579	1,612,258	1.83%
1997	30,591	1,653,061	1.85%
1998	31,097	1,689,908	1.84%
1999	31,255	1,715,374	1.82%
2000	31,320	1,736,722	1.80%
2001	29,843	1,682,585	1.77%
2002	30,444	1,719,565	1.77%

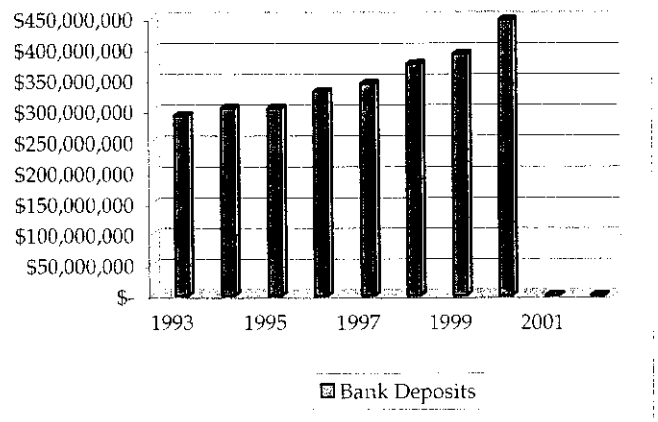
Source: State of California Department of Finance - Population Research Unit

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









Fiscal Year	Property Values	Commercial Remodeling and Construction: Number of Permits	Commercial Remodeling and Construction: Value	Residential Remodeling and Construction: Number of Permits	Residential Remodeling and Construction: Value	Bank Deposits
1993	$ 2,996,971,420	67	$ 547,502	2,481	$ 26,151,346	$ 292,516,000
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	N/A
2002	6,271,461,110	42	1,405,295	1,685	53,474,165	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, 2002

Assessed value	$ 6,271,461,110
Bonded debt limit (15% of assessed value)	$ 940,719,167
Amount of debt subject to limit:	
Total long-term debt	15,000,000
Legal debt margin	$ 955,719,167

Source: City of Saratoga Finance Department

City of Saratoga
Computation of Direct and Overlapping Debt
June 30, 2002

	Percentage Applicable to City of Saratoga	Amount Applicable to City of Saratoga
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:		
Santa Clara County Flood Control and Water Conservation District Zone NC-1	12.126%	$ 55,173
Santa Clara County Flood Control and Water Conservation District Zone W-1	3.852	315,479
Foothill-De Anza Community College District	1.741	1,714,102
Campbell Union High School District	5.874	3,230,700
Fremont Union High School District	3.602	3,336,533
Los Gatos Joint Union High School District	40.834	30,737,794
Campbell Union School District	7.446	4,844,242
Cupertino Union School District	6.324	6,058,392
Moreland School District	13.433	4,843,849
Saratoga Union School District	85.520	33,916,525
Midpeninsula Regional Open Space Park District	-	-
Saratoga Fire Protection District	97.402	5,794,189
City of Saratoga	100.000	15,000,000
City of Saratoga 1915 Act Bonds	100.000	500,000
Total Gross Direct and Overlapping Tax and Assessment Debt		110,346,978
Less: Santa Clara County FC and WCD, Zone NC-1 (100% self supporting)		55,173
Total Net Direct and Overlapping Tax and Assessment Debt		$ 110,291,805
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Santa Clara County General Fund Obligations	3.645%	17,430,937
Santa Calra County Board of Education Certificates of Participation	3.645	674,325
Foothill-De Anza Community College District Certificates of Participation	1.741	470,505
West Valley Community College Districts certificates of Participation	11.094	2,140,033
Los Gatos-Saratoga Joint Union High School district Certificates of Participation	40.834	1,976,366
Campbell Union School District Certificates of Participation	-	-
Cupertino Union School District Certificates of Participation	6.324	520,149
Moreland School District Certificates of Participation	13.433	801,278
Saratoga Union School District Certificates of Participation	85.520	6,841,600
Midpeninsula Regional Open Space Park District Certificates of Participation	6.329	7,000,518
Santa Clara Valley Water District Certificates of Participation	3.645	7,275,420
Santa Clara County Central Fire District Certificates of Participation	14.609	37,913
Total direct and overlapping general fund obligation debt		$ 45,169,044
Gross combined total debt		$ 155,516,022 (1)
Net combined total debt		$ 155,460,849

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

Ratios to assessed valuation:

Direct debt $185,000	0.24%
Total gross debt and overlapping tax and assessment debt	1.76%
Total net direct and overlapping tax and assessment debt	1.76%
Gross combined total debt	2.48%
Net combined total debt	2.48%

Source: California Municipal Statistics, Inc.

City of Saratoga
Principal Taxpayers
June 30, 2002

Assessee	Use	Assessed Value	Percent of Total Assessed Value
Saratoga Office Center Partners LLC	Office building	$ 32,640,000	0.52%
San Jose Water Works	Water Company	12,974,043	0.21%
Hayfield House LLC	Single Family Residence	12,648,720	0.20%
Sabrato Construction Corporation	Vacant	11,516,900	0.18%
Howell & McNeil Development LLC	Single family residential	11,220,000	0.18%
Harvey L. Armstrong, Trustee	Vacant	10,200,000	0.16%
Michael T. LaBarbera	Shopping center	10,098,104	0.16%
Paul L. Hulme, Trustee	Single family residential	9,712,362	0.16%
David J. Morrison, Trustee	Office building	8,833,348	0.14%
Public Storage Properties IX Inc.	Warehousing	8,048,171	0.13%
John and Karean Chapman	Single family residential	8,000,000	0.13%
Peter and June Cartwright	Single family residential	7,752,433	0.12%
Jannie T. Wu, Trustee	Single family residential	7,027,700	0.11%
Robert H. Swanson, Jr., Trustee	Single family residential	6,809,240	0.11%
Armin Nikfar, Trustee	Single family residential	6,807,513	0.11%
D.A. and Walter S. Pienkos, Jr.	Single family residential	6,680,000	0.11%
Tsu-Mu and Catherine Lin	Single family residential	6,672,336	0.11%
John A. and Heidi L. Manger, Trustee	Single family residential	6,630,000	0.11%
Douglas N. Bryan, Trustee	Single family residential	6,528,000	0.10%
Edward and Deloise A. Jordan, Trustee	Single family residential	6,511,184	0.10%
Totals		$ 197,310,054	3.17%
Total assessed valuation		$ 6,227,826,411	

Source: California Municipal Statistics, Inc

City of Saratoga
Miscellaneous Statistics
June 30, 2002

Date of Incorporation	1956	
Form of Government	Council-Manager	
Employees:		
Public Safety	2	
City manger's office	6	
Recreation	10	
Public works / maintenance	22	
Community development	12	
Administrative services	10	
Total employees	62	
Area	12	square miles
Miles of Streets	150	
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	62	
Number of support personnel	6	
Water Utility:		
San Jose Water Company:		
Number of meters	10,038	
Average daily consumption	393	gallons per household
Length of water mains	133	miles
Length of storm drains	45	miles
Sewer:		
West Valley Sanitation District:		
Number of connections	8,461	
Length of sewer lines	123	miles
Cupertino Sanitation District:		
Number of connections	2,083	
Length of sewer lines	35	miles
Culture and Recreation:		
Parks	15	
Acres in parks	81	acres
Taxable Sales	$ 106,606,683	
Registered Voters	18,563	
Population	30,444	

Sources: Various City records

14. IMPLEMENTATION OF GASB PRONOUNCEMENTS AND PRIOR PERIOD ADJUSTMENTS

The City has recorded the implementation of new GASB pronouncements. Accordingly, the City's equity as of July 1, 2001 has been restated as follows:

	Equity, As Previously Reported	Implementation of New GASB Pronouncements	Equity, as restated
Government-Wide Financial Statements:			
Government activities	$ 32,958,130	$ 84,389,403	$ 117,347,533

With the implementation of new GASB pronouncements, the capital assets including infrastructure, long-term debt, and interest payable were recorded in the Government-Wide Financial Statements; however, these were not recorded in the Fund Financial Statements.

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, 2002, 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. SUBSEQUENT EVENTS

Early May 2002, the City issued a non-refundable good faith purchase deposit of $135,000 for the application to bid on a property owned by the Grace Methodist Church. The cost of the property, now known as the North Campus, was purchased for $4.5 million utilizing $1 million from a Hillside CIP reserve and $3.5 million from unallocated General Fund reserves on July 18, 2002. The following options were considered for potential use of the property:

1. Move Senior Center programs to new site and move Sheriff's Office to current Senior Center.
2. Demolish sanctuary and education buildings and use portable from library for community meeting space and recreation use.
3. Demolish sanctuary and education buildings, purchase library portable and move Sheriff's Office in portable on Church property.
4. Renovate administration building only, for office, recreation and community meeting room usage, deferring the rehabilitation of other buildings on the site.
5. Demolish existing buildings on the property and provide grass and irrigation for open space and sports league practice.
6. Mothball existing buildings and utilize open space for a day use park.

10. RETIREMENT PLANS, Continued

Pension Plan, Continued

Annual Pension Cost – For fiscal year 2001-2002, the City's annual pension cost of $241,114 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2000 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, 2000, was 30 years for miscellaneous employees.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/00	$ 177,433	100%	$0
6/30/01	188,080	100%	0
6/30/02	241,114	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.

9. RISK MANAGEMENT, Continued

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.

The following represents summary audited financial information of ABAG for the fiscal year ended June 30, 2001:

Total assets	$ 33,366,139
Total liabilities	$ 15,749,511
Fund equity	$ 17,616,628
Total revenues	$ 1,430,000
Total expenses	$ 1,472,804
Net increase in fund equity	$ (42,804)

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 $239,614 for the year ended June 30, 2002. The City employer is required to contribute for fiscal year 2001-2002 at an actuarially determined rate of 0% of annual covered payroll for miscellaneous employees.

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, 2002, the City contributed $88,195 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, 2002, the City contributed $166,255 for current year coverage.

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 $100,000 reported at June 30, 2002, 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	Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2000	$ 100,000	$ 6,530	$ (6,530)	$ 100,000
2001	100,000	15,279	(15,279)	100,000
2002	100,000	32,061	(32,061)	100,000

8. RESERVED AND DESIGNATED FUND BALANCES

Fund balances at June 30, 2002, have been reserved and designated for the following purposes:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Totals
Reserved for:					
Encumbrances	$ 164,713	$ 153,975	$ -	$ 786,101	$ 1,104,789
Deposits	135,000	-	-	-	135,000
Petty cash	300	-	-	-	300
AT&T settlement	16,103	-	-	-	16,103
Debt service	-	-	554,076	-	554,076
Advances to other funds	137,111	-	-	-	137,111
Total reserved	453,227	153,975	554,076	786,101	1,947,379
Designated for:					
Unrealized investment gain	54,040	-	-	10,157	64,197
Operations	2,316,262	-	-	-	2,316,262
PERS	104,751	-	-	-	104,751
MIS	165,000	-	-	-	165,000
Total designated	2,640,053	-	-	10,157	2,650,210
Unreserved, Undesignated	3,876,398	4,950,923	-	14,743,936	23,571,257
Total fund balances	$ 6,969,678	$ 5,104,898	$ 554,076	$ 15,540,194	$ 28,168,846

6. LONG-TERM DEBT, Continued

Claims Payable

At June 30, 2002, the claims payable has been accrued. See Note 10 Risk Management for more information. The total amount of the claims payable was $50,000 at June 30, 2002.

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to $315,977at June 30, 2002.

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.

	Original Amount	Outstanding at June 30, 2002
Parking Assessment Districts #2 and #3	$ 1,244,900	$ 440,000
Leonard Road Improvement Assessment District	101,686	70,000
Saratoga Public Financing Authority 1993 Revenue Bonds	1,600,000	660,000

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.

6. LONG-TERM DEBT, Continued

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, 2002, the outstanding balance of the bonds was $15,000,000.

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

For the Year Ending June 30,	Principal	Interest	Totals
2003	$ 60,000	$ 783,756	$ 843,756
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 - 2012	1,655,000	3,411,930	5,066,930
2013 - 2017	2,140,000	2,891,280	5,031,280
2018 - 2022	2,555,000	2,309,550	4,864,550
2023 - 2027	3,290,000	1,564,011	4,854,011
2028 - 2032	4,250,000	580,651	4,830,651
Totals	$ 15,000,000	$ 14,568,202	$ 29,568,202

6. LONG-TERM DEBT

A summary of the City's long-term debt transactions for the year ended June 30, 2002, is presented below.

Description	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002	Classification: Amounts Due Within One Year	Classification: Amounts Due in More than One Year
General Obligation Bonds:						
1976 Library Bonds	$ 100,000	$ -	$ (100,000)	$ -	$ -	$ -
2001 Library Bonds	15,000,000	-	-	15,000,000	60,000	14,940,000
Claims Payable	50,000	-	-	50,000	-	50,000
Compensated Absences	131,950	184,027	-	315,977	221,184	94,793
Totals	$ 15,281,950	$ 184,027	$ (100,000)	$ 15,365,977	$ 281,184	$ 15,084,793

General Obligation 1976 Library Bonds - Original Issue $1,200,000

On December 15, 1976, the City issued General Obligation 1976 Library Bonds of $1,200,000. The proceeds of the bonds were used to construct a library and associated site improvements which are leased to County of Santa Clara. Lease revenues received from the County are pledged for repayment of the bonds. Interest on the bonds is payable on June 15 and December 15 of each year, at 5% to a maximum of 7%. Principal is due annually on December 15. The bonds mature on December 15, 2001. At June 30, 2002, the General Obligations 1976 Library Bonds were paid in full.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002, consisted of the following:

	Primary Government				
	Balance July 1, 2001	Additions	Retirements	Inventory Adjustments	Balance June 30, 2002
Governmental Activities:					
Capital assets, not being depreciated:					
Land and land improvements	$ 4,797,848	$ -	$ -	$ 32,992	$ 4,830,840
Construction in progress	-	7,585,193	-	1,403,146	8,988,339
Infrastructure:					
Street payment system	45,182,765	-	-	-	45,182,765
Totals capital assets, not being depreciated	49,980,613	7,585,193	-	1,436,138	59,001,944
Capital assets, being depreciated:					
Buildings and structures	6,176,179	-	-	(1,324,427)	4,851,752
Machinery and equipment	2,537,454	378,375	-	(1,184,527)	1,731,302
Infrastructure:					
Bridges	1,554,653	9,001	-	-	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	62,351,314	387,376	-	(2,508,954)	60,229,736
Accumulated depreciation	-	(1,529,505)	-	(11,596,759)	(13,126,264)
Totals capital assets, being depreciated, net	62,351,314	(1,142,129)	-	(14,105,713)	47,103,472
Governmental activities capital assets, net	$ 112,331,927	$ 6,443,064	$ -	$ (12,669,575)	$ 106,105,416

Depreciation expense for the depreciable capital assets was $1,529,505 in 2002.

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.

4. INTERFUND TRANSACTIONS, Continued

B. Long-Term Advances

At June 30, 2002, the City had the following long-term advances:

Advances To Other Funds	Advances From Other Funds: Community Development Block Grant Special Revenue Fund
General Fund	$ 137,111

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.

C. Operating Transfers

Operating transfers for the year ended June 30, 2002 were as follows:

	Operating Transfers Out		
Operating Transfers In	General Fund	Park Development Capital Projects Fund	Totals
Capital Projects Funds:			
Streets and Roads	$ 1,689,999	$ -	$ 1,689,999
Capital Improvement	5,295,000	250,990	5,545,990
Special Revenue Fund:			
Recreation	551,953	-	551,953
Total	$ 7,536,952	$ 250,990	$ 7,787,942

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

3. LOANS RECEIVABLE

At June 30, 2002, the City had the following loan receivable:

Housing Rehabilitation Loan Program	$ 455,561

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, 2002, the City had outstanding SHARP loans of $455,561. During the year ended June 30, 2002, the City received $56,748 in repayments from all participants.

4. INTERFUND TRANSACTIONS

A. Due to/from Other Funds

At June 30, 2002, the City had the following due to/from other funds:

	Due To Other Funds
Due From Other Funds	Transportation Development Act
General Fund	$ 9,142

The above due to/from other funds were short-term receivables or payables in the normal course of the City's operation.

2. CASH AND INVESTMENTS, Continued

D. Summary of Cash and Investments, Continued

Deposits and investments were categorized as follows at June 30, 2002:

	Category 1	Not Required to be Categorized	Fair Value
City Treasury:			
Demand Deposits:			
Cash deposit	$ 3,578,350	$ -	$ 3,578,350
Certificates of deposit	1,136,542	-	1,136,542
Total demand deposits	4,714,892	-	4,714,892
Investments:			
Local agency investment fund	-	19,492,008	19,492,008
Total investments	-	19,492,008	19,492,008
Total deposits and investments	4,714,892	19,492,008	24,206,900
Cash and Investments with Fiscal Agents:			
Cash deposits	1,167,705	-	1,167,705
Money market mutual funds	-	165,163	165,163
Guaranteed investment contract		160,000	160,000
Local agency investment fund	-	3,663,433	3,663,433
Total cash and investments with fiscal agents	1,167,705	3,988,596	5,156,301
Totals	$ 5,882,597	$ 23,480,604	$ 29,363,201

At June 30, 2002, 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, 2002, are shown below:

Maturity	Fair Value
Current to one year	$ 24,206,900

2. CASH AND INVESTMENTS, Continued

C. Credit Risk, Continued

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.

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, 2002:

	Government-Wide Statement of Net Assets Governmental Activities	Fiduciary Funds Statement of Net Assets	Totals
Pooled cash and investments	$ 18,646,024	$ 734,964	$ 19,380,988
Restricted cash and investments	9,656,985	325,228	9,982,213
Totals	$ 28,303,009	$ 1,060,192	$ 29,363,201

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2001, 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.

As of June 30, 2002, the City had $19,492,008 invested in LAIF as cash and investments and $3,663,433 invested in LAIF as restricted cash and investments, which had invested 3.086% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.002780144 was used to calculate the fair value of the investments in LAIF.

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.

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Implementation of New GASB Pronouncements

In 2002, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*
- Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*
- Statement No. 38, *Certain Financial Statement Note Disclosures*

GASB Statement No. 34 is a new financial reporting requirement for local governments in the United States. The City has implemented this pronouncement and has restructured much of the information that it has presented in the past. The main goal is to make the reports more comprehensive and easier to understand and use.

GASB Statement No. 37 address selected issues and amends GASB Statement No. 21, *Accounting for Escheat Property,* and No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* These Statements make selective changes including accounting for Escheat Property, Management's Discussion and Analysis, Capitalization of Construction - Period Interest, Modified Approach for Reporting Infrastructure, Program Revenues and Major Fund Criteria.

GASB Statement No. 38 establishes and modifies disclosure requirements related to Summary of Significant Accounting Policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

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 $3,578,350 at June 30, 2002. Bank balances before reconciling items were $5,160,425 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. 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."

M. 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.

N. 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.

O. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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.

J. 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.

K. 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets, Continued

The following conditions were defined:

Condition	Rating
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, 2002. 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. 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.

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

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.

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.

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. The agency funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting as are the governmental funds explained above.

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
- Operating 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. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

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

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 #1 - The Lighting and Landscaping Assessment District #1 (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.

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 30,444 at June 30, 2002. 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, 2002, the City's staff comprised 62 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 2 City employees.

- 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 16 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

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2002

City of Saratoga, California

RETURN TO ADM SVCS

CITY OF SARATOGA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2002

Prepared By:

ADMINISTRATIVE SERVICES DEPARTMENT

City of Saratoga
Comprehensive Annual Financial Report
For the year ended June 30, 2002

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CITY of SARATOGA

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

Incorporated October 22, 1956

COUNCIL MEMBERS
Evan Bakar
Stan Bugonian
John Mahoney
Alice Trout
Ann Wallenstein

October 28, 2002

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

The Comprehensive Annual Financial Report (CAFR) of the City of Saratoga for the year ended June 30, 2002, 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, 2001.

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.

Although the local recession provided ample signs of a slowdown, Saratoga's sustained economy

drove-up assessed valuations of real property by 17.61% from 2001 to 2002. In addition, the City's 2001 passing of the Library General Obligation Bond allowed the City to realize additional tax equity allocation (TEA) revenues as a result of a special legislation signed by California's Governor. SB 1883, which was approved in 2000, restored the eligibility of (four) cities in Santa Clara County to receive TEA funds subsequent to a vote of the people reinstating, increasing or imposing a new tax. In addition, the City's surplus from the "good times" enabled the City to dedicate reserves to long-term capital projects and to make major service improvements such as the new 5-year capital improvement program (CIP) budget ($13 million), improvements to Congress Springs Park, pavement management program ($1.2 million), and increased traffic patrols.

On the other hand, the tragic events of September 11th, corporate layoffs and accounting scandals also proved to adversely affect the economy resulting in an 11% decline of sales tax revenues from the previous year and a significant decline of development revenues and other taxes such as transfer, construction, and transient occupancy by as much as 50%. Fortunately the City had other revenues and receipts from one-time projects to assist in the offset of this decline.

Saratoga continues to support policies and practices intended to maintain the City's financial integrity. For example, a minimum $2.3 million General Fund operating reserve is maintained and a $200,000 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. 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 2001-2002 audit.

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for the CAFR for the fiscal year ended June 30, 2001. 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, Karen Caselli, and Joyce Lan. 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, 2001

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 2000-2001

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 20, 2002

Genie Roberts

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

CITY OF SARATOGA

ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL

As of JUNE 30, 2002

CITY COUNCIL

Nick Streit – Mayor
Evan Baker – Vice Mayor
Stan Bogosian
John Mehaffey
Ann Waltonsmith

CITY STAFF

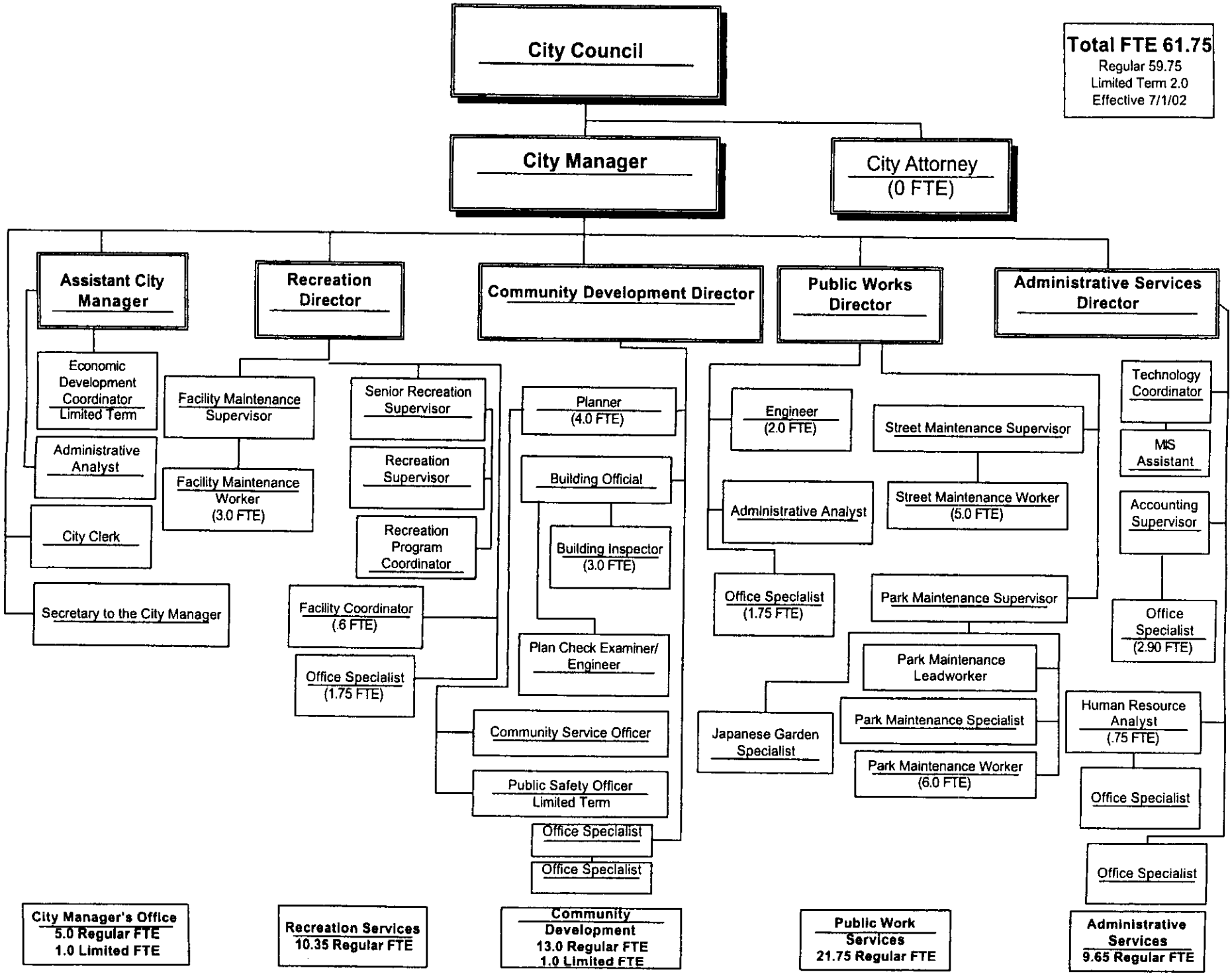
Dave Anderson – City Manager
Lorie Tinfow – Assistant City Manager
Cathleen Boyer – City Clerk
Jesse Baloca – Administrative Services Director
Tom Sullivan – Community Development Director
John Cherbone – Public Works Director
Joan Pisani – Recreation Director

CITY ATTORNEY

Richard S. Taylor – Shute, Mihaly & Weinberger

INDEPENDENCE AUDITOR

Caporicci & Larson


City Council
Total FTE 61.75
Regular 59.75
Limited Term 2.0
Effective 7/1/02
City Manager
City Attorney
(0 FTE)
Assistant City Manager
Recreation Director
Community Development Director
Public Works Director
Administrative Services Director
Economic Development Coordinator Limited Term
Administrative Analyst
City Clerk
Secretary to the City Manager
Facility Maintenance Supervisor
Facility Maintenance Worker (3.0 FTE)
Senior Recreation Supervisor
Recreation Supervisor
Recreation Program Coordinator
Facility Coordinator (.6 FTE)
Office Specialist (1.75 FTE)
Planner (4.0 FTE)
Building Official
Building Inspector (3.0 FTE)
Plan Check Examiner/ Engineer
Community Service Officer
Public Safety Officer Limited Term
Office Specialist
Office Specialist
Engineer (2.0 FTE)
Administrative Analyst
Office Specialist (1.75 FTE)
Street Maintenance Supervisor
Street Maintenance Worker (5.0 FTE)
Park Maintenance Supervisor
Park Maintenance Leadworker
Park Maintenance Specialist
Park Maintenance Worker (6.0 FTE)
Japanese Garden Specialist
Technology Coordinator
MIS Assistant
Accounting Supervisor
Office Specialist (2.90 FTE)
Human Resource Analyst (.75 FTE)
Office Specialist
Office Specialist
City Manager's Office
5.0 Regular FTE
1.0 Limited FTE
Recreation Services
10.35 Regular FTE
Community Development
13.0 Regular FTE
1.0 Limited FTE
Public Work Services
21.75 Regular FTE
Administrative Services
9.65 Regular FTE

C&L
Caporicci & Larson
Certified Public Accountants

Offices located in:
Bay Area
Orange County
Sacramento

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, 2002, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2002, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

As discussed in Note 1 to the basic financial statements, the City adopted Statements of the Governmental Accounting Standards Board No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and, No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Toll Free Tel: (877) 862-2200 Toll Free Fax: (866) 436-0927

Bay Area
1300 Clay Street, Suite 600
Oakland, California 94612

Orange County
3184-D Airway Avenue
Costa Mesa, California 92626

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

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

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.

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 taken as a whole. The introductory section and statistical tables 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.

Caporicci & Larson

Oakland, California
October 4, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Saratoga provides this Management Discussion and Analysis, a new 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 ended June 30, 2002. Please consider this information in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FINANCIAL HIGHLIGHTS

During economic recessed conditions, the City experienced a mix of major revenues that continued to show slight growth and was fortunate to offset the downturn in volatile development and retail related revenue streams. Financial highlights of the year include the following:

- The City's net assets increased by over $1.2 million or 1.0% over the prior year. The City does not have any business-type assets.

- The results of activities produced an increase to nets assets by $1.2 million in fiscal year 2002 and $4.5 million in fiscal year 2001. Although both fiscal years favored an increase to net assets, the net results from activities decreased by $3.2 million or 72.4% from fiscal year 2001 to 2002.

- Fiscal year 2002 revenues showed very little change, decreasing slightly by only $4 thousand or .02% from 2001. Change in 2002 revenue activity from 2001 was the result of offsetting activity that reflects the following major highlights:
    - $2.3 million in one-time capital grants received in 2001 and not in 2002 where $2.1 supports the funding of the City's Gateway capital improvement project;
    - The increase of property taxes of approximately $1.8 million primarily reflects a 17.61% growth in assessed valuations from 2001 to 2002, additional Tax Equity Allocation revenues as a result of a special legislation from passing of 2001 voter approved Library General Obligation Bonds, and property tax proceeds to be used for the new Library General Obligation Bonds debt service payments; and the
    - Decline of sales tax, local taxes, and interest earnings by more than $0.8 million.

- The cost of all City programs increased by $3.2 million or 22.9%, and was largely supported by the increase in revenues that support program expenses. Changes to City program expenses reflect the following major highlights:
    - $375 thousand increase to general and intergovernmental services;
    - $500 thousand increase for public safety services that primarily reflects increases to police and animal control services;
    - $800 thousand increase for public works services such as streets and roads that were offset by pavement management grant funding;

- $779 thousand increase in debt service interest reflects the final payment of the City's 1976 Library General Obligation Bond and payment on the City's new 2001 Library General Obligation Bond, which is supported by the increase in voter approved property tax revenues;
- $470 thousand for recreation and other community services where the direct costs are primarily supported by the increase in fees that reflect greater community participation levels; and
- $294 thousand recognized as an expense for depreciation.

- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease in fund balance by $5.5 million or 44.2% that primarily reflects the dedication of surplus reserves to the City's new 5-year Capital Improvement Program (CIP).

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 basis 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 ended June 30, 2002 financials in a new format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). Therefore, for this government-wide financial analysis and for comparative purposes, the City is presenting the fiscal year 2001 in a similar format.

Statement of Net Assets

The City's Net Assets comparing 2002 to 2001 is as follows:

Statement of Net Assets
(in Thousands)

	Governmental Activities	
	2002	2001
Current Assets	$ 29,659	$ 34,281
Capital Assets	106,105	99,666
Total Assets	135,764	133,947
Current Liabilities	2,098	1,645
Long-term Debt	15,085	15,090
Total Liabilities	17,183	16,735
Net Assets:		
Invested in Capital Assets, net of debt	91,105	84,566
Restricted	18,435	18,394
Unrestricted	9,041	14,387
Total Net Assets	$ 118,581	$ 117,347

The City's net assets total $118.6 million at the end of 2002, compared to $117.3 million in 2001. The largest portion of the City's net assets $91.1 million or 76.8% 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, $18.4 million or 15.5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $9 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, 2002 and 2001 is as follows:

Changes in Net Assets
(in Thousands)

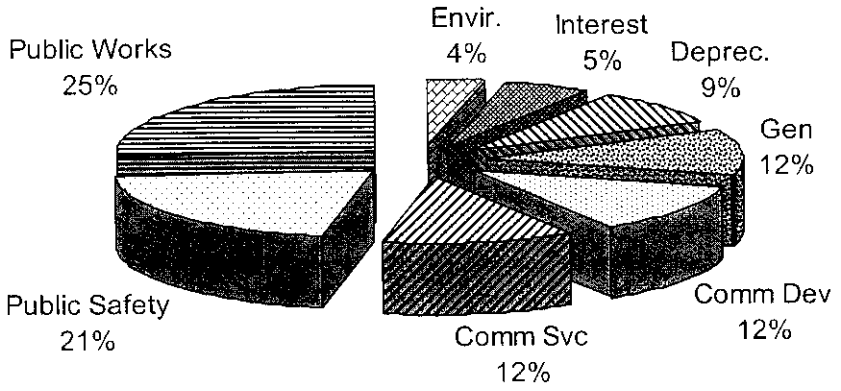
	Governmental Activities	
	2002	2001
Program Revenues:		
Charges for services	$ 5,972	$ 5,576
Operating grants and contributions	1,902	1,773
Capital grants and contributions	-	2,300
Total Program Revenues	7,874	9,649
General Revenues:		
Property taxes	4,044	2,171
Sales taxes	1,067	1,349
Franchise taxes	1,011	877
Local taxes	1,177	1,478
Motor vehicle in-lieu fees	1,808	1,756
Investment earnings	879	1,132
Miscellaneous	754	206
Total General Revenues	10,740	8,969
Total Revenues	18,614	18,618
Expenses:		
General and intergovernmental services	2,005	1,630
Public safety	3,653	3,157
Environmental services	650	724
Public works	4,477	3,678
Community services	2,121	1,651
Community development services	2,026	1,923
Interest on long-term debt	920	141
Depreciation expenses	1,529	1,235
Total expenses	17,381	14,139
Increase (decrease) in net assets	$ 1,233	$ 4,479

As mentioned earlier, the City's net assets increased by $1.2 million or 0.9% over the prior year. Most of the City's general service programs are supported by General Revenues that represent $10.7 million or 57.7% of total citywide revenues. The increase of property taxes of approximately $1.8 million primarily reflects a 17.61% growth in assessed valuations from 2001 to 2002, additional Tax Equity Allocation revenues as a result of a special legislation from passing of 2001 voter approved Library General Obligation Bonds, and property tax proceeds to be used for the new Library General Obligation Bonds debt service payments.

Charges for service revenues represent 32.1% 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 $17.4 million and is an increase of $3.2 million or 22.9%. The increase in debt service interest reflects the final payment of the City's 1976 Library General Obligation Bond and payment on the City's new 2001 Library General Obligation Bond.

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, 2002. A highlight of significant changes from the City's original budget to the final budget is summarized as follows:

Revenues

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

- A conservative 15% decline in retail activity and sales tax revenues;
- Reduction in transfer tax by 30% and transient occupancy tax by 44% to and an increase in construction tax by 49% to reflect a specific housing development project;
- An increase in youth sports donations to support park projects and improvements.

Expenses and Transfers

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

- $5.3 million operating transfers undesignated reserves to the City's new 5-year Capital Improvement Program for projects relating to public safety, infrastructure, facilities, and parks and trails;
- Re-appropriation of encumbrances outstanding from the year ended June 30, 2001 to July 1, 2002 for approximately $375k;

- Amendment to the Law Enforcement contract for an additional six months of traffic patrol officer support;
- $25k for a consultant to assist with projects related to financial reporting and record keeping; and
- $125k for park upgrades, community center remodeling, and a civic center master plan.

CAPITAL ASSETS

As of June 30, 2002, the City had $106.1 million invested in a variety of capital assets, as reflected in the following schedule, which represents an increase of $6.4 million or 6.5% above the prior year.

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

	Governmental Activities	
	2002	2001
Land	$ 4,831	$ 4,831
Buildings and Structures	3,088	3,209
Machinery and Equipment	791	665
Infrastructure	88,407	89,558
Construction in Progress	8,988	1,403
Total	$ 106,105	$ 99,666

The following reconciliation summarizes the change in Capital Assets, which primarily reflects the addition of Construction in Progress for the new Library Expansion Project and the beginning phases for various Public Works Capital Improvement Projects (CIP's) as part of the City's new multiple-year 5-year CIP budget program and the inclusion of depreciation.

Changes in Capital Assets
(In Thousands)

	Governmental Activities	
	2002	2001
Beginning Balance	$ 99,666	$ 10,384
Additions:		
CIP	7,585	-
Infrastructure	9	98,820
Machinerery and Equipment	379	-
Retirements:		
Inventory Adjustments	(1,073)	(913)
Depreciation	(461)	(8,625)
Ending Balance	$ 106,105	$ 99,666

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

Oustanding Debt, at year-end
(In Thousands)

	Governmental Activities	
	2002	2001
1976 General Obligation Bond	$ -	$ 100
2001 General Obligation Bond	15,000	15,000
Claims Payable	50	50
Compensated Absences	316	132
Total	$ 15,366	$ 15,282

The current portions of long-term debt ($281 thousand and $19 thousand for 2002 and 2001, respectively) are classified as current liabilities in the City's Statement of Net Assets.

During the year, the City made final payment of $100,000 towards a 1976 general obligation bond, which was payable from lease revenues received from the County of Santa Clara for the Saratoga Library. In March 2000, residents of Saratoga approved an increase in their property tax rate to pay for the debt service payments on new Library General Obligation Bonds in the amount of $15 million for a new Library Expansion Project. The Library bonds were issued in May 2001, and the first debt service payment (interest only) began February 2002.

The change in compensated absences primarily reflects the way that annual leave is recognized to a more conservative approach. Further information on the City's outstanding debt can be found in the notes to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

During the difficult economic times for the Bay Area/Silicon Valley region of Northern California, the City's finances remain stable in its ability to maintain existing operations with current revenues. As of the end of the year, signs of recovery are anticipated but growth remains questionable. The City's primary focus for the new fiscal year is on its need to exercise caution and on maintaining operational balance.

Property tax revenues continue to increase along with assessed valuations that have increased by 3.47% for Saratoga and 5.52% for all of Santa Clara County but not to the extent of prior dot.com boom years. The 2000-2001 fiscal year began with an assessed valuation growth of 17.61% for Saratoga and 15.56% for Santa Clara County.

Although low interest rates may spur homeowners to refinancing, temporarily boosting retail sales, we anticipate that the Bay Area unemployment rate, which continues to be higher than the national average, may counter any return of the 11% decline in sales tax revenues experience this last fiscal year.

Even though Cities have been fortunately spared to-date from the loss of State funding from motor-vehicle license fee revenues, the potential threat of a future loss remains unknown till after January 1, 2003.

Major initiatives for the fiscal year 2002-2003 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

- Utilize existing reserves to acquire a new North Campus property for the expansion of City services.

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
CALIFORNIA

CITY OF SARATOGA

CALIFORNIA

City of Saratoga
Statement of Net Assets
June 30, 2002

	Primary Government Governmental Activities
ASSETS	
Current assets:	
Cash and investments	$ 18,646,024
Restricted cash and investments	9,656,985
Receivables:	
Accounts	602,547
Interest	162,646
Loans	455,561
Deposits	135,000
Total current assets	29,658,763
Noncurrent assets:	
Capital assets:	
Non-depreciable	59,001,944
Depreciable, net	47,103,472
Total capital assets	106,105,416
Total noncurrent assets	106,105,416
Total assets	135,764,179
LIABILITIES	
Current liabilities:	
Accounts payable	870,888
Accrued payroll	105,361
Interest payable	327,190
Deposits payable	8,107
Deferred revenue	455,561
Claims payable	50,000
Long-term debt - due within one year	281,184
Total current liabilities	2,098,291
Noncurrent liabilities:	
Long-term debt - due in more than one year	15,084,793
Total noncurrent liabilities	15,084,793
Total liabilities	17,183,084
NET ASSETS	
Investment in capital assets, net of related debt	91,105,416
Restricted for:	
Capital projects	17,546,194
Debt service	554,076
Special projects	334,448
Total restricted	18,434,718
Unrestricted	9,040,961
Total net assets	$ 118,581,095

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, 2002

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Totals
Primary government:					
Governmental activities:					
General and intergovernmental services	$ 2,005,244	$ 1,589,985	$ -	$ -	$ 1,589,985
Public safety	3,653,114	237,718	259,988	-	497,706
Environmental services	650,184	626,192	35,178	-	661,370
Public works	4,476,568	155,661	1,383,228	-	1,538,889
Community services	2,120,523	1,062,673	10,000	-	1,072,673
Community development services	2,025,887	2,300,600	213,254	-	2,513,854
Interest on long-term debt	919,625	-	-	-	-
Depreciation expense	1,529,505	-	-	-	-
Total	$ 17,380,650	$ 5,972,829	$ 1,901,648	$ -	$ 7,874,477

General revenues:

Taxes:

Property taxes

Sales taxes

Franchise taxes

Local taxes

Total taxes

Motor vehicle in-lieu fees

Investment earnings

Miscellaneous

Total general revenues

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	
$	(415,259)
	(3,155,408)
	11,186
	(2,937,679)
	(1,047,850)
	487,967
	(919,625)
	(1,529,505)
	(9,506,173)
	4,044,295
	1,066,607
	1,010,609
	1,177,436
	7,298,947
	1,807,802
	878,734
	754,252
	10,739,735
	1,233,562
	117,347,533
$	118,581,095

CITY OF SARATOGA

CALIFORNIA

CITY OF SARATOGA

CALIFORNIA

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.

Streets and Roads Special Revenue Fund

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.

Development Services Special Revenue Fund

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

Library Expansion Capital Project Fund

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

Capital Improvement Capital Project 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, 2002

	Major Funds			
	General	Community Development Block Grant	Streets and Roads	Development Services
ASSETS				
Cash and investments	$ 6,730,082	$ 91,437	$ 2,211,737	$ 1,686,291
Restricted cash and investments	8,542	122,403	-	-
Receivables:				
Accounts	283,777	-	24,575	66,653
Interest	129,668	-	-	-
Loans	-	455,561	-	-
Deposits	135,000	-	-	-
Due from other funds	9,142	-	-	-
Advances to other funds	137,111	-	-	-
Total assets	$ 7,433,322	$ 669,401	$ 2,236,312	$ 1,752,944
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 354,647	$ -	$ 104,256	$ 17,678
Accrued payroll	58,997	299	10,592	18,639
Due to other funds	-	-	-	-
Deposits payable	-	-	-	-
Deferred revenue	-	455,561	-	-
Advances from other funds	-	137,111	-	-
Claims payable	50,000	-	-	-
Total liabilities	463,644	592,971	114,848	36,317
Fund Balances:				
Reserved for:				
Encumbrances	164,713	1,500	113,783	2,500
Deposits	135,000	-	-	-
Petty cash	300	-	-	-
AT&T settlement	16,103	-	-	-
Advances to other funds	137,111	-	-	-
Debt service	-	-	-	-
Unreserved, designated for				
Unrealized investment gain	54,040	-	-	-
Operations	2,316,262	-	-	-
PERS	104,751	-	-	-
MIS	165,000	-	-	-
Unreserved, undesignated	3,876,398	74,930	2,007,681	1,714,127
Total fund balances	6,969,678	76,430	2,121,464	1,716,627
Total liabilities and fund balances	$ 7,433,322	$ 669,401	$ 2,236,312	$ 1,752,944

See accompanying Notes to the Basic Financial Statements.

Major Funds			
Library Expansion	Capital Improvement	Other Governmental Funds	Total Governmental Funds
$ -	$ 5,787,856	$ 2,138,621	$ 18,646,024
9,526,040	-	-	9,656,985
1,750	-	225,792	602,547
32,978	-	-	162,646
-	-	-	455,561
-	-	-	135,000
-	-	-	9,142
-	-	-	137,111
$ 9,560,768	$ 5,787,856	$ 2,364,413	$ 29,805,016
$ 263,274	$ 24,644	$ 106,389	$ 870,888
-	-	16,834	105,361
-	-	9,142	9,142
-	-	8,107	8,107
-	-	-	455,561
-	-	-	137,111
-	-	-	50,000
263,274	24,644	140,472	1,636,170
587,152	198,949	36,192	1,104,789
-	-	-	135,000
-	-	-	300
-	-	-	16,103
-	-	-	137,111
-	-	554,076	554,076
10,157	-	-	64,197
-	-	-	2,316,262
-	-	-	104,751
-	-	-	165,000
8,700,185	5,564,263	1,633,673	23,571,257
9,297,494	5,763,212	2,223,941	28,168,846
$ 9,560,768	$ 5,787,856	$ 2,364,413	$ 29,805,016

CITY OF SARATOGA

CALIFORNIA

City of Saratoga

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets

June 30, 2002

Total Fund Balances - Total governmental funds	$	28,168,846
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		59,001,944
Depreciable capital assets, net		47,103,472
Total capital assets		106,105,416
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.		(327,190)
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:		
Long-term liabilities - due within one year		(281,184)
Long-term liabilities - due in more than one year		(15,084,793)
Total long-term liabilities		(15,365,977)
Net Assets of Governmental Activities	$	118,581,095

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, 2002

	Major Funds			
	General	Community Development Block Grant	Streets and Roads	Development Services
REVENUES:				
Property taxes	$ 2,772,021	$ -	$ -	$ -
Special assessments	-	-	-	-
Other local taxes	2,067,288	-	-	-
Intergovernmental - State	1,885,194	-	1,055,845	-
Intergovernmental - Federal	16,698	147,263	252,705	-
Franchise fees	1,010,609	-	-	-
Use of money and property	216,562	65,991	74,678	78,572
Current service charges	956,953	-	155,660	1,806,154
Reimbursement of interfund cost allocations	1,589,985	-	-	-
Total revenues	10,515,310	213,254	1,538,888	1,884,726
EXPENDITURES:				
Current:				
General and intergovernmental services	1,943,301	-	-	-
Public safety	3,570,910	-	-	-
Environmental services	-	-	59,077	-
Public works	1,378,334	-	2,804,438	-
Community services	465,241	122,405	-	-
Community development services	111,520	-	-	1,892,680
Capital outlay	614,171	39,067	365,373	14,070
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	8,083,477	161,472	3,228,888	1,906,750
REVENUES OVER (UNDER) EXPENDITURES	2,431,833	51,782	(1,690,000)	(22,024)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	1,689,999	-
Operating transfers out	(7,536,952)	-	-	-
Total other financing sources (uses)	(7,536,952)	-	1,689,999	-
Net change in fund balances	(5,105,119)	51,782	(1)	(22,024)
FUND BALANCES:				
Beginning of year	12,074,797	24,648	2,121,465	1,738,651
End of year	$ 6,969,678	$ 76,430	$ 2,121,464	$ 1,716,627

See accompanying Notes to the Basic Financial Statements.

Major Funds			
Library Expansion	Capital Improvement	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ 1,234,190	$ 4,006,211
-	-	101,162	101,162
-	-	-	2,067,288
-	-	135,178	3,076,217
-	-	-	416,666
-	-	-	1,010,609
381,437	337,435	346,460	1,501,135
5,300	-	1,920,872	4,844,939
-	-	-	1,589,985
386,737	337,435	3,737,862	18,614,212
-	-	-	1,943,301
-	-	80,529	3,651,439
-	-	591,107	650,184
-	-	237,919	4,420,691
-	-	1,490,032	2,077,678
-	-	-	2,004,200
5,136,716	120,213	1,673,958	7,963,568
-	-	100,000	100,000
-	-	592,435	592,435
5,136,716	120,213	4,765,980	23,403,496
(4,749,979)	217,222	(1,028,118)	(4,789,284)
-	5,545,990	551,953	7,787,942
-	-	(250,990)	(7,787,942)
-	5,545,990	300,963	-
(4,749,979)	5,763,212	(727,155)	(4,789,284)
14,047,473	-	2,951,096	32,958,130
$ 9,297,494	$ 5,763,212	$ 2,223,941	$ 28,168,846

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, 2002

Net Change in Fund Balances - Total governmental funds	$ (4,789,284)
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 was the amount of capital assets recorded in the current period.	7,963,568
Depreciation expense on capital assets 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, depreciation expense was not reported as expenditures in governmental funds.	(1,529,505)
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.	(184,027)
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	100,000
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.	(327,190)
Change in Net Assets of Governmental Activities	$ 1,233,562

See accompanying Notes to the Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds

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

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
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	Agency Funds
ASSETS	
Cash and investments	$ 734,964
Restricted cash and investments	325,228
Accounts receivable	42,946
Total assets	$ 1,103,138
LIABILITIES	
Accounts Payable	$ 2,010
Due to assessment district bondholders	386,044
Deposits payable	715,084
Total liabilities	$ 1,103,138

See accompanying Notes to the Basic Financial Statements.