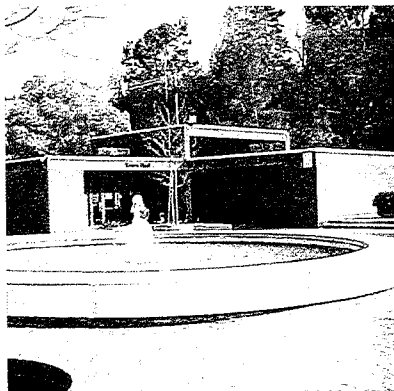
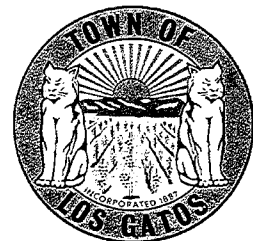


TOWN OF LOS GATOS

& REDEVELOPMENT AGENCY



COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE FISCAL YEAR ENDED
JUNE 30, 2003



TOWN OF LOS GATOS
CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

TOWN HISTORY

The name Los Gatos comes from "El Rancho Rinconada de Los Gatos," a ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880s. By 1887, the population had grown to 1,500 and Los Gatos voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people producing residential and commercial development. Highway 17 was constructed through the center of Town. Growth leveled off in the early '70s, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

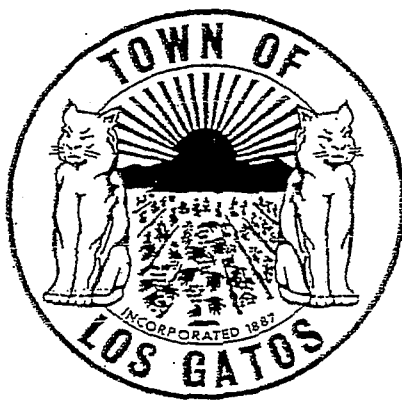
Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community. From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 14 square miles and has a population of 28,928 persons. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

Los Gatos' boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create the picturesque setting of the Town. In the midst of an increasingly uniform urban complex, this setting has attracted people with a preference for the Town's distinctive, high quality natural and urban environment.

The slow growth of the Town over an extended number of years has left the Town with a heritage of older, established residential areas and a downtown with many historic buildings representing the various eras in the Town's history. Protection of these historic resources which are a major part of the Town's character is an important community goal. Two museums, Tait Avenue and Forbes Mill, help preserve the Town's valued history.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2003

PREPARED BY THE
OFFICE OF THE TOWN MANAGER



TOWN OF LOS GATOS, CALIFORNIA

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2003**

Table of Contents

Page

INTRODUCTORY SECTION

Table of Contents	i
Letter of Transmittal.....	v
Principal Officers.....	x
Organization Chart	xi
GFOA Award	xii
CSMFO Award.....	xiii

FINANCIAL SECTION

<i>Independent Auditor's Report on Basic Financial Statements</i>	1
---	---

<i>Management's Discussion and Analysis</i>	3
---	---

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets	14
Statement of Activities.....	15

Fund Financial Statements:

Governmental Funds:

Balance Sheet	18
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	20
Reconciliation of the Net Change in Fund Balances Total Governmental Funds with the Statement of Activities.....	21
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual.....	22

TOWN OF LOS GATOS, CALIFORNIA

Comprehensive Annual Financial Report
For the Year Ended June 30, 2003

Table of Contents

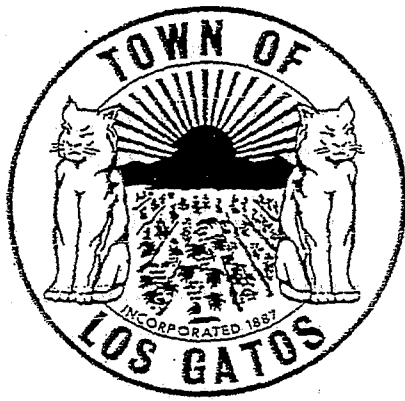
	<u>Page</u>
FINANCIAL SECTION (Continued)	
Proprietary Funds:	
Statement of Net Assets.....	24
Statement of Revenue, Expenses and Changes in Fund Net Assets.....	25
Statement of Cash Flows	26
Fiduciary Funds:	
Combining Balance Sheets.....	28
Statement of Changes in Fiduciary Net Assets	29
Notes to Financial Statements.....	31
Supplemental Information:	
<i>Major Governmental Funds Other Than the General Fund:</i>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Appropriated Reserves Fund.....	54
Certificates of Participation Fund	55
Redevelopment Agency Capital Projects Fund.....	56
<i>Non-major Governmental Funds:</i>	
Combining Balance Sheets.....	58
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances	60
Budgeted Non-Major Funds Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual.....	62
<i>Internal Service Funds:</i>	
Combining Statement of Net Assets	68
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets	70

TOWN OF LOS GATOS, CALIFORNIA

Comprehensive Annual Financial Report
For the Year Ended June 30, 2003

Table of Contents

	<u>Page</u>
FINANCIAL SECTION (Continued)	
Combining Statements of Cash Flows	72
<i>Fiduciary Funds:</i>	
Statements of Changes in Assets and Liabilities – All Agency Funds	76
STATISTICAL SECTION	
General Revenues by Source - Last Ten Fiscal Years.....	77
General Expenditures by Function - Last Ten Fiscal Years	78
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years.....	79
Property Tax Levies and Collections - Last Ten Fiscal Years	80
Property Tax Rates - All Direct and Overlapping Governments - Last Ten Fiscal Years	81
Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years.....	82
Special Assessment Billings and Collections - Last Ten Fiscal Years	83
Property Values, Construction and Bank Deposits - Last Ten Fiscal Years.....	84
Demographic Statistics - Last Ten Fiscal Years	85
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Expenditures - Last Ten Fiscal Years.....	86
Computation of Direct and Overlapping Debt.....	87
Computation of Legal Debt Margin	88
Principal Taxpayers	89
Major Employers	90
Miscellaneous Statistics.....	91





TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

CIVIC CENTER

110 E. MAIN STREET

P.O. Box 949

LOS GATOS, CA 95031

January 15, 2004

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2003. This report was prepared by management and the Finance staff in the Town Manager's Office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2003, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This is the first year the Town has prepared the CAFR using the new financial reporting requirements as prescribed by The Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34). This new GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Comprehensive Annual Financial Report is organized into three sections:

1. The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials and Town administrative personnel, and organization chart delineating organizational structure.
2. The Financial Section includes the independent auditors' opinion, management's discussion and analysis, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
3. The Statistical Section includes both financial and non-financial data about the Town.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of Maze & Associates, the Town's independent certified public accountants.

This Comprehensive Annual Financial Report will be submitted to the Government Finance Officers Association and the California Society of Municipal Finance Officers for consideration for their Awards for Excellence in financial reporting. These awards are granted only to entities whose reports meet the highest standards of municipal financial reporting.



THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, which was incorporated under the laws of California in 1887. Located in the foothills and level terrain of the Santa Clara Valley, in an area referred to nationally as "Silicon Valley". From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population 11,750. Today Los Gatos covers approximately 14 square miles and has a population of 28,928 persons. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community.

Five council members who are elected at large for staggered four-year terms govern the Town. The Town Clerk and Town Treasurer are also elected for four-year terms. The Mayor and Vice-Mayor are elected by the Council from their own ranks and serve for one-year terms. The Town Manager and Town Attorney are hired directly by the Council. The Town Council oversees traditional municipal services such as Public Safety, Parks & Public Works, Community Development, Community Services and a Public Library.

This report includes all funds of the Town of Los Gatos. It also includes the financial activities of the Los Gatos Redevelopment Agency which is governed by the Los Gatos Town Council who sit as the board members for the Agency. Financial information for the Los Gatos Redevelopment Agency is aggregated and merged with that of the Town in the financial statements in accordance with generally accepted accounting principles.

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other communities the "Silicon Valley", the Town of Los Gatos has experienced a downward trend in locally generated revenues in recent years linked with the continuing aftermath of the national recession and its impact on the local economy. In recent years the Town also incurred the economic effects of slowing business travel and tourism which was probably linked with reduced corporate travel budgets nationwide and prospective travelers continued anxiety about potential terrorism. Over the past few years, the Federal Reserve has made continuous reductions in the federal funds interest rates, which continues to have an impact on the Town's General Fund interest earnings.

Since fiscal year 2001/2002 the Town has been implementing a number of strategies to keep operating revenues in balance with ongoing operating expenditures. These steps included selected hiring freezes, strategic expenditure slowdowns, and departmental cost saving efficiencies, among other strategies that have allowed the Town to remain fiscally balanced despite the recessionary downturn in local revenues and the State's budget crisis.

The Town relies heavily on sales tax revenues to support general fund operations. Sales taxes comprised approximately 30% of general fund revenues in FY 2002/2003. The fiscal year sales tax receipts collected were at the same level as the prior year's adjusted budget amount of \$6.9 million. In the prior year, estimates for sales taxes were reduced \$300,000 from the adopted budget estimate of \$7.2 million. Other economically sensitive revenues such as Transient Occupancy Taxes, Business License Taxes, and Interest earnings have all trended lower from previous highs experienced in these revenue sources in recent years.

Despite the negative effects of the economy, the Town continues to actively engage its economic vitality program as an integral part of the Town's overall strategic initiative to ensure fiscal health for the Town. Fortunately, property tax collections continued a moderate growth trend in spite of the events in the local economy, evidence that the Town is still viewed by potential home buyers as a highly desirable community causing real estate values to continue to remain strong despite local economic downturns.

As soon as data became available confirming a downturn in locally generated revenues, the Town reacted pro-actively to this development in FY 2002/03 by recommending to Town Council approximately \$1.3 million of Town-wide reductions in the Town's General Fund funded operations. By making these reductions on a timely basis, despite the revenue losses sustained, the General Fund revenues exceeded expenditures for the year by approximately \$330,000.

An additional challenge the Town is dealing with is the continuing State of California budget crisis. Since 1991 the State has diverted or "taken" portions of Town revenues such as property taxes to balance its fiscal equation. In the spring of 2003 it was apparent to staff that the State was now facing additional projections of multi-billion dollar deficits for FY 2003/04. Knowing that the State has historically taken locally generated revenues to solve its fiscal woes, the Town conservatively assumed a \$500,000 State "take" of locally generated revenues in its FY 2003/04 budget development process. This action proved very prudent, because the adopted State budget for 2003/04 negatively impacted the Town by approximately the amount estimated in the budget process. The majority of the "take" occurred in the loss of a portion of the State "back-fill" of Motor Vehicle License Fees (Car Tax) which the legislature had promised local governments when the car tax was reduced by two-thirds in 1998. This vital revenue source of approximately \$1.7 million dollars annually to the Town or approximately 7 per cent of the operating budget, continues to be in jeopardy through actions at the State level. Town staff is working diligently through its outreach efforts to the community, working with the League of California Cities and local legislators to prevent any future losses of this revenue. The Town continues to manage in an environment of great uncertainty due to potential State budget balancing actions that may lead to additional negative impacts or State "takes" from the Town's current operating revenues.

MAJOR INITIATIVES

In July 2002, the Town and the Los Gatos Redevelopment issued \$10,725,000 in Certificates of Participation to be used in a variety of downtown project area infrastructure improvements. The funds were targeted for projects such as the Town Plaza Renovation, the Downtown Streetscape Improvement and Reconstruction Projects, Downtown Parking Improvements, Alleyway Improvements, Community Pool Improvements, and other targeted improvements within the downtown redevelopment project area.

The Town also continued making large investments in the Town's streets and curbs and gutter infrastructure. In FY 2002/03 the Town invested approximately \$5.3 million in its streets and roads, including improvements to the downtown and its streetscape. Work on further infrastructure improvements is expected to continue into FY 2003/04 in accordance with the Town's approved FY 2003/08 Capital Improvement Plan. All of these improvements were funded either through debt issuance in the case of the downtown improvements, or via revenues accumulated from prior years budget savings and excess revenues that Town Council policy strategically allocated for this purpose.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal control is considered in the development and evaluation of the Town's accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data,
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal control should not outweigh its benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined, and available means the cash is received within forty-five days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred.

With the implementation of GASB 34, the Town now prepares its Basic Financial Statements on the accrual basis.

Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget and five-year capital improvement plan is adopted by the Town Council on a basis consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the Town Council by resolution during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. The Report was also awarded a Certificate for Outstanding Financial Reporting by the California Society of Municipal Finance Officers (CSMFO). These prestigious awards recognize the Report's conformance with the strict accounting and reporting standards established by the Government Accounting Standards Board and by these organizations. These awards are annual in nature and are valid for one year only. This year's Report will be submitted for award consideration by both these organizations, as we believe it continues to meet these standards.


INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of Maze & Associates performs this function for the Town of Los Gatos, and their report is included in the financial section of the CAFR.

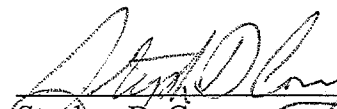
ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Mary Furey, Accounting Manager, Linda Debar, Accountant, and Glenda Cracknell, Senior Accounting Technician, for their efforts in preparing this report.

Respectfully submitted,



Debra Figone
Town Manager



Stephen D. Conway
Director of Finance & Administrative Services

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TOWN OF LOS GATOS

PRINCIPAL OFFICERS

JUNE 30, 2003

TOWN COUNCIL

Mayor	Sandy Decker
Vice Mayor	Steve Glickman
Councilmember	Diane McNutt
Councilmember	Joe Pirzynski
Councilmember	Mike Wasserman

COUNCIL APPOINTEES

Town Manager	Debra Figone
Town Attorney	Orry Korb

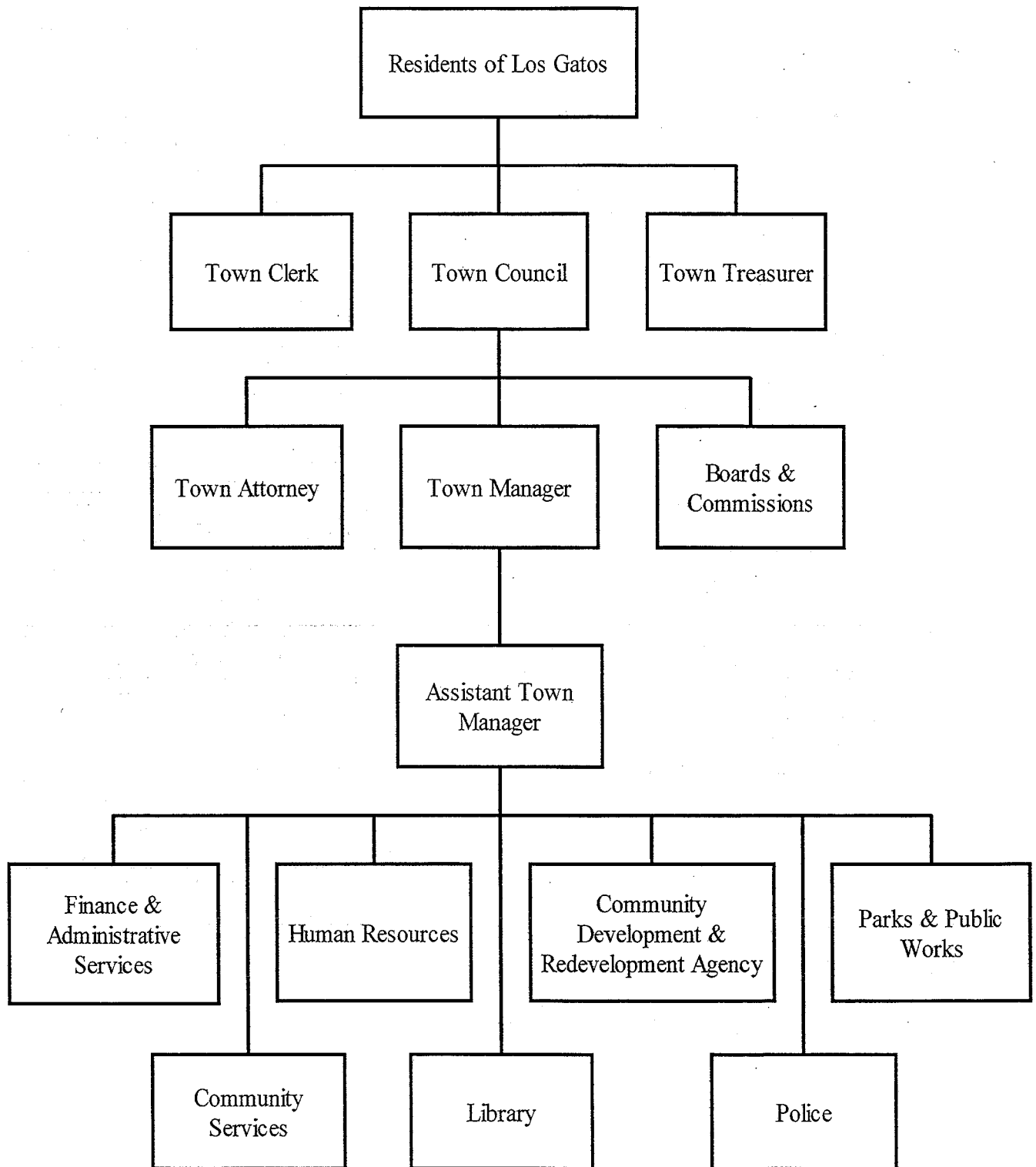
ELECTED OFFICIALS

Town Clerk	Marian V. Cosgrove
Town Treasurer	Linda Lubeck

APPOINTED OFFICIALS

Assistant Town Manager	Pamela Jacobs
Chief of Police	Larry J. Todd
Community Services Director	Regina A. Falkner
Administrative Services & Finance Director	Stephen D. Conway
Library Director	Peggy Conaway
Parks and Public Works Director	John Curtis
Community Development Director	Warren "Bud" Lortz
Human Resources Manager	Gary Rogers

Town of Los Gatos Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Los Gatos,
California

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

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



President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the Town of Los Gatos for its comprehensive annual financial report for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2001-2002

Presented to the

City of Los Gatos

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

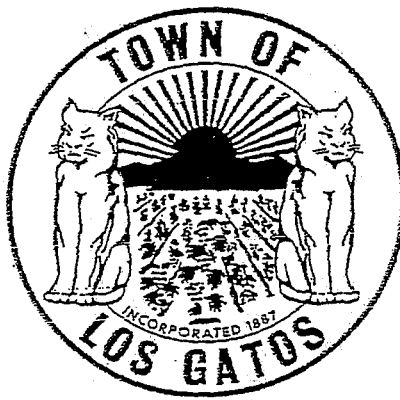
February 24, 2003

Bret M. Plimlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management





ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Council
Town of Los Gatos, California

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos as of and for the year ended June 30, 2003 as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos at June 30, 2003 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The basic financial statements referred to above follow the requirements of the Government Accounting Standards Board's Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, 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*, as discussed in Note 1 to the Basic Financial Statements.

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

In accordance with Government Auditing Standards, we have also issued reports dated November 7, 2003 on our consideration of the Town of Los Gatos' internal control structure and on its compliance with laws and regulations.

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

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

Mage & Associates

November 7, 2003

Town of Los Gatos

Management's Discussion and Analysis

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2003. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- Town assets exceeded its liabilities at the close of the fiscal year 2002/03 by \$78,800,686 (net assets). Of this amount, \$20,984,676 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's net assets increased by \$1,368,391 during the fiscal year. This is mostly due to the remaining proceeds from the July 2002 \$10,725,000 Certificates of Participation recorded as governmental fund revenues in the current year and an offsetting fund balance decrease in the Town's Appropriated Reserves fund reflecting the significant investment made in the Town's streets and road infrastructure in the fiscal year.
- At the end of the fiscal year 2002/03, unreserved fund balance for the General Fund was \$9,709,339 approximating 40 percent of General Fund expenditures for fiscal year 2002/03.
- The Town and Redevelopment Agency issued \$10,725,000 of Certificates of Participation (COP's) debt in July 2002, all of which was outstanding as of June 30, 2003. At June 30, 2003 the total Town outstanding debt including the July 2002 COP's was \$12,500,000.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Town and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-wide financial statements. The government-wide financial statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include general government, police department, parks and public works, community development, community services, library services, sanitation, redevelopment, and interest and fees. The Town has no business-type activities.

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Town of Los Gatos Redevelopment Agency (the Agency) for which the Town is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide redevelopment in the Town. Additional information on this legally separate entity can be found in Note 1(A) in the notes to basic financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. The Town's basic services are reported in governmental funds, which focus 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 the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town'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 Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The Town maintains one type of proprietary fund: internal service funds. Proprietary funds are reported using the accrual basis of accounting. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles and computer equipment, and for its risk management activities. The Internal Service funds have been included within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$78.8 million at the end of the current fiscal year.

	Activities	
	2003	2002
Current and other assets	\$ 60,675,192	N/A
Capital assets	46,533,923	N/A
Total assets	107,209,115	-
Current liabilities	15,908,479	N/A
Long-term liabilities outstanding	12,500,000	N/A
Total liabilities	28,408,479	-
Net assets:		
Investment in capital assets, net of related debt	33,799,130	N/A
Restricted	24,016,830	N/A
Unrestricted	20,984,676	N/A
Total net assets	\$ 78,800,636	\$ -

Note: This is the first year that the Town has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements- and Management's Discussion and Analysis (MD&A) – for State and Local Governments. Because this reporting model significantly changes both the recording and presentation of financial data, the Town has not restated prior fiscal years for the purpose of providing comparative information for the MD&A. In future years when prior-year information is available, a comparative analysis of government-wide data will be included in this report.

By far the largest portion of the Town's net assets (43 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (30.5 percent) represents resources that are subject to external restrictions on how they may be used. The restricted net asset balance increase for the fiscal year was due primarily to the issuance of \$10.7 million of Certificates of Participation to be used for eligible redevelopment related capital improvements.

The balance of unrestricted net assets may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's unrestricted net assets represent 26.6 percent, of the Town's net assets at year-end.

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2003

	Governmental Activities	
	2003	2002
Revenues:		
Program revenues:		
Charges for services	\$ 6,811,907	N/A
Operating grants and contributions	1,662,376	-
Capital grants and contributions	881,758	
General revenues:		
Property taxes	9,051,608	
Sales taxes	6,928,817	
Other taxes	1,835,328	
Motor Vehicle In Lieu	1,722,801	
Investment earnings	1,642,527	
Proceeds from sale of property	262,568	-
Other	22,356	
Total revenues	<u>30,822,046</u>	<u>-</u>
Expenses:		
General government	4,148,075	
Police department	10,393,844	
Parks and public works	6,345,756	
Community development	2,277,109	
Community Services	973,554	
Library services	1,779,697	
Sanitation	833,096	
Redevelopment	1,563,166	
Interest and fees	1,139,358	
Total expenses	<u>29,453,655</u>	<u>-</u>
Increase in net assets	<u>1,368,391</u>	<u>-</u>
Net assets, beginning	77,432,245	
Prior period adjustments		-
Net assets, ending	<u>\$ 78,800,636</u>	<u>N/A</u>

Governmental activities. Governmental activities for the year increased the Town's net assets by \$1.4 million. Key elements of the increase in net assets are as follows:

- Property tax revenues collected for the Town and the Redevelopment Agency accounted for 42.2 percent of Town General Revenues. Property taxes increased from the prior year due to the increase in ad valorem property tax resulting from overall increase in assessed value, net of homeowner exemption value, of Santa Clara County.
- Sales tax revenue accounted for 32.3 percent of Town General Revenues at \$6.9 million for the year, decreasing approximately \$300,000 from the adopted budget amount in the prior year reflecting the economic slowdown experienced locally and the loss of two significant businesses in the Town.

- Other taxes and motor vehicle in lieu taxes accounted for 16.3 percent of General Revenues, decreasing slightly from the prior year due to some reductions in business license receipts due to the economic slowdown.
- Investment Earnings accounted for 7.4 percent of Town General Revenues at \$1.7 million for the year, decreasing significantly from the prior year, reflecting the decreased investment portfolio size due to significant use of capital reserves for infrastructure projects and the historically low interest rates prevalent in the credit market.

For the most part, increases in expenses closely paralleled inflation and growth in the demand in services. Significant expenditures also occurred in the Parks and Public Works and Redevelopment program carrying out the Town's aggressive capital program addressing streets and road infrastructure and park improvements.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of the fiscal year 2002/03, the Town's governmental funds reported combined ending fund balances of \$36,139,204 an increase of \$7,270,158 in comparison with the prior year. Approximately 51.6 percent of the total amount (\$18,638,772) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) to liquidate contracts and purchase orders of the prior period (\$2,424,218); 2) to pay debt service (\$975,173); 3) to provide for loans/advances due to the Town (\$3,118,211); 4) to provide for appropriated capital projects (\$8,238,622); 5) to provide for low and moderate housing (\$2,651,933); and 6) to provide for dedicated repair and maintenance in lighting and landscape districts (\$92,268).

The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$9,701,339, while total fund balance reached at \$12,595,812. General fund expenditures including transfers out decreased 8.66 percent (\$2,304,310) over the prior year due to Town-wide expenditure reductions implemented in FY 2002/03 in response to the economic slowdown and its impact to Town operating revenues and also to the decrease in capital expenditures in the current year. The prior year included approximately \$1.9 million in capital expenditures related to the purchase of strategic parcels located nearby the Civic Center (Fiesta Way).

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town. During the current year, special revenue fund revenues grew 15.2 percent (\$158,146) from levels received in the prior year. The increase is attributable to the growth in intergovernmental revenues which increased by 19.6 percent (\$64,704) from the prior year due to increased block grant revenue reimbursements for eligible activities during the year. Interest income also increased 51.2 percent (\$16,161) from the prior year due mainly to increased loan interest earned on the CDBG loan portfolio. Operating expenditures also decreased 4.8 percent from the prior year (\$47,964). The decrease resulted from increases in public works expenditures of 81.3 percent (\$28,693), increased capital maintenance in the lighting and landscape improvement districts. Another significant increase of 26.5 percent (\$171,840) was due to increased maintenance activity in the Town's sewer network. At the end of the current fiscal year, total fund balances for special revenue funds were \$1,834,601 with unreserved fund balance of \$1,067,615 and reserved balances of \$766,986.

The debt service fund has a total fund balance of \$33,550,573, all of which is reserved or designated for the payment of debt service for Town and redevelopment activities. The net fund balance increased in the debt service fund by \$1,625,573 primarily due to redevelopment tax increments exceeding agency debt service expenditures during the year.

The capital projects fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. Total Town capital project fund balances at year-end were \$18,158,218, an increase of \$3,787,066 from the prior year. The increase resulted from a combination of two primary factors, the first is that the Town's Redevelopment capital projects fund increased fund balances by \$5,854,458 which accounts for the residual unspent bond proceeds and debt service reserves for the \$10,725,000 July 2002 Certificates of Participation. The second factor offsetting this increase is a decrease in the Town's Appropriated Reserves (GFAR) capital projects fund of \$2,319,973. The decrease in the Town's GFAR capital projects fund results primarily from the Town's aggressive capital improvement plan where significant expenditures were made to improve the Town's street and roads. Total fund balances at year-end were either reserved or designated for the payment of capital related expenditures in carrying out the Town's five-year capital improvement program.

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Internal Service Funds. The Town has seven internal service funds, the Worker's Compensation, Self Insurance, Stores, Vehicle Maintenance, Building Maintenance, Management Information, and Equipment Replacement funds. Revenues to the funds are generated from fees charged to the Town's operating programs for services provided.

The Equipment Replacement Fund charges replacement costs and the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at year-end for both funds was \$221,440 and \$25,902 respectively versus \$458,068 and \$35,446 in the prior year. The decrease in operating income in the Equipment Replacement is attributable to the refinement in rates charged to user departments to more accurately reflect current replacement costs. Operating transfers out increased from zero in the prior year to \$500,000 in the current year to reflect management's decision to rebate excess fund balances back to the General as proposed in the Town's adopted FY 2002/03 budget.

The Building Maintenance, Stores and Management Information funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail, office inventory and duplication charges, and management information services. Net operating income before transfers at year-end for these funds was \$108,784, \$1,436 and \$69,397 respectively versus (\$84,649), \$2,820 and \$120,371 in the prior year. The increase in operating income in the Building Maintenance fund is due to a more normal experience in unanticipated building repairs due to storm damage experienced the prior year. Net income decreased in the Management Information services fund from the prior year due mainly to increases in Town-wide data services provided to users and associated licensing costs.

The Worker's Compensation and Self Insurance Fund charge premiums based on exposure levels by department for liability, property, worker's compensation and self-insurance costs. Net operating income before transfers at year end for these funds was (\$3,965) and \$422,630 respectively versus \$257,573 and \$226,231 in the prior year. Operating income decreases for the Worker's Compensation fund reflect the increased experience of loss claims in the current year, the opposite claims experience occurred in the general liability arena. Operating transfers out for both funds increased from zero in the prior year to \$150,000 in the current year to reflect management's decision to rebate excess fund balances back to the General as proposed in the Town's adopted FY 2002/03 budget.

Government Funds Budgetary Highlights:

Comparing the FY 2002/03 original budget (or adopted) General Fund amount of \$24,663,482 the final budget amount of \$23,372,482 shows a net decrease of \$1,291,000. Additions to the original budget included certain prior year (FY 2001/02) approved carryforwards of \$194,758 into FY 2002/03 and \$450,973 in committed purchase orders from the prior June 30 balance, also carried forward.

Original Budget	+ Approved Carryforwards	+ Prior Year Encumbrances	- Misc. Adjustments & Mid-Year Reductions	= Final Budget
\$24,663,482	\$194,758	\$450,973	\$1,036,550	\$23,372,482

The decrease in General Fund appropriations occurred mainly to the following budget adjustments:

- The Town pro-actively responded to the economic downturn in local revenues such as Sales Tax and Transient Occupancy Tax by making approximately \$1.3 million dollar in General Fund appropriation reductions, approximating a six percent cut in approved budget at mid-year in FY 2002/03.
- Miscellaneous adjustments approximating \$330,000 of supplemental appropriations occurred, with the majority being budgeted increases for grant funded programs such as police technology grants, bike lockers and beverage container grants.

Capital Assets

The Town's investment in capital assets for its governmental activity as of June 30, 2003, is recorded at \$46,533,923 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment.

Major capital asset events during the current fiscal year include the following:

- The Town re-stated capital assets to include Infrastructure totaling \$28,026,762.
- \$5,346,054 of continuing construction was accomplished on the Town's streets and street-related improvements, including substantial work performed downtown in the Downtown Street Improvement project.
- The Town made substantial improvements of \$451,554 to its Civic Center, most notably the addition of audio/video capabilities for the Town Council chambers and safety improvements to the roof and heating system.
- The Town finished construction expenditure activity (\$620,112) on its renovation of the Town Plaza Park, officially dedicated and opened to the public on September 22, 2002.

Town of Los Gatos
Capital Assets (net of accumulated depreciation)

	Governmental Activities
Land	\$ 14,165,194
Construction in Progress	8,489
Buildings	5,554,238
Equipment	2,503,647
Infrastructure	24,302,355
	<u>\$ 46,533,923</u>

Additional information on the Town's capital assets can be found in note 5.

Debt Administration

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$12,500,000. The entire amount owed is comprised of debt backed by the Town's obligation to pay lease payments to the Town's Redevelopment Agency. The Town's long-term obligations outstanding as of June 30, 2003 consisted of the following:

Town of Los Gatos
Outstanding Debt June 30, 2003

	Governmental Activities
Certificates of Participation	\$ 12,500,000
Total Outstanding Debt	<u>12,500,000</u>

The Town's total obligations increased by \$10,725,000 during the fiscal year. The increase in obligations resulted from the issuance by the Town and the Los Gatos Redevelopment Agency on July 18, 2002 of \$10,725,000 Certificates of Participation to finance a number of essential capital improvements located in the downtown redevelopment project area, including the renovation of the Town Plaza, downtown streetscape improvements, downtown street reconstruction, and downtown parking improvements, among others.

The rating of the Town's certificates of participation series from Moody's ranges from Aaa to Aa2 and from Standard & Poor's from AAA to AA-.

Additional information on the Town's long-term debt can be found in note 6.

Economic Factors and Next Year's Budgets and Rates

A product of an ongoing examination of how the Town provides cost-effective services, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the Town budget for the fiscal year 2003/04 the Town Council and management considered the following in developing budget estimates:

- Town retailers experienced declining sales in fiscal year 2002/03, reducing the sales tax revenue from \$6,953,880 in the prior year to \$6,928,817 in the current fiscal year. With sales tax representing approximately 30% of the Town's General Fund revenue, continued slowing of the local economy will clearly impact the Town. The slow recovery in sales tax growth was considered in preparing the Town's fiscal year 2003-04 sales tax revenue budget.
- General property tax collections representing approximately 22% of the Town's General Fund revenues which had performed strongly reflecting the Town's continued desirability, despite the loss of approximately 200,000 Silicon Valley jobs over the past two years, are expected to slow to approximately 4-5 percent, a growth rate of half that experienced in recent years.
- Fiscal year 2003/04 budgeted Motor Vehicle License fees (VLF) representing \$1.7 million or approximately 7.2 percent of the Town's General Fund revenues, was reduced \$500,000 in preparing budget estimates due to the State of California budget crisis. The reduction in estimate was made to reflect a delay in the "trigger" being pulled to increase the License Fees. The newly elected governor now has rescinded the trigger being pulled, thereby threatening up to 67 percent of the annual VLF fees collected every year if the State does not "backfill" this vital revenue source.
- Declining interest rates were experienced in FY 2002/03, with the Town's average annual interest rate declining from approximately 4 percent to 3 percent at June 30, 2003. The reduction in investment earnings was expected to continue in FY 2003/04 and was factored into the adopted budget estimates.
- Transient Occupancy taxes have also experienced declines in the Town due to the slow local economy and its effect on business travel and the continuing aftermath of the war on terror that has impacted the travel industry nationwide. Estimates for FY 2003/04 were lowered from the prior year by \$200,000 to \$900,000.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors, with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Finance Department at 110 East Main Street, Los Gatos, California, 95030, or phone (408) 354-6828.



TOWN OF LOS GATOS

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities are entirely new statements required by Government Accounting Standards Board Statement 34. Their purpose is to summarize the entire Town's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Town's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Town's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Town funds have been eliminated.

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

The Statement of Net Assets summarizes the financial position of all the Town's Governmental Activities in a single column.

The Town's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the Town's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net assets. It is also prepared on the full accrual basis, which means it includes all the Town's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the Town's expenses first, listed by program. Program revenues—that is, revenues that are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental program. The Town's general revenues are then listed in the Governmental Activities and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

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

These new financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*; the term General Purpose Financial Statements is no longer used.

TOWN OF LOS GATOS
STATEMENT OF NET ASSETS
JUNE 30, 2003

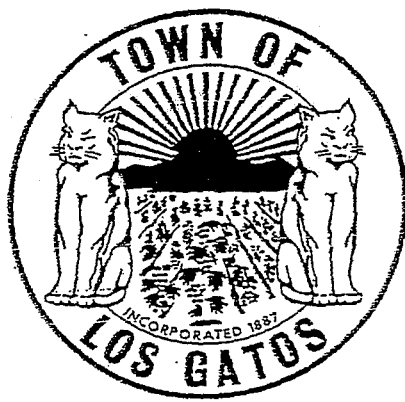
	<u>Governmental Activities</u>
ASSETS	
Cash and investments available for operations (Note 2)	\$48,946,555
Restricted cash and investments (Note 2)	8,354,130
Receivables	
Accounts	587,781
Interest	471,724
Intergovernmental	722,388
Materials, supplies, and deposits	17,189
Long term notes receivable (Note 3)	1,575,425
Capital assets, net of accumulated depreciation (Note 5)	<u>46,533,923</u>
 Total Assets	 <u>107,209,115</u>
LIABILITIES	
Accounts payable	2,284,835
Accrued payroll and benefits	3,723,395
Deferred revenue	3,008,942
Deposits	3,122,012
Claims payable (Note 10.B.)	613,114
Compensated absences (Note 1.J.)	1,697,168
Pass through obligations	1,459,013
Long-term liabilities (Note 6):	
Due within one year	370,000
Due more than one year	<u>12,130,000</u>
 Total Liabilities	 <u>28,408,479</u>
NET ASSETS (Note 8)	
Invested in capital assets, net of related debt	33,799,130
Restricted for:	
Capital projects	3,100,432
Housing	9,907,087
Special revenue projects	1,174,794
Debt service	975,173
Redevelopment activities	<u>8,859,344</u>
 Total Restricted Net Assets	 <u>24,016,830</u>
 Unrestricted	 <u>20,984,676</u>
 Total Net Assets	 <u><u>\$78,800,636</u></u>

See accompanying notes to financial statements

TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$4,140,359	\$2,159,167			(\$1,981,192)
Police department	10,337,213	1,403,332	\$590,489		(8,343,392)
Parks and public works	6,410,103	351,605	616,962	\$881,758	(4,559,778)
Community development	2,277,109	1,815,495			(461,614)
Community services	973,554	152,697	285,812		(535,045)
Library services	1,779,697	57,913	26,070		(1,695,714)
Sanitation	833,096	871,698			38,602
Redevelopment	1,563,166		143,043		(1,420,123)
Interest and fees	1,139,358				(1,139,358)
Total Governmental Activities	29,453,655	6,811,907	1,662,376	881,758	(20,097,614)
Total	<u>\$29,453,655</u>	<u>\$6,811,907</u>	<u>\$1,662,376</u>	<u>\$881,758</u>	<u>(20,097,614)</u>
General revenues:					
Property taxes					9,051,608
Sales taxes					6,928,817
Other taxes					1,835,328
Motor vehicle in lieu					1,722,801
Interest					1,642,527
Proceeds from sale of property					262,568
Other					22,356
Total General Revenues					<u>21,466,005</u>
Change in Net Assets					1,368,391
Net Assets-Beginning					<u>77,432,245</u>
Net Assets-Ending					<u>\$78,800,636</u>

See accompanying notes to financial statements



FUND FINANCIAL STATEMENTS

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

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the Town in fiscal 2003. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

APPROPRIATED RESERVES

Was established to provide resources for capital projects not fully funded from other sources.

CERTIFICATES OF PARTICIPATION

Accounts for the 1992 Certificates of Participation issued on August 1, 1992 to assist in financing the Parking Lot #4 project, and the 2002 Certificates of Participation issued on July 18, 2002 to finance several capital improvement projects.

REDEVELOPMENT AGENCY CAPITAL PROJECTS

Accounts for activities of the Redevelopment Agency of the Town and the related property tax revenue.

TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments available for operations (Note 2)	\$16,379,562	\$9,179,827	\$5,985,179	\$49,172	\$6,711,511	\$38,305,251
Restricted cash and investments (Note 2)			975,173	6,728,237	625,324	8,328,734
Receivables						
Accounts	412,978			3,364	168,012	584,354
Interest	471,724					471,724
Intergovernmental	425,899	19,733	53,377		223,379	722,388
Due from other funds (Note 4.A.)	37,000					37,000
Long term notes receivable (Note 3)	849,185				726,240	1,575,425
Advances to other funds (Note 4.B.)	2,118,500					2,118,500
Total Assets	\$20,694,848	\$9,199,560	\$7,013,729	\$6,780,773	\$8,454,466	\$52,143,376
LIABILITIES						
Accounts payable	\$600,538	\$422,703	\$35,643	\$565,092	\$280,836	\$1,904,812
Accrued payroll and benefits	3,686,094			8,270	13,594	3,707,958
Due to other funds (Note 4.A.)					37,000	37,000
Pass through obligations			1,459,013			1,459,013
Deferred revenue	620,164	2,578,415			386,070	3,584,649
Deposits	3,115,564					3,115,564
Advances from other funds (Note 4.B.)			1,968,500		150,000	2,118,500
Compensated absences (Note 1.J.)	76,676					76,676
Total Liabilities	8,099,036	3,001,118	3,463,156	573,362	867,500	16,004,172
FUND EQUITY						
Fund Balances (Note 8)						
Reserved for:						
Encumbrances	450,973	904,024		1,069,221		2,424,218
Capital outlay				5,138,190	3,100,432	8,238,622
Advances	2,118,500					2,118,500
Long term notes receivable	325,000				674,718	999,718
Housing					2,651,933	2,651,933
Repairs and maintenance					92,268	92,268
Debt service			975,173			975,173
Unreserved, designated for:						
Civic center improvements	663,086					663,086
Solid waste management					352,646	352,646
Market fluctuations	551,278					551,278
Open space	562,000					562,000
Animal Control	300,000					300,000
Parking	567,484	1,972,000				2,539,484
Manager's contingency	100,000					100,000
Museum upgrades	13,500					13,500
Productivity enhancement	100,000					100,000
Economic uncertainty	3,678,001					3,678,001
Capital improvements	836,593	3,322,418				4,159,011
Authorized carry forwards	115,000					115,000
Debt service			2,575,400			2,575,400
Unreserved, Reported in:						
General Fund	2,214,397					2,214,397
Special Revenue					714,969	714,969
Total Fund Balances	12,595,812	6,198,442	3,550,573	6,207,411	7,586,966	36,139,204
Total Liabilities and Fund Balances	\$20,694,848	\$9,199,560	\$7,013,729	\$6,780,773	\$8,454,466	\$52,143,376

See accompanying notes to financial statements

TOWN OF LOS GATOS
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET ASSETS
JUNE 30, 2003

Total fund balances reported on the governmental funds balance sheet	\$36,139,204
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Amounts reported for Governmental Activities in the Statement of Net Assets
are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	46,456,883
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ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

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

Cash and investments	10,641,304
Restricted cash and cash equivalents	25,396
Accounts receivable	3,427
Capital assets	77,040
Internal balances	17,189
Accounts payable	(145,230)
Accrued payroll and benefits	(15,437)
Claims payable	(613,114)
Deposits	(6,448)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	575,707
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LONG TERM ASSETS AND LIABILITIES

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

Long-term debt and interest payable	(12,734,793)
Non-current portion of compensated absences	(1,620,492)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$78,800,636
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See accompanying notes to financial statements

TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$4,977,119				\$37,046	\$5,014,165
Property tax increment			\$4,142,040			4,142,040
Less: Educational Revenue Augmentation Fund Payment			(104,597)			(104,597)
Sales & use taxes	6,928,817					6,928,817
Other taxes	1,619,383	\$69,738			146,207	1,835,328
Licenses & permits	1,937,094					1,937,094
Intergovernmental	3,230,963	404,966			995,178	4,631,107
Charges for services	2,707,936	4,198			671,288	3,383,422
Fines and forfeitures	187,117					187,117
Interest	1,927,971		201,506	\$143,082	275,017	2,547,576
Other		190,155		92,460	45	282,660
Total Revenues	23,516,400	669,057	4,238,949	235,542	2,124,781	30,784,729
EXPENDITURES						
General government	4,048,876					4,048,876
Police department	10,211,315					10,211,315
Parks and public works	4,839,638				64,000	4,903,638
Community development	2,269,870					2,269,870
Community services	950,299				53,843	1,004,142
Library services	1,811,866					1,811,866
Sanitation and other					819,658	819,658
Capital outlay	85,689	3,203,693		4,390,639	1,397,099	9,077,120
Redevelopment			1,459,013			1,459,013
Debt Service:						
Principal			150,000			150,000
Interest and fees			533,909	357,491	13,165	904,565
Total Expenditures	24,217,553	3,203,693	2,142,922	4,748,130	2,347,765	36,660,063
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(701,153)	(2,534,636)	2,096,027	(4,512,588)	(222,984)	(5,875,334)
OTHER FINANCING SOURCES (USES)						
Proceeds from issuance of debt (Note 6)				10,725,000		10,725,000
Transfers in (Note 4.C.)	1,105,853	263,793	707,987	350,033	828,671	3,256,337
Transfers (out) (Note 4.C.)	(75,264)	(49,130)	(1,178,441)	(707,987)	(445,515)	(2,456,337)
Total Other Financing Sources (Uses)	1,030,589	214,663	(470,454)	10,367,046	383,156	11,525,000
NET CHANGE IN FUND BALANCES	329,436	(2,319,973)	1,625,573	5,854,458	160,172	5,649,666
BEGINNING FUND BALANCES	10,645,884	8,518,415	1,925,000	352,953	7,426,794	28,869,046
ADJUSTMENT OF BEGINNING FUND BALANCE - IMPLEMENTATION OF GASB 34 (NOTE 1.J.)	1,620,492					1,620,492
ENDING FUND BALANCES	\$12,595,812	\$6,198,442	\$3,550,573	\$6,207,411	\$7,586,966	\$36,139,204

See accompanying notes to financial statements

TOWN OF LOS GATOS
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$5,649,666
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

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

The capital outlay expenditures are therefore added back to fund balance	8,457,771
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Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$14,274 which has already been allocated to serviced funds)	(1,738,331)
Retirements of capital assets	(5,184)

LONG TERM DEBT PROCEEDS AND PAYMENTS

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

Proceeds from the issuance of debt are deducted from fund balance	(10,725,000)
Repayment of debt principal is added back to fund balance	150,000

ACCRUAL OF NON-CURRENT ITEMS

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

Deferred revenue	37,317
Interest payable	(234,793)
Compensated absences	(268,528)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds	45,473
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$1,368,391
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See accompanying notes to financial statements

TOWN OF LOS GATOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$5,106,000	\$5,106,000	\$4,977,119	(\$128,881)
Sales & use taxes	7,500,000	7,000,000	6,928,817	(71,183)
Other taxes	2,150,000	1,768,000	1,619,383	(148,617)
Licenses & permits	1,750,500	1,750,500	1,937,094	186,594
Intergovernmental	2,961,700	2,930,072	3,230,963	300,891
Charges for services	3,254,075	3,254,075	2,707,936	(546,139)
Fines and forfeitures	78,500	78,500	187,117	108,617
Interest	1,863,707	1,570,707	1,927,971	357,264
Total Revenues	24,664,482	23,457,854	23,516,400	58,546
EXPENDITURES:				
Current:				
General government:				
Town Council	160,000	150,400	128,859	21,541
Town Treasurer	63,300	59,502	52,172	7,330
Town Clerk	383,400	359,396	368,117	(8,721)
Town Attorney	250,500	236,470	215,327	21,143
Town Manager	2,154,900	2,041,193	1,879,402	161,791
Non-Departmental	1,282,600	1,332,593	1,404,999	(72,406)
Total general government	4,294,700	4,179,554	4,048,876	130,678
Police department	10,819,360	10,620,983	10,211,315	409,668
Parks and public works	4,832,685	4,766,982	4,839,638	(72,656)
Community development	2,442,250	2,450,853	2,269,870	180,983
Community services	1,007,676	983,604	950,299	33,305
Library services	1,882,600	1,800,747	1,811,866	(11,119)
Capital outlay	16,000	101,729	85,689	16,040
Total Expenditures	25,295,271	24,904,452	24,217,553	686,899
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(630,789)	(1,446,598)	(701,153)	745,445
OTHER FINANCING SOURCES (USES)				
Transfers in	1,140,830	1,140,850	1,105,853	(34,997)
Transfers (out)	(279,507)	(279,507)	(75,264)	204,243
Total Other Financing Sources (uses)	861,323	861,343	1,030,589	169,246
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCE OVER EXPENDITURES AND OTHER USES	\$230,534	(\$585,255)	329,436	\$914,691
BEGINNING FUND BALANCE			10,645,884	
ADJUSTMENT OF BEGINNING FUND BALANCE - IMPLEMENTATION OF GASB 34			1,620,492	
ENDING FUND BALANCE			\$12,595,812	

See accompanying notes to financial statements

INTERNAL SERVICE FUNDS

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities- Internal Service Funds
ASSETS	
Current assets:	
Cash and investments available for operations (Note 2)	\$10,641,304
Restricted cash and cash equivalents (Note 2)	25,396
Accounts receivable	3,427
Materials, supplies, and deposits	<u>17,189</u>
Total current assets	<u>10,687,316</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation (Note 5)	<u>77,040</u>
Total noncurrent assets	<u>77,040</u>
Total Assets	<u>10,764,356</u>
LIABILITIES	
Current liabilities:	
Accounts payable	145,230
Accrued payroll and benefits	15,437
Deposits	<u>6,448</u>
Total current liabilities	<u>167,115</u>
Noncurrent liabilities:	
Claims payable (Note 10)	<u>613,114</u>
Total noncurrent liabilities	<u>613,114</u>
Total Liabilities	<u>780,229</u>
NET ASSETS (Note 8)	
Invested in capital assets, net of related debt	77,040
Unrestricted	<u>9,907,087</u>
Total Net Assets	<u><u>\$9,984,127</u></u>

See accompanying notes to financial statements

TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities- Internal Service Funds
OPERATING REVENUES	
Charges for services	\$4,216,938
Refunds	17,057
Other	47,520
Total Operating Revenues	<u>4,281,515</u>
OPERATING EXPENSES	
Salaries and related expenses	843,885
Insurance expenses	551,989
Depreciation	14,274
Services and supplies	<u>2,025,894</u>
Total Operating Expenses	<u>3,436,042</u>
Operating Income	<u>845,473</u>
Transfers (out) (Note 4.C.)	<u>(800,000)</u>
Net transfers	<u>(800,000)</u>
Change in net assets	45,473
BEGINNING NET ASSETS	<u>9,938,654</u>
ENDING NET ASSETS	<u><u>\$9,984,127</u></u>

See accompanying notes to financial statements

TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$4,280,926
Payments to suppliers	(2,089,506)
Payments to employees	(839,505)
Claims paid	(774,740)
	<u>577,175</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers (out)	(800,000)
	<u>(800,000)</u>
Cash Flows from Noncapital Financing Activities	<u>(800,000)</u>
Net Cash Flows	(222,825)
Cash and investments at beginning of period	<u>10,889,525</u>
Cash and investments at end of period	<u><u>\$10,666,700</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating income	\$845,473
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	14,274
Change in assets and liabilities:	
Receivables, net	(589)
Other assets	(1,625)
Accounts payable and other accrued expenses	(64,497)
Other accrued expenses	(215,861)
	<u>(215,861)</u>
Cash Flows from Operating Activities	<u><u>\$577,175</u></u>

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

TOWN OF LOS GATOS
FIDUCIARY FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2003

	PRIVATE PURPOSE TRUST	AGENCY FUND
	Library	Parking Improvement District #88
ASSETS		
Cash and investments available for operations (Note 2)	\$204,961	\$78,180
Restricted cash and investments (Note 2)		212,975
Intergovernmental receivable		949,425
Total Assets	<u>204,961</u>	<u>\$1,240,580</u>
LIABILITIES		
Accounts payable	5,233	
Due to other governments		\$1,240,580
Total Liabilities	<u>5,233</u>	<u>\$1,240,580</u>
NET ASSETS		
Reserved for library trust	<u>\$199,728</u>	

See accompanying notes to financial statements.

TOWN OF LOS GATOS
PRIVATE PURPOSE LIBRARY TRUST FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Trust Fund</u>
ADDITIONS	
Interest	\$5,890
Other	<u>39,458</u>
Total Additions	<u>45,348</u>
DEDUCTIONS	
Library services	<u>38,752</u>
Total Deductions	<u>38,752</u>
CHANGE IN NET ASSETS	6,596
NET ASSETS, BEGINNING OF YEAR	<u>193,132</u>
NET ASSETS, END OF YEAR	<u><u>\$199,728</u></u>

See accompanying notes to financial statements



TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Los Gatos (Town) operates under a Council-Manager form of government and provides the following services; public safety, parks and public works, community development, community services, library, sanitation, public improvements, planning and zoning, general administration services, and the Redevelopment Agency of Los Gatos.

The Town of Los Gatos is largely a residential community located in the foothills of the Santa Cruz Mountains. The Town was incorporated as a municipal corporation in 1887, and its population at January 1, 2003 was 28,592.

Police-Public Safety, emergency management and related services are provided by 70 Town employees.

Planning, Parks and Public Works - The Town provides development and planning services, code enforcement, inspection services, builds and maintains its parks, streets, curbs, gutters and related public property with a force of 64 employees. Major projects are contracted out.

Library and Community Services are provided by a total of 15.75 employees.

Fire services are provided by the Central Fire District, a separate governmental agency.

The accounting policies of the Town conform with generally accepted accounting principles applicable to governments. The following is a summary of these policies:

A. *Reporting Entity - Blended Component Units*

As required by generally accepted accounting principles, these financial statements present the Town and the Redevelopment Agency, over which the Town can impose its will. Blended component units, although legally separate entities are, in substance, part of the Town's operations and data from these units are combined with data of the Town. Town Council members serve as the Redevelopment Agency Board and have continuing responsibility over this entity including budget adoption, taxing authority, funding and personnel management. Financial statements for the Redevelopment may be obtained from the Town of Los Gatos, 110 East Main Street, Los Gatos, California, 95031.

In order to ensure the proper identification of individual revenue sources and the expenditures made from those revenues, the accounts of the Town are organized on the basis of individual 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. The Town's resources are accounted for in these individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

B. *Basis of Presentation*

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

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, 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*.

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the Town) and its component units. These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements present the *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

C. Major Funds

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

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

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

General Fund - is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves - established to provide resources for capital projects not fully funded from other sources.

Certificates of Participation - accounts for the 1992 Certificates of Participation issued on August 1, 1992 to assist in financing the Parking Lot #4 project, and the 2002 Certificates of Participation issued on July 18, 2002 to finance several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects - accounts for activities of the Redevelopment Agency of the Town and the related property tax revenue.

THE TOWN ALSO REPORTS THE FOLLOWING FUND TYPES

Internal Service Funds. These funds account for worker's compensation, self insurance, stores, vehicle maintenance, building maintenance, management information, and equipment replacement, all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds. Private-Purpose Trust Funds, and Agency Funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

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

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

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

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

E. *Budgets and Budgetary Accounting*

The Town follows the procedures below in establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.
4. The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund, the Town Manager may transfer appropriations between categories, departments, projects and programs as needed to implement the adopted budget, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were adopted for General Fund, Special Revenue Funds, Internal Service Funds, and Capital Project Funds.
6. Budgeted amounts are as originally adopted or as amended by the Town Council. Individual amendments were not material in relation to the original appropriations.

F. *Encumbrances*

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Materials, Supplies and Deposits*

Materials, supplies and deposits are held for consumption and are valued at cost using the first-in-first-out (FIFO) basis. General fund supplies are recorded as an expenditure at the time individual supply items are consumed.

H. *Cash Flows*

Each Proprietary fund's portion of Town pooled cash and investments are used in the preparation of the statement of cash flows since investments are not allocated to specific funds. These balances are in substance demand deposits available for withdrawal at any time.

I. *Deferred Compensation Plan*

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

The Town has no liability for any losses incurred by the Plan and does not participate in any gains, but it does have the duty of due care that would be required of an ordinary prudent investor. To satisfy this duty of due care, the Town has assigned its responsibility by signing a contract with Washington Mutual Bank and the International City Managers' Association (ICMA) to manage and invest the assets of the Plan. These administrators pool the assets of the Plan with those of other participants and do not make separate investments for the Town.

ICMA and Washington Mutual Bank amended their Plans to incorporate changes in the laws governing deferred compensation plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets under both Plans are not the Town's property and are not subject to claims by general creditors of the Town, they have been excluded from these financial statements.

J. *Accumulated Unpaid Vacation, Sick Pay and Other Employee Benefit Accounts*

Compensated absences comprise unused vacation leave, vested sick pay and certain compensated time off, which are accrued as earned. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

As part of its implementation of GASB Statement 34, the Town determined that \$1,620,492 of General Fund liabilities as of July 1, 2002 for compensated absences was not a current liability. This amount has been classified as a long term liability and is reflected only in the City-wide financial statements. Accordingly, fund balance has been increased and General Fund liabilities decreased by the above amount.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences were as follows:

	Governmental Activities
Beginning Balance	\$1,428,640
Additions	1,745,080
Payments	<u>(1,476,552)</u>
Ending Balance	<u>\$1,697,168</u>
Current Portion	<u>\$76,676</u>

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

K. *Property Taxes and Special Assessment Revenue*

Revenue is recognized in the fiscal year for which the taxes and assessments are levied, provided the taxes and assessments are collected in the current period or within 60 days after June 30. The County of Santa Clara levies, bills and collects property taxes and special assessments for the Town. Secured property tax is due in two installments, on November 1 and February 1. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on March 1 and becomes delinquent on August 31. Secured and unsecured property taxes are levied on January 1.

L. *Postemployment Health Care Benefits*

Substantially all Town employees and their surviving spouses are eligible for post-retirement health care benefits, which are funded on a pay-as-you-go basis. During the fiscal year ended June 30, 2003, 57 employees received benefits at a cost to the Town of \$103,162, net of employee reimbursements. The benefits were provided based on Council resolution.

M. *Social Security*

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The Town's part-time, seasonal and temporary employees are covered under Social Security, which requires these employees and the Town to each contribute 6.2% of the employees pay. Total contributions to Social Security during the year ended June 30, 2003 amounted to \$47,729, of which the Town paid one-half.

NOTE 2 - CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Investments so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

A. Categorization of Securities Instruments

The Town and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the Town employs the Trust Department of a bank as the custodian of all its investments, regardless of their form.

The Town categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - Securities instruments in this category are in the Town's name and are in the possession of the Trust Department of the bank employed by the Town solely for this purpose. The Town is the registered owner of securities held in book entry form by the bank's Trust Department.

Category 2 - Securities instruments and book entry form securities in this category are in the pledging financial institution's name but are held by its Trust Department in a separate account in the Town's name.

Category 3 - None of the Town's investments are in this category, which would include only Town-owned securities instruments or book entry form securities which were not in the Town's name or which were not held by the bank's Trust Department.

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value, which is the same as fair market value, and are categorized as follows at June 30:

	Available for Operations	Restricted	Total
Category 1:			
U.S. Government Agency Securities	\$35,996,137		\$35,996,137
Category 2:			
U.S. Treasury Securities		\$706,266	706,266
Non-categorized investments:			
Government Securities Money Market			
Mutual Funds	399,481	523,823	923,304
Local Agency Investment Fund	9,412,000	6,021,788	15,433,788
Total Investments	45,807,618	7,251,877	53,059,495
Cash Deposits with Banks	1,727,668	650,720	2,378,388
Certificates of Deposit	2,143,443	212,975	2,356,418
Cash on hand at Town	2,500		2,500
Total Cash and Investments	\$49,681,229	\$8,115,572	\$57,796,801

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements:

Cash and investments available for operations	\$48,946,555
Restricted cash and investments, with fiscal agents	<u>8,354,130</u>
Total City and Agency cash and investments	57,300,685
Cash and investments in Fiduciary Funds (separate statement)	<u>496,116</u>
Total cash and investments	<u><u>\$57,796,801</u></u>

B. *Authorized Investments*

The Town's Investment Policy and the California Government Code allow the Town to invest in the following, provided the credit ratings of the issuers are acceptable to the Town:

- Securities of the U.S. Government or its agencies
- Collateralized, non-negotiable certificates of deposit
- Bankers acceptances
- Commercial paper
- Medium term corporate notes
- Money market mutual funds
- California Local Agency Investment Fund

The Town does not enter into repurchase or reverse repurchase agreements.

C. *Cash and Investments Defined*

The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town's least liquid investments, since they must be held to maturity.

D. *Cash Deposits with Banks and Certificates of Deposit*

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

Cash deposits with banks and certificates of deposit are entirely insured (Category 1) or collateralized by securities held by agent of the pledging financial institution in the Town's name (Category 2). The carrying amount of the Town's cash deposits is \$4,734,806 at June 30, 2003. Bank balances before reconciling items were \$4,921,678 of which \$100,000 was insured (Category 1) and \$4,821,678 was collateralized (Category 2), as discussed above.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

E. Marking Investments to Fair Value (GASB 31)

The Town adopted Government Accounting Standards Board Statement 31, which requires that the Town's investments be carried at fair value instead of cost. Under GASB 31, the Town adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The Town is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Town reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

NOTE 3 - LONG-TERM NOTES RECEIVABLE

A. Summary

Long-term notes receivable comprised the following at June 30, 2003:

Description	Interest Rate	Maturity	
General Fund:			
Open Doors Associates, Ltd.	7.00%	2024	\$390,903
Police Chief	Varies	See below	458,282
General Fund Total			<u>849,185</u>
Community Development Block Grant Special Revenue Fund:			
Housing conservation loans	0%-5%	Various	726,240
CDBG Fund Total			<u>726,240</u>
			<u>\$1,575,425</u>

B. Open Doors Associates Ltd. and Mid-Peninsula Housing Coalition

The Town has cooperation agreements with two developers (Mid-Peninsula Housing Coalition and Open Doors Associates, Ltd.) and several other governmental agencies. Under these agreements, the Developers constructed a 64-unit low and moderate-income housing project. To assist in financing this Project, the Town advanced funds to these developers under notes, which are secured by deeds of trust subordinated to construction loans, permanent financing and other loans on the Project up to a maximum of \$6.5 million.

Under a note dated April 21, 1992, the Town agreed to loan a maximum amount of \$339,250 to Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planning fees and building permit taxes. At June 30, 2003, \$390,903 of such costs, including accrued interest, had been incurred by Open Doors Associates, Ltd. in connection with the Project and advanced by the Town under this note.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 3 - LONG-TERM NOTES RECEIVABLE (Continued)

C. *Related Parties*

The proceeds of the former Police Chief's note receivable were used to assist in the purchase of a primary residence in the Town, as required by his employment contract. The Note is secured by a second trust deed and accrues interest at a rate equal to the interest paid by the State of California Local Agency Investment Fund (LAIF). The rate is adjusted annually. At June 30, 2003, the balance of the note was \$458,282, which was fully repaid on July 2, 2003.

D. *Housing Conservation*

The Town administers a housing conservation and rehabilitation loan program using Housing and Community Development Act funds. Under this Program, individuals with incomes below a certain level are eligible to receive low interest loans, secured by deeds of trust, for construction work on their homes. Federal grants are used to fund these loans. Upon approval of loans, the Town disburses the funds, and arranges for and collects repayments. As of June 30, 2003, restricted cash and investments included cash balances of \$625,324 available for this program which were recorded in the Community Development Block Grant Special Revenue Fund.

NOTE 4 - INTERFUND TRANSACTIONS

A. *Current Interfund Balances*

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. As of June 30, 2003, the Sewer Maintenance Special Revenue Fund owed \$37,000 to the General Fund. This balance is expected to be repaid during fiscal 2003-04.

B. *Interfund Advances*

Advances are long-term loans from one fund to another. The General Fund has an advance of \$1,968,500 to the Certificates of Participation Debt Service Fund to finance Agency operations. The advance bears interest at 10% per year and is payable on demand. During fiscal year ended June 30, 2003 the 1992 Certificates of Participation Debt Service Fund paid \$196,850 in interest to the General Fund.

The General Fund has a \$150,000, non-interest bearing advance to the Non-Point Source Maintenance Special Revenue Fund. This fund receives revenue on a reimbursement basis; expenditures are paid and are subsequently reimbursed. The advance is used to cover cash shortages until reimbursement is received. The advance is due when the program is eliminated and is repayable from Non-Point Source Maintenance Revenues.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

C. Transfers Among Funds

With Council approval, resources may be transferred from one Town fund to another. The purpose of the majority of transfers is to reimburse a fund, which has made an expenditure on behalf of another fund.

Transfers between individual funds during the fiscal year ended June 30, 2003 are shown below.

Fund Receiving Transfers	Fund Making Transfers	Amount
	<i>Special Revenue Funds</i>	
<i>General Fund</i>	Solid Waste Management	\$27,682 (A)
<i>General Fund</i>	Non-Point Source Maintenance	24,441 (A)
<i>General Fund</i>	Sewer Maintenance	92,200 (A)
<i>General Fund</i>	Land and Lighting	6,400 (A)
	<i>Capital Projects Funds</i>	
<i>General Fund</i>	Appropriated Reserves	49,130 (A)
<i>General Fund</i>	Gas Tax	106,000 (B)
	<i>Internal Service Funds</i>	
<i>General Fund</i>	Equipment Replacement	500,000 (C)
<i>General Fund</i>	Workers Compensation	150,000 (C)
<i>General Fund</i>	Self Insurance	150,000 (C)
	<i>Debt Service Fund</i>	
<i>Capital Projects Funds</i>		
Housing Set-Aside	Certificates of Participation	828,408 (D)
Redevelopment Agency	Certificates of Participation	350,033 (E)
Appropriated Reserves	<i>General Fund</i>	75,001 (B)
	<i>Special Revenue Funds</i>	
Appropriated Reserves	Community Development Block Grant	188,792 (F)
<i>Debt Service Fund</i>		
Certificates of Participation	<i>Capital Projects Funds</i>	
	Redevelopment Agency	707,987 (G)
<i>Special Revenue Funds</i>		
Community Development Block Grant	<i>General Fund</i>	263 (A)
		<u>\$3,256,337</u>

The reasons for these transfers are set forth below:

- (A) To reimburse fund administrative expenditures.
- (B) Recurring transfers.
- (C) To reimburse prior year overcharges.
- (D) State-required set-aside of Low/Moderate Income Housing portion of property tax increment.
- (E) To allocate balance of advance to fund capital projects.
- (F) To fund capital project expenditures using grant funds.
- (G) To fund debt service payments.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 5 - CAPITAL ASSETS (Continued)

C. Depreciation Allocation

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

<i>Governmental Activities</i>	
General government	\$126,977
Public safety	337,782
Parks and public works	1,057,622
Community development	39,249
Community services	31,074
Library	53,047
Sanitation	5,161
Redevelopment	101,692
<i>Total Governmental Activities</i>	<u><u>\$1,752,604</u></u>

NOTE 6 - GENERAL LONG-TERM DEBT

A. Composition and Changes

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Town's bonded debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003	Current Portion
1992 Certificates of Participation, 5%-9%, due 8/1/2012	\$2,960,000	\$1,925,000		\$150,000	\$1,775,000	\$160,000
2002 Certificates of Participation, Series A, 2.5%-5%, due 8/1/2031	10,725,000		\$10,725,000		10,725,000	210,000
Total Long-Term Debt	<u><u>\$13,685,000</u></u>	<u><u>\$1,925,000</u></u>	<u><u>\$10,725,000</u></u>	<u><u>\$150,000</u></u>	<u><u>\$12,500,000</u></u>	<u><u>\$370,000</u></u>

1992 Certificates of Participation (COPs)

The Town issued Certificates of Participation (COPs) in the original principal amount of \$2,960,000 dated August 1, 1992 to finance certain construction costs of the Town's Parking Lot 4 Project, which was constructed on land located in the Redevelopment Agency. The COPs are similar to debt; they allow investors to participate in a share of guaranteed payments, which are made by the Town. Because they are similar to debt, the present value of the total of the payments to be made is recorded as long-term debt. Principal payments are due annually on August 1, with interest payments payable semi-annually on February 1 and August 1. The Town has pledged motor vehicle license fee revenues as collateral for the repayment of the Certificates.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 6 - GENERAL LONG-TERM DEBT (Continued)

To assist the Town in paying the cost of the acquisition and construction of the Parking Lot 4 Project, the Town and its Redevelopment Agency entered into a Reimbursement Agreement. Under this agreement, the Agency will use available net tax increment revenues resulting from the Project's effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreement for the Project. Net tax increment revenues are all taxes allocated to and paid into the Redevelopment Agency Capital Projects Fund for the Project Area. Reimbursements under this agreement commenced in fiscal 1995-96.

2002 Certificates of Participation, Series A

On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 Certificates of Participation, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town has pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lots No. 1, 2, and 3, as collateral for the repayment of the Certificates. Interest is payable semiannually on each February 1 and August 1, commencing February 1, 2003. Principal payments are due and payable annually, commencing August 1, 2003.

Repayment requirements for general long-term debt were as follows at June 30, 2003:

For The Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$370,000	\$560,878
2005	385,000	546,765
2006	400,000	531,745
2007	415,000	516,083
2008	430,000	500,785
2009-2013	2,175,000	2,228,109
2014-2018	1,545,000	1,839,747
2019-2023	1,920,000	1,451,430
2024-2028	2,435,000	922,100
2029-2032	2,425,000	249,622
Total payments due	<u>\$12,500,000</u>	<u>\$9,347,264</u>

The Town must maintain required amounts of cash and investments with the trustees under the terms of the COPs and Special Assessments issues. These funds are pledged as reserves to be used if the Town fails to meet its obligations under the COPs issue. These reserves totaled \$975,175 at June 30, 2003.

The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements, and the assessments are used to pay debt service on debt issued to fund the improvements.

The Town has no legal or moral liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. The principal amount of outstanding debt of the District was \$1,060,000 on June 30, 2003, which has been excluded from the Town's financial statements.

NOTE 8 – NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

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

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

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

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

B. Reserves of Fund Equity

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of fund balance or retained earnings, which has been appropriated for expenditure or is legally segregated for a specific future use. At June 30, 2003, portions of fund equity had been reserved for the following:

Encumbrances

This reserve encumbers fund balance for purchase order commitments made prior to the fiscal year end.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 8 - FUND EQUITY AND EXPENDITURES IN EXCESS OF BUDGET (Continued)

Capital Outlay

This reserve is funded by storm drain fees, construction taxes, and debt proceeds, which are legally restricted for major capital projects.

Advances

This reserve reflects long-term loans to other funds that are not available for expenditure.

Long Term Notes Receivable

This reserve reflects the balance of long-term loans not offset by deferred revenue, which are not available for expenditure.

Housing

This reserve reflects amounts to be expended for low and moderate-income housing or rental rehabilitation.

Repairs and Maintenance

Repairs and maintenance of lighting and landscape property and open space property are financed with special tax assessments on benefiting property, which is legally restricted.

Debt Service

This reserve reflects cash balances in the debt service funds that are restricted for debt service.

Library Trust

This reserve will be used for library operations accounted for in the Library Expendable Trust Fund.

C. *Designations of Fund Equity*

A portion of unreserved fund balance may be designated to indicate plans for financial resource use in a future period, such as for general contingencies or capital projects. At June 30, 2003, portions of unreserved fund equity had been designated for the purposes below. The remaining portion is unreserved.

Civic Center Improvements

This designation will be used for general improvements to the Civic Center, including major upgrades in the electrical system.

Solid Waste Management

This designation will be used to implement a yard waste collection program.

Market Fluctuations

This designation will be used to reserve funds representing an increase or reduction in market value of the Town's treasury investments at year-end.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 8 - FUND EQUITY AND EXPENDITURES IN EXCESS OF BUDGET (Continued)

Open Space

This designation will be used to make selective open space acquisitions.

Animal Control

This designation will be used to extend the period that animals are held.

Parking

This designation will be used to mitigate parking issues within the Town.

Manager's Contingency

This designation will be used at the discretion of the Town Manager to provide budgets for unforeseen situations that may arise during the fiscal year.

Museum Upgrades

This designation will be used to fund requests submitted by the Los Gatos Museum Association for capital improvements at the two museum sites.

Productivity Enhancement

This designation will be used to fund one-time requests that result in streamlining or improving existing service levels.

Economic Uncertainty

This designation will be used to fund future fluctuations in the economy, which are not currently foreseen. Calculated at twenty five per cent of the 2002-03 General Fund operating budget.

Capital Improvements

This designation will be used for the acquisition and construction of capital facilities.

Debt Service

This designation will be used to fund the future payments of principal and interest on the general long-term debt.

D. Excess of Expenditures over Appropriations

The following funds had expenditures in excess of budget due to unanticipated expenditures:

General Fund	\$885,401
Non-Point Source Maintenance Special Revenue Fund	12,819
Sewer Maintenance Special Revenue Fund	38,072
Land and Lighting Special Revenue Fund	24,100
Redevelopment Agency Capital Projects Fund	378,371
Gas Tax Capital Projects Fund	9,862

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 9 - PENSION PLAN

CALPERS Safety and Miscellaneous Employees Plans

Substantially all Town employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The Town's employees participate in the separate Safety (police) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and Town resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the Town must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2003, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 year service	5 year service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	3.000%	1.426% - 2.418%
Required employee contribution rates	9.000%	7.000%
Required employer contribution rates	16.010%	0.000%

The Town's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the Town's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the Town must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The Town does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually. The remaining amortization period ends June 30, 2022 for the Safety Plan and June 30, 2024 for the Miscellaneous Plan.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 9 - PENSION PLAN (Continued)

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

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2000	\$25,692,203	\$26,977,795	(\$1,285,592)	105.0%	\$3,109,170	(41.3%)
2001	26,845,081	27,471,189	(626,108)	102.3%	3,339,766	(18.7%)
2002	29,477,337	25,858,988	3,618,349	87.7%	3,631,141	99.6%

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2000	\$27,321,378	\$37,157,178	(\$9,835,800)	136.0%	\$6,053,885	(162.5%)
2001	30,841,467	38,562,466	(7,720,999)	125.0%	6,601,729	(117.0%)
2002	34,162,824	36,683,535	(2,520,711)	107.4%	8,314,689	(30.3%)

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

PERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 2002:

	Safety	Miscellaneous
Beginning Balance 6/30/01	\$27,471,189	\$38,562,466
Contributions received	750,108	544,383
Benefits and Refunds Paid	(1,057,229)	(1,242,968)
Investment Earnings Credited	2,253,955	3,153,158
Expected Actuarial Value of Assets 6/30/02	<u>\$29,418,023</u>	<u>\$41,017,039</u>
Market Value of Assets 6/30/02	<u>\$23,508,171</u>	<u>\$33,348,668</u>
Actuarial Value of Assets 6/30/02	<u>\$25,858,988</u>	<u>\$36,683,535</u>

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 9 - PENSION PLAN (Continued)

Actuarially required contributions for the Safety Plan for fiscal years 2003, 2002, and 2001 were \$1,024,649, \$747,367 and \$335,995, respectively. Actuarially required contributions for the Miscellaneous Plan for fiscal years 2003, 2002, and 2001 were \$611,989, \$530,197, and \$445,645, respectively. The Town made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

NOTE 10 - RISK MANAGEMENT

The Town participates in the following public entity risk pools.

A. Risk Pools

ABAG PLAN Corporation (ABAG PLAN) covers general liability claims in an amount up to \$5,000,000. The Town has a deductible or uninsured liability of up to \$50,000 per claim. ABAG PLAN also provides all risk property coverage of \$100,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property damage and a \$10,000 deductible for vehicle damage. Once the Town's deductible is met ABAG PLAN becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2003 the Town contributed \$415,150 for current year coverage.

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

The Town's contributions to each ABAG PLAN equal the ratio of the Town'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.

Financial statements may be obtained from ABAG PLAN Corporation, P.O. Box 2050, Oakland, California, 94604-2050.

The Town is a member of Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) for Worker's Compensation claims. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAWCX becomes responsible up to \$1,000,000. After this, LAWCX has a commercial policy that covers claims.

Financial statements may be obtained from LAWCX, 6371 Auburn Boulevard, Suite B, Citrus Heights, California 95621.

The Town has not significantly reduced its insurance coverage from the prior year. Furthermore, settlements have not exceeded insurance coverage for the past three fiscal years.

TOWN OF LOS GATOS
Notes to Basic Purpose Financial Statements

NOTE 10 - RISK MANAGEMENT (Continued)

B. Liability for Uninsured Claims

The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The change in the Workers' Compensation and Self Insurance Internal Service Funds' claims liability, including claims incurred but not reported as estimated by the Town, is based on historical trend information provided by its third party administrators and was computed as follows at June 30, 2003:

	Worker's Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Beginning claims payable balance	\$469,163	\$366,702	\$835,865
Liability for current fiscal year claims	82,489	122,408	204,897
Increase (decrease) in estimated liability for prior fiscal year claims	224,447	(171,054)	53,393
Claims paid	(275,237)	(205,804)	(481,041)
Ending claims payable balance	<u>\$500,862</u>	<u>\$112,252</u>	<u>\$613,114</u>

NOTE 11 – JOINT POWERS AUTHORITY

The Town is a member of the Silicon Valley Animal Control Authority (SVACA), established in 2000 to deliver animal control services. SVACA provides its own field services and has an agreement with the Humane Society of Santa Clara Valley to provide facilities, personnel, shelter and animal services. SVACA is governed by a Board of Directors consisting of representatives from member agencies.

During the fiscal year ended June 30, 2003 the Town contributed \$179,154 to SVACA. The Town's equity interest in SVACA is not available. Audited financial statements are available from SVACA at 2340-A Walsh Avenue, Santa Clara, CA 95051.

NOTE 12 - CONTINGENT LIABILITIES

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

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

**MAJOR GOVERNMENTAL FUNDS, OTHER THAN
GENERAL FUND AND SPECIAL REVENUE FUNDS**

Appropriated Reserves Fund was established to provide resources for capital projects not fully funded from other sources.

Certificates of Participation accounts for the 1992 Certificates of Participation issued on August 1, 1992 to assist in financing the Parking Lot #4 project, and the 2002 Certificates of Participation issued on July 18, 2002 to finance several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects Fund accounts for activities of the Redevelopment Agency of the Town and the related property tax revenue.

TOWN OF LOS GATOS
 APPROPRIATED RESERVES FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Other taxes	\$80,000	\$69,738	(\$10,262)
Intergovernmental	1,275,570	404,966	(870,604)
Charges for services		4,198	\$4,198
Interest	70,000		(70,000)
Other		190,155	190,155
Total Revenues	1,425,570	669,057	(756,513)
EXPENDITURES			
Capital outlay	3,779,246	3,203,693	575,553
Total Expenditures	3,779,246	3,203,693	575,553
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,353,676)	(2,534,636)	(180,960)
OTHER FINANCING SOURCES (USES)			
Transfers in	604,832	263,793	(341,039)
Transfers (out)	(40,000)	(49,130)	(9,130)
Total Other Financing Sources (Uses)	564,832	214,663	(350,169)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$1,788,844)	(2,319,973)	(\$531,129)
BEGINNING FUND BALANCES		8,518,415	
ENDING FUND BALANCES		\$6,198,442	

TOWN OF LOS GATOS
 CERTIFICATES OF PARTICIPATION FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Property tax increment	\$4,284,538	\$4,142,040	(\$142,498)
Less: Educational Revenue Augmentation Fund Payment		(104,597)	(104,597)
Interest	465,795	201,506	(264,289)
Total Revenues	4,750,333	4,238,949	(511,384)
EXPENDITURES			
Redevelopment	1,394,750	1,459,013	(64,263)
Debt Service:			
Principal	150,000	150,000	
Interest and fees	783,909	533,909	250,000
Total Expenditures	2,328,659	2,142,922	185,737
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,421,674	2,096,027	(325,647)
OTHER FINANCING SOURCES (USES)			
Transfers in		707,987	707,987
Transfers (out)	(731,246)	(1,178,441)	(447,195)
Total Other Financing Sources (Uses)	(731,246)	(470,454)	260,792
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$1,690,428	1,625,573	(\$64,855)
BEGINNING FUND BALANCES		1,925,000	
ENDING FUND BALANCES		\$3,550,573	

TOWN OF LOS GATOS
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Interest	\$37,100	\$143,082	\$105,982
Other		92,460	92,460
Total Revenues	37,100	235,542	198,442
EXPENDITURES			
Capital outlay	4,369,759	4,390,639	(20,880)
Debt Service:			
Interest and fees		357,491	(357,491)
Total Expenditures	4,369,759	4,748,130	(378,371)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,332,659)	(4,512,588)	(179,929)
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of debt	9,000,000	10,725,000	1,725,000
Transfers in		350,033	350,033
Transfers (out)		(707,987)	(707,987)
Total Other Financing Sources (Uses)	9,000,000	10,367,046	1,367,046
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$4,667,341	5,854,458	\$1,187,117
BEGINNING FUND BALANCES		352,953	
ENDING FUND BALANCES		\$6,207,411	

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

Solid Waste Management Fund was established to account for the Town's Solid Waste Program activities.

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Sewer Maintenance Fund is used to account for the collection and disbursement of sanitary sewer fees.

Land and Lighting Fund was established to provide maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

CAPITAL PROJECTS FUNDS:

Housing Set-Aside Fund accounts for the 20% mandatory property tax allocation for low income housing and the related capital projects.

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to levy a tax based upon building additions or alterations. The types of taxes imposed include Capital Improvement, Utility Underground and Parks.

Gas Tax Fund is used to account for revenue received and expended under the State of California Streets and Highways Code Sections 2106, 2107, and 2107.5. These revenues must be expended for the maintenance or construction of streets.

TOWN OF LOS GATOS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2003

SPECIAL REVENUE FUNDS

	Solid Waste Management	Community Development Block Grant	Non-Point Source Maintenance	Sewer Maintenance	Land and Lighting
ASSETS					
Cash and investments available for operations	\$331,430		\$292,891	\$80	\$92,117
Restricted cash and investments		\$625,324			
Receivables					
Accounts	23,681	22,305	75,330	46,696	
Intergovernmental		209,307			728
Long term notes receivable		726,240			
Total Assets	\$355,111	\$1,583,176	\$368,221	\$46,776	\$92,845
LIABILITIES					
Accounts payable	\$1,637	\$21,719		\$1,535	\$577
Accrued payroll and benefits	828	593	\$3,328	8,241	
Due to other funds				37,000	
Deferred revenue		386,070			
Advances from other funds			150,000		
Total Liabilities	2,465	408,382	153,328	46,776	577
FUND BALANCES					
Reserved for:					
Capital outlay					
Long term notes receivable		674,718			
Low and moderate income housing					
Repairs and maintenance					92,268
Unreserved, designated for:					
Solid waste management	352,646				
Unreserved, Undesignated		500,076	214,893		
Total Fund Balances	352,646	1,174,794	214,893		92,268
Total Liabilities and Fund Balances	\$355,111	\$1,583,176	\$368,221	\$46,776	\$92,845

CAPITAL PROJECTS FUND

Housing Set-Aside	STORM DRAIN			Construction Tax	Gas Tax	Total Nonmajor Governmental Funds
	Basin #1	Basin #2	Basin #3			
\$2,649,691	\$381,300	\$240,844	\$141,539	\$1,770,201	\$811,418	\$6,711,511 625,324
13,344						168,012 223,379 726,240
<u>\$2,663,035</u>	<u>\$381,300</u>	<u>\$240,844</u>	<u>\$141,539</u>	<u>\$1,770,201</u>	<u>\$811,418</u>	<u>\$8,454,466</u>
\$10,498 604	\$929			\$517	\$243,424	\$280,836 13,594 37,000 386,070 150,000
<u>11,102</u>	<u>929</u>			<u>517</u>	<u>243,424</u>	<u>867,500</u>
2,651,933	380,371	\$240,844	\$141,539	1,769,684	567,994	3,100,432 674,718 2,651,933 92,268
						352,646 714,969
<u>2,651,933</u>	<u>380,371</u>	<u>240,844</u>	<u>141,539</u>	<u>1,769,684</u>	<u>567,994</u>	<u>7,586,966</u>
<u>\$2,663,035</u>	<u>\$381,300</u>	<u>\$240,844</u>	<u>\$141,539</u>	<u>\$1,770,201</u>	<u>\$811,418</u>	<u>\$8,454,466</u>

TOWN OF LOS GATOS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003

SPECIAL REVENUE FUNDS

	<u>Solid Waste Management</u>	<u>Community Development Block Grant</u>	<u>Non-Point Source Maintenance</u>	<u>Sewer Maintenance</u>	<u>Land and Lighting</u>
REVENUES					
Property taxes					\$37,046
Other taxes					
Intergovernmental	\$47,090	\$241,010	\$153,326		
Charges for service	46,016			\$625,272	
Interest		44,702			3,002
Other		45			
Total Revenues	<u>93,106</u>	<u>285,757</u>	<u>153,326</u>	<u>625,272</u>	<u>40,048</u>
EXPENDITURES					
Parks and public works					64,000
Community services		53,843			
Sanitation and other	145,307		141,279	533,072	
Capital outlay					
Debt Service:					
Interest and fees		13,165			
Total Expenditures	<u>145,307</u>	<u>67,008</u>	<u>141,279</u>	<u>533,072</u>	<u>64,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(52,201)</u>	<u>218,749</u>	<u>12,047</u>	<u>92,200</u>	<u>(23,952)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		263			
Transfers (out)	<u>(27,682)</u>	<u>(188,792)</u>	<u>(24,441)</u>	<u>(92,200)</u>	<u>(6,400)</u>
Total Other Financing Sources (Uses)	<u>(27,682)</u>	<u>(188,529)</u>	<u>(24,441)</u>	<u>(92,200)</u>	<u>(6,400)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(79,883)</u>	<u>30,220</u>	<u>(12,394)</u>		<u>(30,352)</u>
BEGINNING FUND BALANCE	<u>432,529</u>	<u>1,144,574</u>	<u>227,287</u>		<u>122,620</u>
ENDING FUND BALANCE	<u><u>\$352,646</u></u>	<u><u>\$1,174,794</u></u>	<u><u>\$214,893</u></u>		<u><u>\$92,268</u></u>

CAPITAL PROJECTS FUND						
STORM DRAIN						Total Nonmajor Governmental
Housing Set-Aside	Basin #1	Basin #2	Basin #3	Construction Tax	Gas Tax	
						\$37,046
	\$61,832	\$36,959	\$4,793	\$42,623		146,207
					\$553,752	995,178
						671,288
\$130,703	10,330	6,620	3,990	49,950	25,720	275,017
						45
130,703	72,162	43,579	8,783	92,573	579,472	2,124,781
						64,000
						53,843
						819,658
383,104					1,013,995	1,397,099
						13,165
383,104					1,013,995	2,347,765
(252,401)	72,162	43,579	8,783	92,573	(434,523)	(222,984)
828,408						828,671
					(106,000)	(445,515)
828,408					(106,000)	383,156
576,007	72,162	43,579	8,783	92,573	(540,523)	160,172
2,075,926	308,209	197,265	132,756	1,677,111	1,108,517	7,426,794
\$2,651,933	\$380,371	\$240,844	\$141,539	\$1,769,684	\$567,994	\$7,586,966

TOWN OF LOS GATOS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	SOLID WASTE MANAGEMENT			COMMUNITY DEVELOPMENT BLOCK GRANT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Other taxes						
Intergovernmental	\$47,400	\$47,090	(\$310)	\$415,368	\$241,010	(\$174,358)
Charges for services	130,000	46,016	(83,984)			
Interest				20,000	44,702	24,702
Other					45	45
Total Revenues	<u>177,400</u>	<u>93,106</u>	<u>(84,294)</u>	<u>435,368</u>	<u>285,757</u>	<u>(149,611)</u>
EXPENDITURES						
Parks and public works						
Community services				264,893	53,843	211,050
Sanitation and other	172,600	145,307	27,293			
Capital outlay						
Debt Service:						
Interest and fees				20,000	13,165	6,835
Total Expenditures	<u>172,600</u>	<u>145,307</u>	<u>27,293</u>	<u>284,893</u>	<u>67,008</u>	<u>217,885</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,800</u>	<u>(52,201)</u>	<u>(57,001)</u>	<u>150,475</u>	<u>218,749</u>	<u>68,274</u>
OTHER FINANCING SOURCES (USES)						
Transfers in				19,500	263	(19,237)
Transfers (out)	<u>(28,500)</u>	<u>(27,682)</u>	<u>818</u>	<u>(221,975)</u>	<u>(188,792)</u>	<u>33,183</u>
Total Other Financing Sources (Uses)	<u>(28,500)</u>	<u>(27,682)</u>	<u>818</u>	<u>(202,475)</u>	<u>(188,529)</u>	<u>13,946</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(\$23,700)</u>	<u>(79,883)</u>	<u>(\$56,183)</u>	<u>(\$52,000)</u>	<u>30,220</u>	<u>\$82,220</u>
BEGINNING FUND BALANCE		<u>432,529</u>			<u>1,144,574</u>	
ENDING FUND BALANCE		<u>\$352,646</u>			<u>\$1,174,794</u>	

NON-POINT SOURCE MAINTENANCE			SEWER MAINTENANCE			LAND AND LIGHTING		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
						\$36,962	\$37,046	\$84
\$153,360	\$153,326	(\$34)	\$580,600	\$625,272	\$44,672	4,520	3,002	(1,518)
153,360	153,326	(34)	580,600	625,272	44,672	41,482	40,048	(1,434)
128,460	141,279	(12,819)	495,000	533,072	(38,072)	39,900	64,000	(24,100)
128,460	141,279	(12,819)	495,000	533,072	(38,072)	39,900	64,000	(24,100)
24,900	12,047	(12,853)	85,600	92,200	6,600	1,582	(23,952)	(25,534)
(22,200)	(24,441)	(2,241)	(85,600)	(92,200)	(6,600)	(6,400)	(6,400)	
(22,200)	(24,441)	(2,241)	(85,600)	(92,200)	(6,600)	(6,400)	(6,400)	
\$2,700	(12,394)	(\$15,094)				(\$4,818)	(30,352)	(\$25,534)
	227,287						122,620	
	\$214,893						\$92,268	

(Continued)

TOWN OF LOS GATOS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	HOUSING SET-ASIDE			BASIN #1		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Other taxes				\$52,700	\$61,832	\$9,132
Intergovernmental						
Charges for services						
Interest	\$71,300	\$130,703	\$59,403	9,070	10,330	1,260
Other						
Total Revenues	71,300	130,703	59,403	61,770	72,162	10,392
EXPENDITURES						
Parks and public works						
Community services						
Sanitation and other						
Capital outlay	448,320	383,104	65,216			
Debt Service:						
Interest and fees						
Total Expenditures	448,320	383,104	65,216			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(377,020)	(252,401)	124,619	61,770	72,162	10,392
OTHER FINANCING SOURCES (USES)						
Transfers in	731,246	828,408	97,162			
Transfers (out)						
Total Other Financing Sources (Uses)	731,246	828,408	97,162			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$354,226	576,007	\$221,781	\$61,770	72,162	\$10,392
BEGINNING FUND BALANCE		2,075,926			308,209	
ENDING FUND BALANCE		\$2,651,933			\$380,371	

STORM DRAIN

BASIN #2			BASIN #3			CONSTRUCTION TAX		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$29,700	\$36,959	\$7,259	\$5,000	\$4,793	(\$207)	\$71,100	\$42,623	(\$28,477)
6,161	6,620	459	3,500	3,990	490	58,700	49,950	(8,750)
35,861	43,579	7,718	8,500	8,783	283	129,800	92,573	(37,227)
35,861	43,579	7,718	8,500	8,783	283	129,800	92,573	(37,227)
<u>\$35,861</u>	<u>43,579</u>	<u>\$7,718</u>	<u>\$8,500</u>	<u>8,783</u>	<u>\$283</u>	<u>\$129,800</u>	<u>92,573</u>	<u>(\$37,227)</u>
	<u>197,265</u>			<u>132,756</u>			<u>1,677,111</u>	
	<u>\$240,844</u>			<u>\$141,539</u>			<u>\$1,769,684</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GAS TAX			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes				\$36,962	\$37,046	\$84
Other taxes				158,500	146,207	(12,293)
Intergovernmental	\$584,000	\$553,752	(\$30,248)	1,200,128	995,178	(204,950)
Charges for services				710,600	671,288	(39,312)
Interest	32,700	25,720	(6,980)	205,951	275,017	69,066
Other					45	45
Total Revenues	616,700	579,472	(37,228)	2,312,141	2,124,781	(187,444)
EXPENDITURES						
Parks and public works				39,900	64,000	(24,100)
Community services				264,893	53,843	211,050
Sanitation and other				796,060	819,658	(23,598)
Capital outlay	1,004,133	1,013,995	(9,862)	1,452,453	1,397,099	55,354
Debt Service:						
Interest and fees				20,000	13,165	6,835
Total Expenditures	1,004,133	1,013,995	(9,862)	2,573,306	2,347,765	225,541
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(387,433)	(434,523)	(47,090)	(261,165)	(222,984)	38,181
OTHER FINANCING SOURCES (USES)						
Transfers in				750,746	828,671	77,925
Transfers (out)	(106,000)	(106,000)		(470,675)	(445,515)	25,160
Total Other Financing Sources (Uses)	(106,000)	(106,000)		280,071	383,156	103,085
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$493,433)	(540,523)	(\$47,090)	\$18,906	160,172	\$141,266
BEGINNING FUND BALANCE		1,108,517			7,426,794	
ENDING FUND BALANCE		\$567,994			\$7,586,966	

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the Town on a cost reimbursement basis.

The concept of major funds introduced by GASB Statement 34 does not extend to internal service funds because they do not do business with outside parties. GASB Statement 34 requires that for the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the other Town departments, which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

Workers' Compensation Fund was established to cover future claims that may occur related to workers' compensation injuries.

Self Insurance Fund was established to cover future general liability claims against the Town.

Stores Fund was established to purchase photocopy equipment, postage and bulk meter expenses.

Vehicle Maintenance Fund was established to provide preventative maintenance and repair for all Town owned vehicles and equipment.

Building Maintenance Fund was established to provide preventative maintenance and repair for all Town owned buildings.

Management Information Fund was established to pay for the replacement of management information computer systems and components.

Equipment Replacement Fund is used to pay for the replacement of major Town equipment needs and all vehicles.

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Workers'</u> <u>Compensation</u>	<u>Self</u> <u>Insurance</u>	<u>Stores</u>	<u>Vehicle</u> <u>Maintenance</u>
ASSETS				
Cash and investments available for operations	\$2,473,840	\$2,242,608	\$168,778	\$89,945
Restricted cash and cash equivalents	25,396			
Accounts receivable		3,427		
Materials, supplies, and deposits			8,985	8,204
Capital assets, net of accumulated depreciation			22,401	
Total Assets	<u>2,499,236</u>	<u>2,246,035</u>	<u>200,164</u>	<u>98,149</u>
LIABILITIES				
Accounts payable		925	5,411	25,833
Claims payable	500,862	112,252		
Accrued payroll	831	2,153		4,723
Deposits				
Total Liabilities	<u>501,693</u>	<u>115,330</u>	<u>5,411</u>	<u>30,556</u>
NET ASSETS				
Invested in capital assets, net of related debt			22,401	
Unrestricted	<u>1,997,543</u>	<u>2,130,705</u>	<u>172,352</u>	<u>67,593</u>
Total Net Assets	<u><u>\$1,997,543</u></u>	<u><u>\$2,130,705</u></u>	<u><u>\$194,753</u></u>	<u><u>\$67,593</u></u>

<u>Building Maintenance</u>	<u>Management Information</u>	<u>Equipment Replacement</u>	<u>Total</u>
\$520,856	\$1,919,889	\$3,225,388	\$10,641,304
			25,396
			3,427
			17,189
54,639			77,040
575,495	1,919,889	3,225,388	10,764,356
74,784	17,659	20,618	145,230
			613,114
1,300	6,430		15,437
6,448			6,448
82,532	24,089	20,618	780,229
54,639			77,040
438,324	1,895,800	3,204,770	9,907,087
\$492,963	\$1,895,800	\$3,204,770	\$9,984,127

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
JUNE 30, 2003

	<u>Workers'</u> <u>Compensation</u>	<u>Self</u> <u>Insurance</u>	<u>Stores</u>	<u>Vehicle</u> <u>Maintenance</u>
OPERATING REVENUES				
Charges for services	\$509,390	\$763,086	\$91,422	\$539,000
Refunds		17,057		
Other	43	27		
Total Operating Revenues	<u>509,433</u>	<u>780,170</u>	<u>91,422</u>	<u>539,000</u>
OPERATING EXPENSES				
Salaries and benefits	157,845	97,447		259,966
Insurance expenses	353,474	198,515		
Depreciation			9,224	
Services and supplies	2,079	61,578	80,762	253,130
Total Operating Expenses	<u>513,398</u>	<u>357,540</u>	<u>89,986</u>	<u>513,096</u>
Operating Income (Loss)	<u>(3,965)</u>	<u>422,630</u>	<u>1,436</u>	<u>25,904</u>
Transfers (out)	<u>(150,000)</u>	<u>(150,000)</u>		
Net Transfers	<u>(150,000)</u>	<u>(150,000)</u>		
Change in Net Assets	(153,965)	272,630	1,436	25,904
BEGINNING NET ASSETS	<u>2,151,508</u>	<u>1,858,075</u>	<u>193,317</u>	<u>41,689</u>
ENDING NET ASSETS	<u><u>\$1,997,543</u></u>	<u><u>\$2,130,705</u></u>	<u><u>\$194,753</u></u>	<u><u>\$67,593</u></u>

<u>Building Maintenance</u>	<u>Management Information</u>	<u>Equipment Replacement</u>	<u>Total</u>
\$1,048,706	\$772,209	\$493,125	\$4,216,938
			17,057
	150	47,300	47,520
<u>1,048,706</u>	<u>772,359</u>	<u>540,425</u>	<u>4,281,515</u>
86,053	242,574		843,885
			551,989
5,050			14,274
<u>848,972</u>	<u>460,388</u>	<u>318,985</u>	<u>2,025,894</u>
<u>940,075</u>	<u>702,962</u>	<u>318,985</u>	<u>3,436,042</u>
<u>108,631</u>	<u>69,397</u>	<u>221,440</u>	<u>845,473</u>
		(500,000)	(800,000)
		(500,000)	(800,000)
108,631	69,397	(278,560)	45,473
<u>384,332</u>	<u>1,826,403</u>	<u>3,483,330</u>	<u>9,938,654</u>
<u>\$492,963</u>	<u>\$1,895,800</u>	<u>\$3,204,770</u>	<u>\$9,984,127</u>

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

	Workers' Compensation Insurance	Self Insurance	Stores
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$509,433	\$778,879	\$91,422
Payments to suppliers	(2,079)	(62,629)	(84,951)
Payments to employees	(157,014)	(95,294)	
Claims paid	(321,775)	(452,965)	
	<u>28,565</u>	<u>167,991</u>	<u>6,471</u>
CASH FLOWS FROM NO CAPITAL FINANCING ACTIVITIES			
Transfers out	(150,000)	(150,000)	
	<u>(150,000)</u>	<u>(150,000)</u>	
Cash Flows from Noncapital Financing Activities	<u>(150,000)</u>	<u>(150,000)</u>	
Net Cash Flows	(121,435)	17,991	6,471
Cash and investments at beginning of period	<u>2,620,671</u>	<u>2,224,617</u>	<u>162,307</u>
Cash and investments at end of period	<u><u>\$2,499,236</u></u>	<u><u>\$2,242,608</u></u>	<u><u>\$168,778</u></u>
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	(\$3,965)	\$422,630	\$1,436
Adjustments to reconcile operating income to net cash flows from operating activities:			
Depreciation			9,224
Change in assets and liabilities:			
Receivables, net		(1,291)	
Other assets			(3,760)
Accounts and other payables		(1,051)	(429)
Other accrued expenses	32,530	(252,297)	
Cash Flows from Operating Activities	<u><u>\$28,565</u></u>	<u><u>\$167,991</u></u>	<u><u>\$6,471</u></u>

<u>Vehicle Maintenance</u>	<u>Building Maintenance</u>	<u>Management Information</u>	<u>Equipment Replacement</u>	<u>Total</u>
\$539,000	\$1,049,408	\$772,359	\$540,425	\$4,280,926
(247,785)	(868,166)	(474,851)	(349,045)	(2,089,506)
(259,800)	(86,137)	(241,260)		(839,505)
				(774,740)
<u>31,415</u>	<u>95,105</u>	<u>56,248</u>	<u>191,380</u>	<u>577,175</u>
			(500,000)	(800,000)
			(500,000)	(800,000)
31,415	95,105	56,248	(308,620)	(222,825)
58,530	425,751	1,863,641	3,534,008	10,889,525
<u>\$89,945</u>	<u>\$520,856</u>	<u>\$1,919,889</u>	<u>\$3,225,388</u>	<u>\$10,666,700</u>
\$25,904	\$108,631	\$69,397	\$221,440	\$845,473
	5,050			14,274
	702			(589)
2,135				(1,625)
3,210	(21,704)	(14,463)	(30,060)	(64,497)
166	2,426	1,314		(215,861)
<u>\$31,415</u>	<u>\$95,105</u>	<u>\$56,248</u>	<u>\$191,380</u>	<u>\$577,175</u>



AGENCY FUNDS

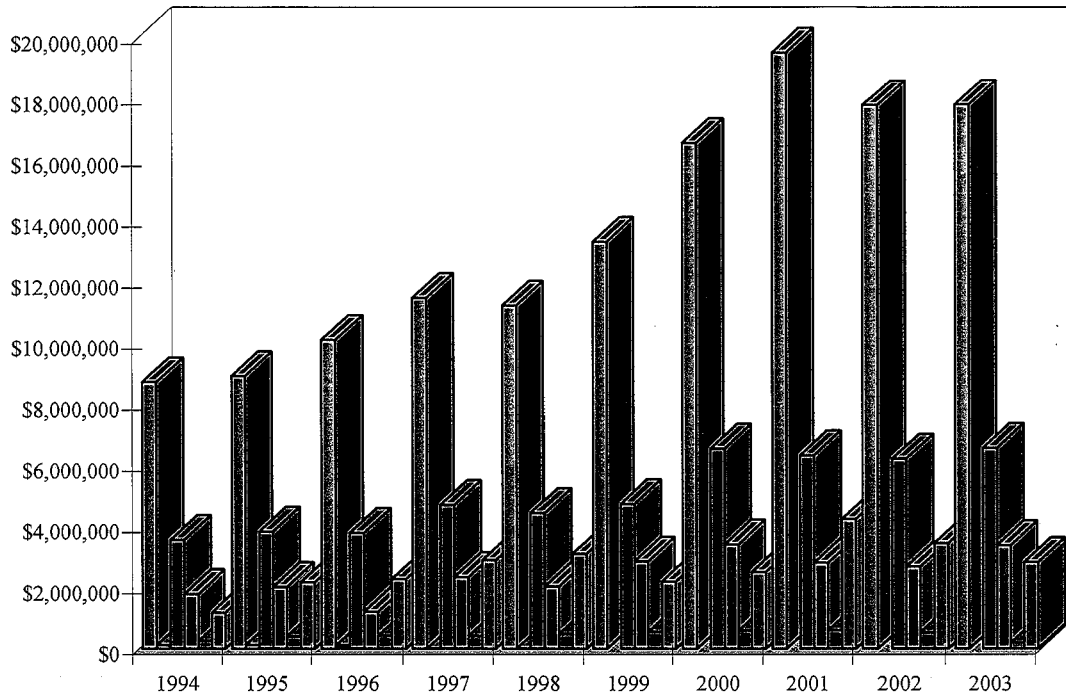
GASB Statement 34 requires that Agency Funds be presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by a government unit in the capacity of agent for individuals, governmental entities, and non-public organizations.

TOWN OF LOS GATOS
 AGENCY FUNDS
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
<u>Parking Improvement District #88</u>				
<u>Assets</u>				
Cash and investments available for operations	\$85,871	\$140,872	\$148,563	\$78,180
Restricted cash and investments	198,525	14,450		212,975
Intergovernmental receivable		949,425		949,425
	<u>\$284,396</u>	<u>\$1,104,747</u>	<u>\$148,563</u>	<u>\$1,240,580</u>
<u>Liabilities</u>				
Due to other governments	<u>\$284,396</u>	<u>\$1,104,747</u>	<u>\$148,563</u>	<u>\$1,240,580</u>
	<u>\$284,396</u>	<u>\$1,104,747</u>	<u>\$148,563</u>	<u>\$1,240,580</u>

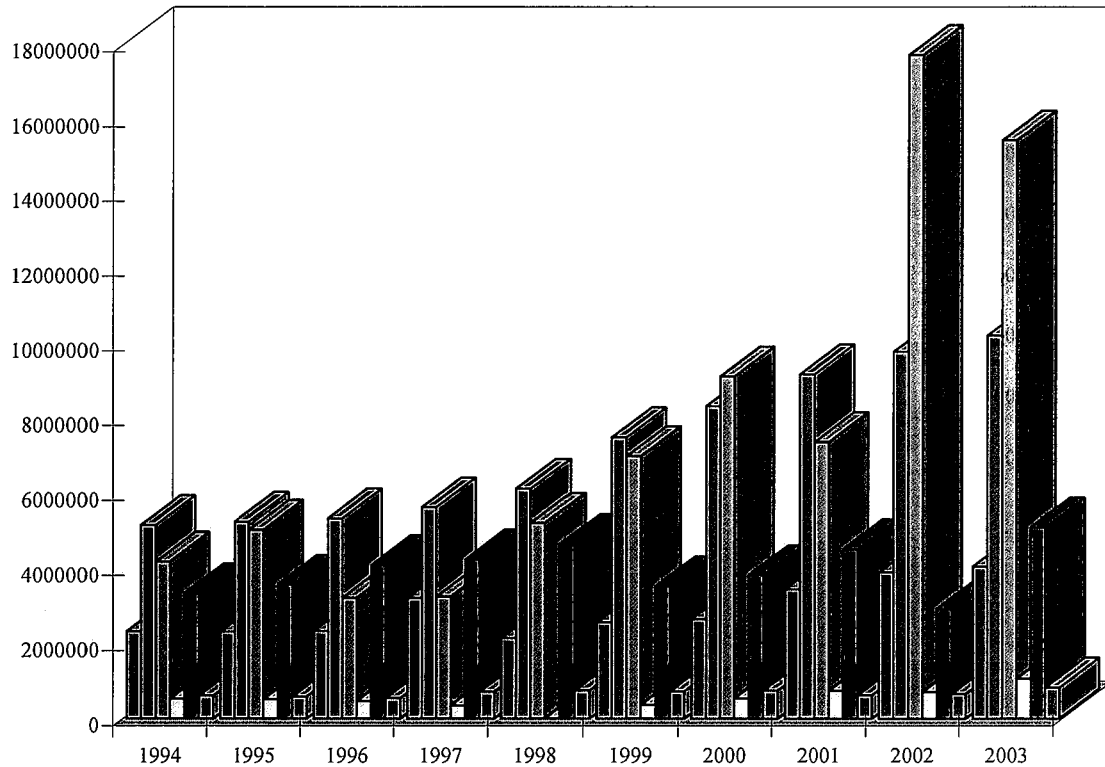
TOWN OF LOS GATOS
GENERAL REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES
AND SIMILAR TRUST FUNDS
LAST TEN FISCAL YEARS



Fiscal Year	Taxes	Special Assessments	Licenses, Permits and Intergovernmental	Service Charges	Fines and Forfeitures	Interest and Miscellaneous Revenue	Total
1994	\$8,711,095	\$113,334	\$3,559,566	\$1,785,569	\$247,380	\$1,178,466	\$15,595,410
1995	8,910,322	117,564	3,830,831	2,015,686	391,668	2,170,410	17,436,481
1996	10,101,045	99,658	3,784,756	1,212,374	411,306	2,274,938	17,884,077
1997	11,478,624	1,740	4,694,549	2,335,782	406,677	2,888,064	21,805,436
1998	11,236,320	1,605	4,438,286	2,029,760	470,765	3,100,499	21,277,235
1999	13,315,412		4,727,216	2,846,110	556,561	2,196,270	23,641,569
2000	16,561,481		6,541,328	3,417,012	592,750	2,499,637	29,612,208
2001	19,525,766		6,324,350	2,803,893	608,183	4,235,137	33,497,329
2002	17,804,238		6,207,429	2,684,386	532,680	3,457,705	30,686,438
2003	17,815,753		6,568,201	3,383,422	187,117	2,830,236	30,784,729

Source: Town of Los Gatos Annual Financial Report

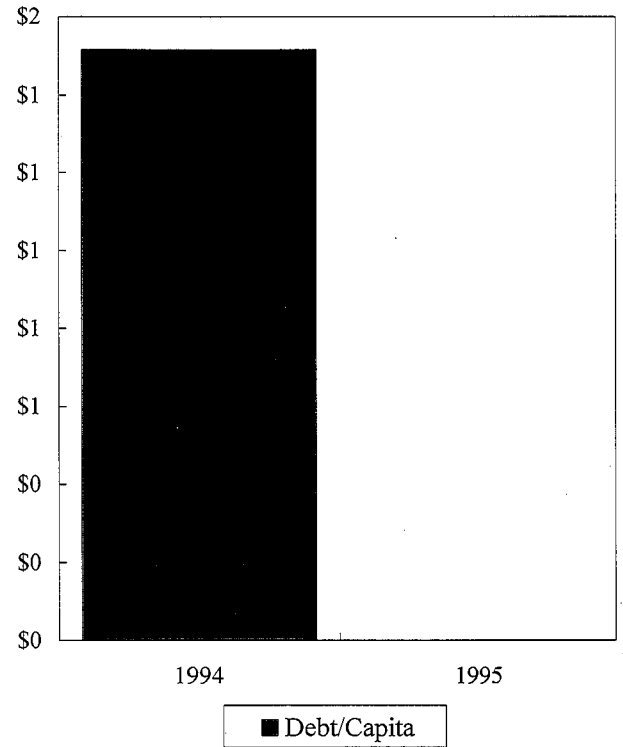
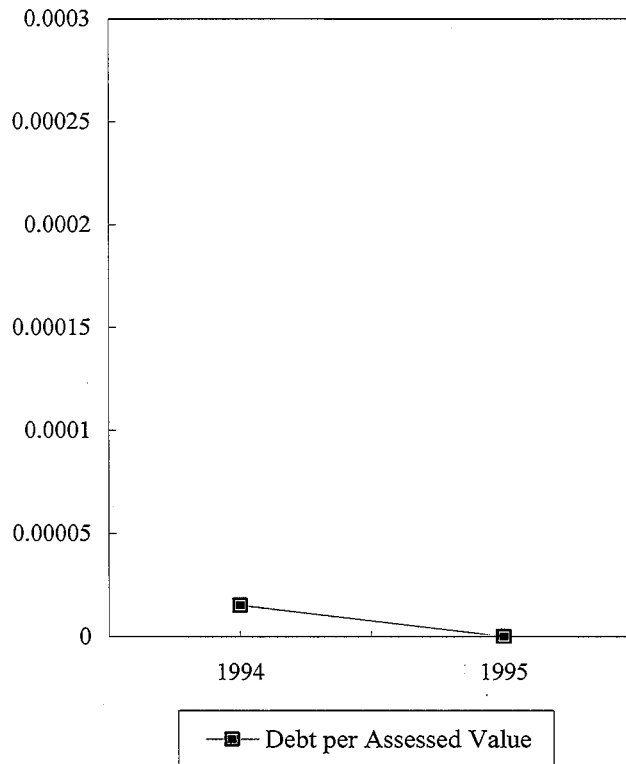
TOWN OF LOS GATOS
GENERAL EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
AND SIMILAR TRUST FUNDS
LAST TEN FISCAL YEARS



Fiscal Year	General Government	Public Safety	Public Works and Capital Improvements	Debt Service	Culture and Recreation	Sanitation & Other	Total
1994	\$2,323,210	\$5,146,612	\$4,176,033	\$521,432	\$3,327,180	\$609,176	\$16,103,643
1995	2,307,398	5,235,959	5,025,886	514,492	3,557,762	580,545	17,222,042
1996	2,324,257	5,329,760	3,205,935	464,773	4,084,258	536,521	15,945,504
1997	3,212,982	5,625,711	3,238,853	340,292	4,237,315	704,127	17,359,280
1998	2,139,598	6,114,286	5,210,127	2,230	4,643,048	745,264	18,854,553
1999	2,559,026	7,490,703	6,986,754	360,273	3,518,302	712,609	21,627,667
2000	2,643,530	8,324,537	9,119,233	532,726	3,820,022	742,614	25,182,662
2001	3,438,753	9,175,280	7,365,560	729,500	4,509,231	616,042	25,834,366
2002	3,884,791	9,782,116	17,712,651	701,570	2,914,534	647,818	35,643,480
2003	4,048,876	10,211,315	15,439,771	1,054,565	5,085,878	819,658	36,660,063

Source: Town of Los Gatos Annual Financial Report

TOWN OF LOS GATOS
RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

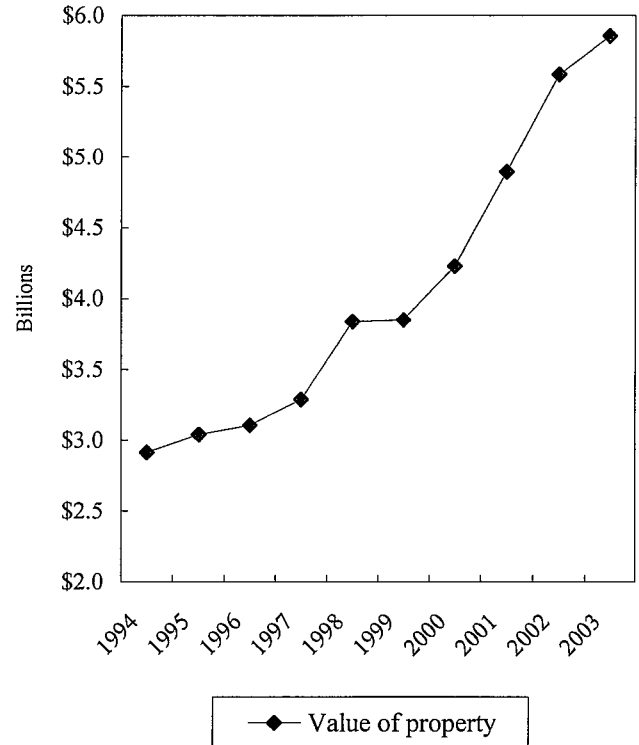
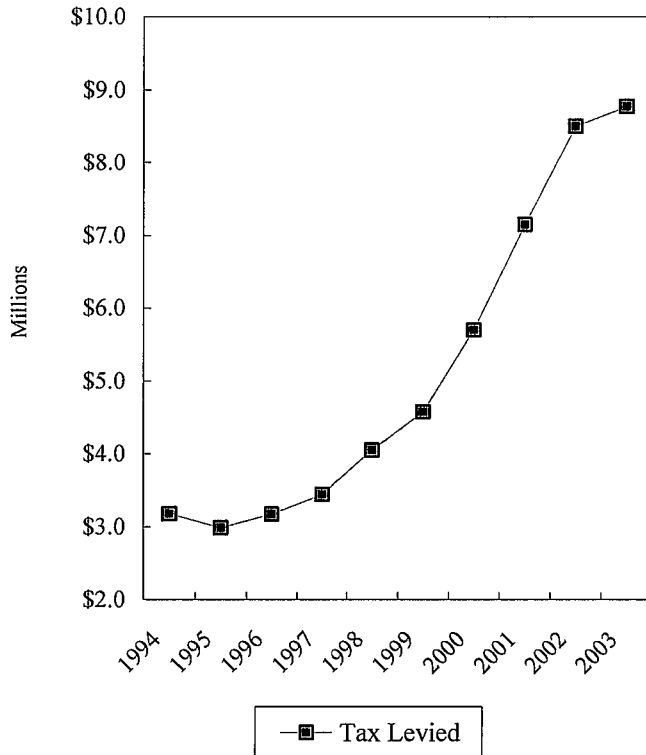


Fiscal Year	Population	Assessed Value	Net Bonded Debt Per Assessed Value	Gross Bonded Debt (1)	Net Bonded Debt Per Capita
1994	29,683	2,962,096,331	0.0015%	45,000	2
1995	29,683	2,962,096,331	0.0000%		0

(1) Includes General Obligation Bonds which were repaid during fiscal year 1994-95.

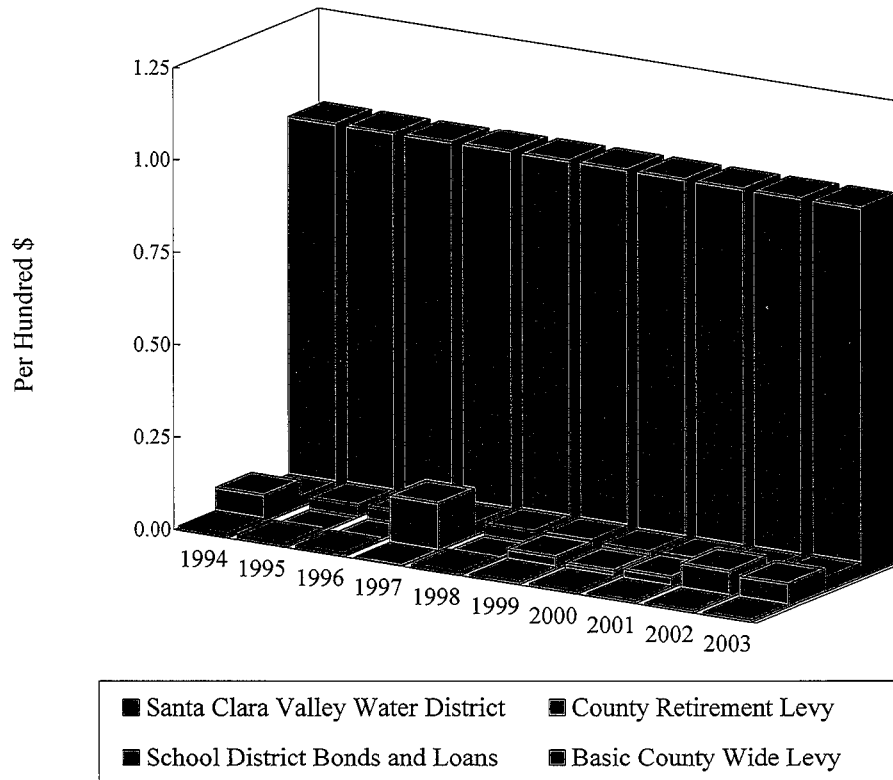
Source: State of California - Department of Finance - Population Research Unit
County Auditor Certificate of Assessed Valuation and
Town of Los Gatos Annual Financial Report

TOWN OF LOS GATOS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
1994	\$2,772,081	\$405,410	\$3,177,491	\$2,606,384,108	\$308,526,189	\$2,914,910,297
1995	2,581,700	404,611	2,986,311	2,725,728,976	314,696,713	3,040,425,689
1996	2,574,880	595,380	3,170,260	2,782,943,960	320,990,647	3,103,934,607
1997	2,652,072	790,015	3,442,087	2,962,096,331	327,410,460	3,289,506,791
1998	2,916,305	1,132,806	4,049,111	3,503,932,314	334,394,557	3,838,326,871
1999	3,260,615	1,314,556	4,575,171	3,507,562,766	341,082,448	3,848,645,214
2000	3,578,175	2,123,041	5,701,216	3,882,006,452	347,904,097	4,229,910,549
2001	3,917,932	3,232,042	7,149,974	4,310,115,280	585,708,196	4,895,823,476
2002	4,425,047	4,079,598	8,504,645	4,918,304,676	667,237,082	5,585,541,758
2003	4,736,560	4,037,443	8,774,003	5,162,418,263	693,559,274	5,855,977,537

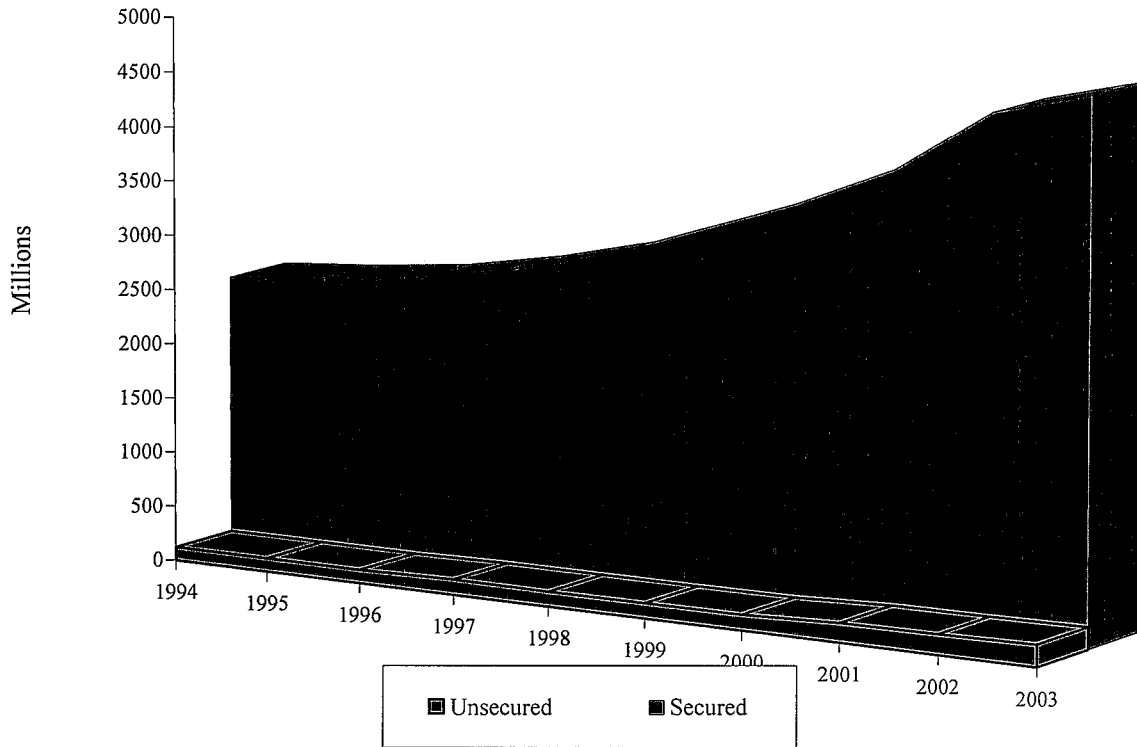
TOWN OF LOS GATOS
PROPERTY TAX RATES
ALL DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS



Fiscal Year	Basic County Wide Levy	School District Bonds and Loans	County Retirement Levy	Santa Clara Valley Water District	Total
1994	\$1.0000	\$0.0755	\$0.0305	\$0.0117	\$1.1177
1995	1.0000	0.0000	0.0332	0.0115	1.0447
1996	1.0000	0.0000	0.0338	0.0098	1.0436
1997	1.0000	0.1292	0.0341	0.0026	1.1659
1998	1.0000	0.0045	0.0388	0.0098	1.0531
1999	1.0000	0.0356	0.0388	0.0082	1.0826
2000	1.0000	0.0239	0.0343	0.0085	1.0667
2001	1.0000	0.0320	0.0356	0.0075	1.0751
2002	1.0000	0.0734	0.0364	0.0062	1.1160
2003	1.0000	0.0635	0.0388	0.0072	1.1095

Source: Santa Clara County Book of Tax Rates

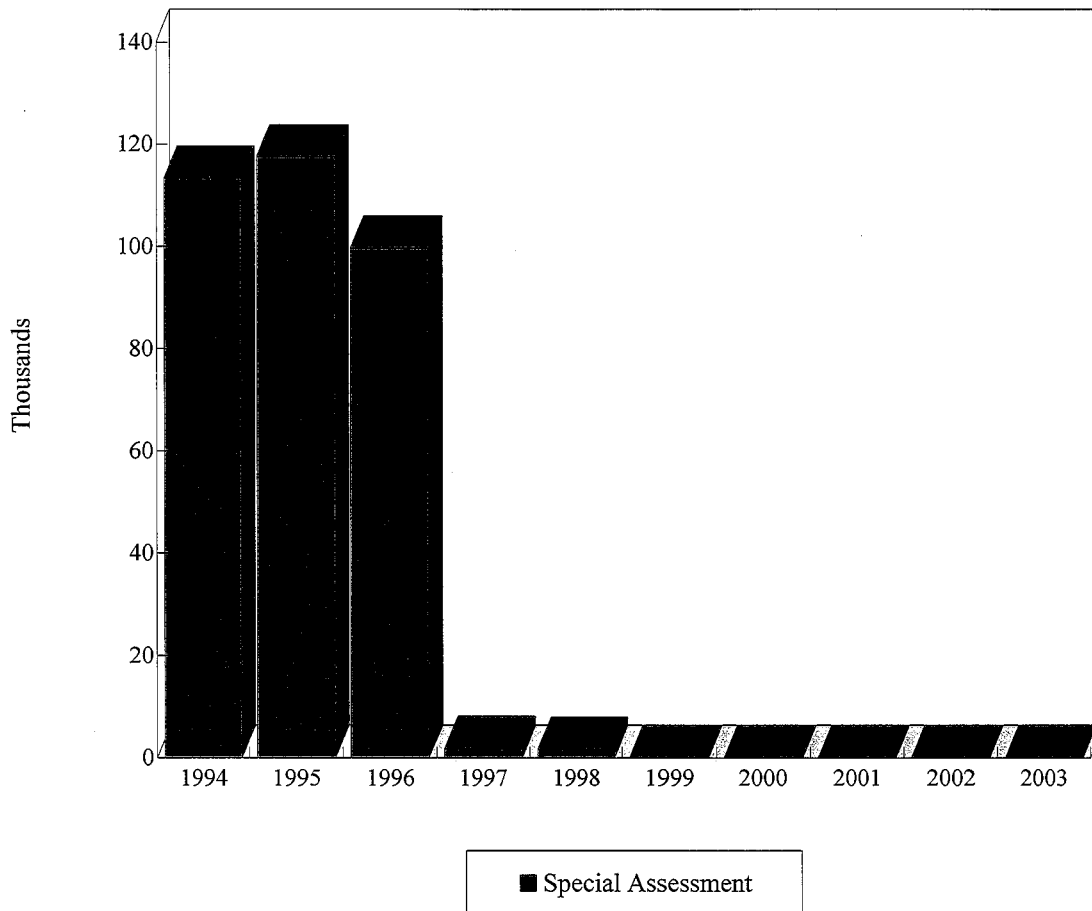
TOWN OF LOS GATOS
 ASSESSED AND ESTIMATED ACTUAL
 VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS



Fiscal Year	Secured Property	Percent Change	Unsecured Property	Percent Change	Total Assessed	Estimated Full Market
1994	\$2,483,999,488	9.01%	\$122,384,620	12.10%	\$2,606,384,108	\$9,935,997,952
1995	2,556,199,688	2.91%	123,019,888	0.52%	2,679,219,576	10,224,798,752
1996	2,655,271,851	3.88%	121,725,609	-1.05%	2,776,997,460	10,621,087,404
1997	2,823,741,415	6.34%	138,354,916	13.66%	2,962,096,331	11,294,965,660
1998	3,046,505,031	7.89%	136,521,793	-1.32%	3,183,026,824	12,186,020,124
1999	3,368,833,898	10.58%	138,728,868	1.62%	3,507,562,766	13,475,335,592
2000	3,690,413,743	9.55%	143,327,909	3.32%	3,833,741,652	14,761,654,972
2001	4,084,688,126	10.68%	177,486,954	23.83%	4,262,175,080	16,338,752,504
2002	4,685,070,118	14.70%	185,521,158	4.53%	4,870,591,276	18,740,280,472
2003	4,913,724,163	4.88%	201,539,300	8.63%	5,115,263,463	19,654,896,652

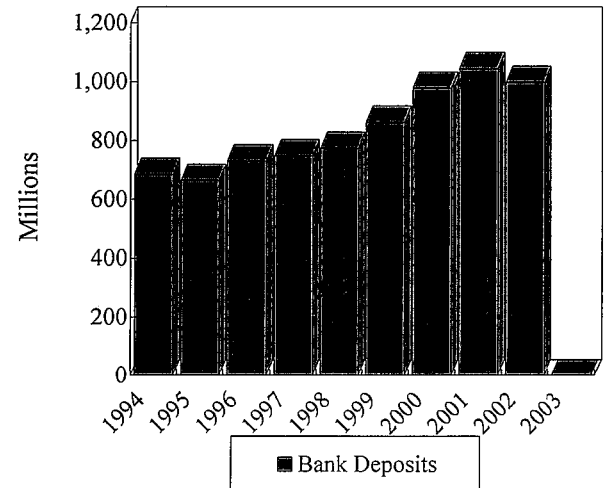
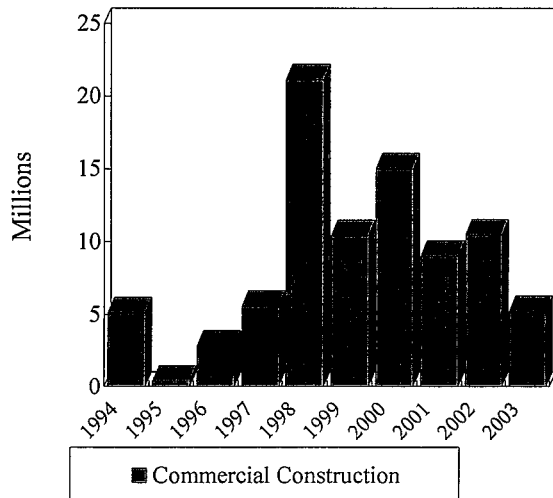
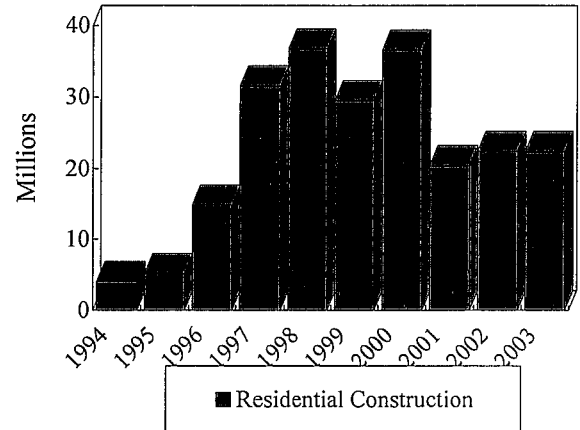
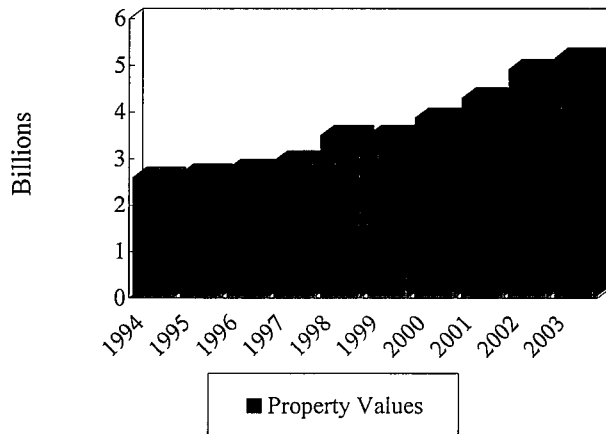
Source: Santa Clara County Assessed Value Report

TOWN OF LOS GATOS
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS



<u>Fiscal Year</u>	<u>Special Assessment Billings and Collections</u>
1994	\$113,334
1995	117,564
1996	99,658
1997	1,740
1998	1,605
1999	-
2000	-
2001	-
2002	-
2003	-

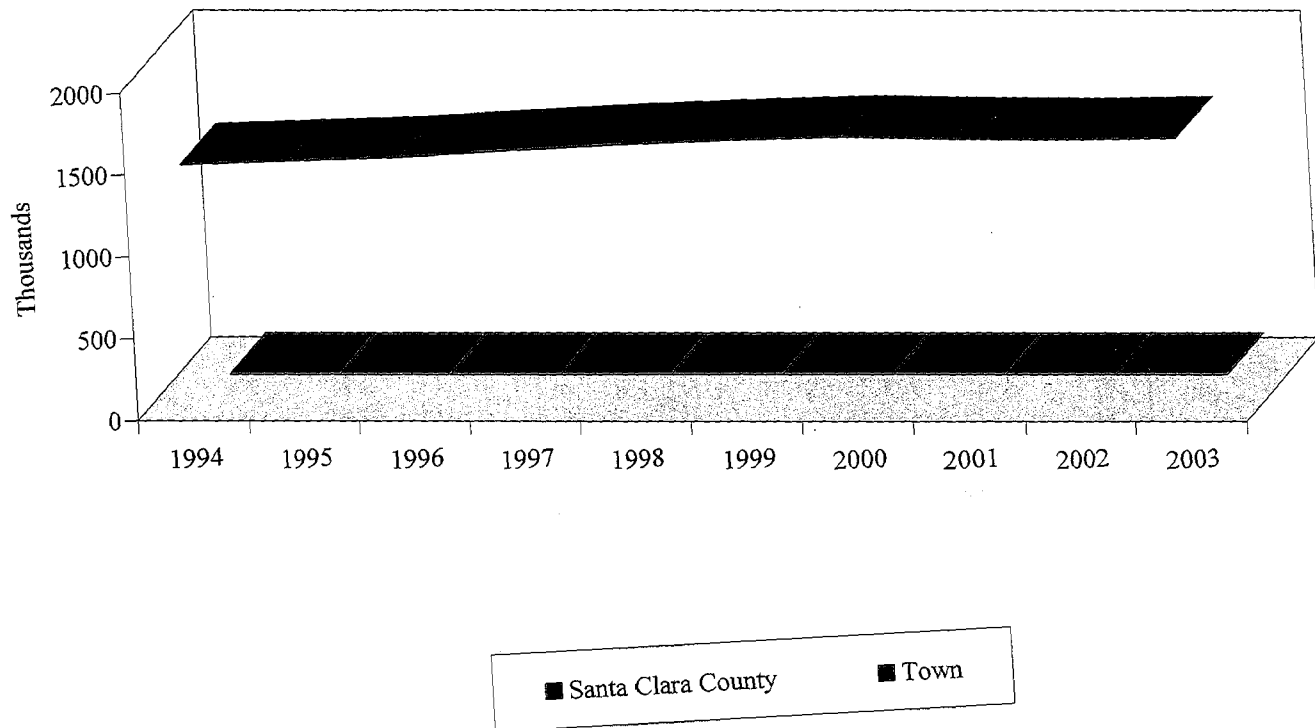
TOWN OF LOS GATOS
PROPERTY VALUES, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS



Fiscal Year	Property Values	Commercial Construction		Residential Construction		Bank Deposits
		Number of Permits	Value	Number of Permits	Value	
1994	\$2,606,384,108	19	\$5,097,972	51	\$4,059,348	\$684,172,000
1995	2,679,219,576	11	413,952	18	5,188,051	664,412,000
1996	2,776,997,460	21	2,828,979	52	14,908,854	729,680,000
1997	2,962,096,331	139	5,552,775	850	31,549,778	746,950,000
1998	3,503,932,314	160	21,127,602	1,170	36,731,115	773,087,000
1999	3,507,562,766	193	10,408,140	1,049	29,520,379	861,750,000
2000	3,882,006,452	176	15,010,441	1,000	36,583,926	977,953,000
2001	4,310,115,280	115	8,999,817	661	20,403,617	1,044,328,000
2002	4,918,304,676	121	10,460,662	606	22,370,494	998,029,000
2003	5,162,418,263	107	5,209,550	533	22,362,743	N/A

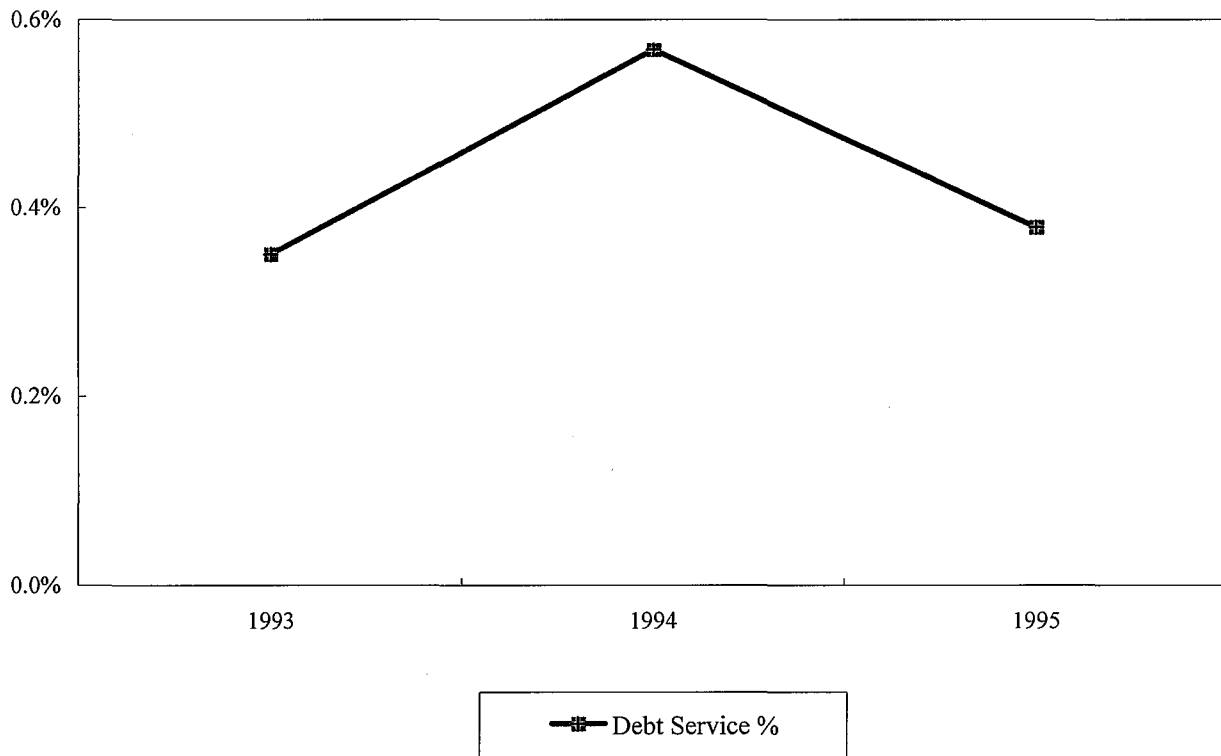
Source: Town of Los Gatos Building Department
Bank Deposits from Findley Reports
Santa Clara County Assessed Value Reports

TOWN OF LOS GATOS DEMOGRAPHIC STATISTICS LAST TEN FISCAL YEARS



Fiscal Year	Town Population	Santa Clara County Population	Town Population % of County
1994	28,175	1,563,800	1.80%
1995	28,731	1,587,768	1.81%
1996	28,951	1,608,944	1.80%
1997	29,683	1,652,330	1.80%
1998	30,122	1,689,200	1.78%
1999	30,274	1,715,374	1.76%
2000	30,457	1,736,722	1.75%
2001	29,083	1,723,680	1.69%
2002	28,950	1,719,600	1.68%
2003	28,900	1,729,900	1.67%

TOWN OF LOS GATOS
 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	\$40,000	\$4,300	\$44,300	\$12,635,877	0.35%
1994	70,000	2,388	72,388	12,751,462	0.57%
1995	45,000	787	45,787	12,075,473	0.38%

Note: General Obligation bonds consist of 1962 Municipal Street Improvement Bonds, Issues 1 and 2.
 General Obligation bonds were repaid during fiscal year 1994-95.

Source: Town of Los Gatos Annual Financial Reports

TOWN OF LOS GATOS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2003

2002-03 Assessed valuation:	<u>\$4,771,335,645</u>	
DIRECT AND OVERLAPPING BONDED DEBT:	<u>% Applicable</u>	<u>Debt at June 30, 2003</u>
Santa Clara County General Fund Obligations	2.620%	\$15,890,300
Santa Clara County Board of Education Certificates of Participation	2.620%	498,324
Santa Clara County Flood Control and Water Conservation District, Zone NC-1	1.883%	4,048
Santa Clara County Flood Control and Water Conservation District, Zone W-1	2.893%	203,667
Santa Clara Valley Water District Benefit Assessment District	2.620%	5,336,154
Santa Clara County Central Fire District Certificates of Participation	20.878%	28,120
West Valley Community College District Certificates of Participation	9.573%	2,370,275
Los Gatos Joint Union High School District	29.260%	21,507,563
Campbell Union School District	9.047%	5,767,309
Saratoga Union School District Certificates of Participation	0.020%	1,600
Saratoga Union School District	0.020%	10,440
Town of Los Gatos Certificates of Participation	100.000%	12,660,000
Town of Los Gatos 1915 Act Bonds	100.000%	1,060,000
Midpeninsula Regional Open Space Park District	4.596%	4,968,974
Campbell Union High School District	8.475%	4,635,401
Union School District	20.875%	13,367,206
Los Gatos Union School District	66.328%	22,485,192
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	29.260%	<u>1,369,368</u>
 TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT		 \$112,163,941 (1)
Less: Santa Clara County FC and WCD, Zone NC-1		<u>4,048</u>
TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT		<u>\$112,159,893</u>

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

Ratio to Assessed Valuation:

Direct Debt (\$2,070,000)..... 0.27%

Total Gross Debt..... 1.44%

Total Net Debt..... 1.44%

STATE SCHOOL BUILDING AID REPAYABLE AS OF JUNE 30, 2003

SOURCE: CALIFORNIA MUNICIPAL STATISTICS, INC.

TOWN OF LOS GATOS
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2003

ASSESSED VALUATION

Secured property assessed value	<u>\$4,771,335,645</u>
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Total Assessed Valuation	<u><u>\$4,771,335,645</u></u>
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BONDED DEBT LIMIT (15% OF ASSESSED VALUE)	\$715,700,347
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AMOUNT OF DEBT SUBJECT TO LIMIT

Total Debt

Less:

Certificates of participation	<u>12,500,000</u>
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Amount of Debt subject to limit	<u>(12,500,000)</u>
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LEGAL DEBT MARGIN	<u><u>\$728,200,347</u></u>
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TOWN OF LOS GATOS
PRINCIPAL TAXPAYERS
JUNE 30, 2003

Assessed Name	Assessed Value	Percent of Total Secured Assessed Value
Sports Resorts Inc.	\$16,236,036	0.33%
BR3 Partners	\$23,486,112	0.47%
NME Hospitals, Inc.	\$17,062,560	0.34%
Union Bank Trustee	\$10,245,195	0.21%
Good Samaritan Hospitals	\$13,218,958	0.27%
GS Baytree LP	\$10,239,734	0.21%
Los Gatos Business Park	\$10,104,105	0.20%
Park Row East Apartments	\$12,484,800	0.25%
William & Loretta A. Errico, Trust	\$9,233,902	0.19%
Ohana University Ave	\$11,128,200	0.22%
Elizabeth K. Dodson	\$10,680,309	0.22%
Boccardo Corporation	\$21,200,425	0.43%
SRI Old Town LLC	\$25,825,219	0.52%
Health Care Property Partners	\$24,757,164	0.50%
Sobrato Land Holdings & LSPI Exchange Corp.	\$41,719,724	0.84%
750 University LLC	\$19,830,208	0.40%
Knowles Los Gatos LLC	\$56,100,000	1.13%
Safeway Inc.	\$10,224,797	0.21%
San Jose Water Works	\$17,915,254	0.36%
Green Eyes LLC	\$11,444,400	0.23%
Totals	<u>\$373,137,102</u>	<u>7.53%</u>

SOURCE: CALIFORNIA MUNICIPAL STATISTICS, INC.

TOWN OF LOS GATOS
MAJOR EMPLOYERS
JUNE 30, 2003

<u>Company</u>	<u>Product/Service</u>	<u>Employees</u>
Good Samaritan Hospital/ Columbia HCA	Health Industry	2,000
Community Hospital of Los Gatos	Health Industry	800
Los Gatos Union School District (Elementary)	Education	300
Los Gatos-Saratoga High School District	Education	300
Safeway	Food Industry	200
Verizon	Communication	200
Courtside Tennis Club	Leisure/ Recreation	200
Town of Los Gatos (A)	Town Government	189
Los Gatos Meadows	Retirement/Healthcare	150
Lunardi's	Food Industry	100
Los Gatos Acura	Auto Dealership	100
Swanson Ford	Auto Dealership	90

(A) Number of Employees taken from
Town of Los Gatos Operating Budget.

TOWN OF LOS GATOS
MISCELLANEOUS STATISTICS
JUNE 30, 2003

DATE OF INCORPORATION	AUGUST 8, 1887	<u>PARKS AND RECREATION</u>	
FORM OF GOVERNMENT	COUNCIL-MANAGER	PARKS	12
POPULATION 1/1/02	28,900		
EMPLOYEES	189	ACRES IN PARKS	82 acres
AREA	14-15 square miles	NUMBER OF REGISTERED VOTERS	18,522
MILES OF STREETS	111	<u>COMMUNITY FACILITIES:</u>	
NUMBER OF TRAFFIC LIGHTS	27	NEIGHBORHOOD CENTER	
		COMMUNITY SERVICES CENTER	
<u>POLICE PROTECTION:</u>		<u>HOSPITALS:</u>	
NUMBER OF STATIONS	1	COMMUNITY HOSPITAL OF LOS GATOS	
NUMBER OF POLICE OFFICERS	46	GOOD SAMARITAN HOSPITAL / MISSION OAKS HOSPITAL	
NUMBER OF SUPPORT PERSONNEL	19		
<u>EDUCATION:</u>			
ELEMENTARY SCHOOLS	4		
JUNIOR HIGH SCHOOLS	1		
HIGH SCHOOLS	1		
CONTINUATION PROGRAM	1		
INDEPENDENT STUDY	1		
TEACHERS	240		
LOS GATOS-SARATOGA RECREATION DEPT	1		
LIBRARY	1		
MUSEUMS	2		

SOURCES: VARIOUS TOWN OF LOS GATOS RECORDS

