ATTACHMENT 1

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2003

CITY OF MOUNTAIN VIEW, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2003

PREPARED BY THE

DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES

Robert F. Locke, Finance and Administrative Services Director
Patty J. Kong, Assistant Finance and Administrative Services Director
Steve A. Loukopoulos, Accounting Officer

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For the Year Ended June 30, 2003

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Exhibit 1

September 4, 2003

Honorable Mayor, City Council and Citizens of Mountain View:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Mountain View, California (City) for the fiscal year ended June 30, 2003, with the Independent Auditors' Report, submitted in compliance with City Charter Section 1106. The City has prepared the CAFR using the financial reporting requirements 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 Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion & 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 report of the independent auditors.

This report consists of management's representations concerning the finances of the City and its component units, the Mountain View Revitalization Authority (Authority), Mountain View Shoreline Regional Park Community (Community) and the City of Mountain View Capital Improvements Financing Authority (Financing Authority) as of June 30, 2003. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Maze & Associates, a firm of independent licensed certified public accountants selected by and reporting to the City Council. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by

FINANCE AND ADMINISTRATIVE SERVICES DEPARTMENT
500 CASTRO STREET, P.O. BOX 7540 • MOUNTAIN VIEW, CA 94039-7540 • 650-903-6316 • FAX 650-903-6576

management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there is a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, Federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the City's separately issued Single Audit report.

PROFILE OF THE GOVERNMENT

Mountain View concluded the City's celebration of 100 years of incorporation on November 7, 2002 with the dedication of Centennial Plaza. The plaza includes a new train station building designed in the style of Mountain View's 1888 Southern Pacific train station. A large, bronze bell commemorating the City's Centennial is mounted on the station.

With a population of 72,000, the City is located in the heart of Silicon Valley, occupies approximately 12 square miles and is approximately 36 miles southeast of the City of San Francisco and 15 miles northwest of the City of San Jose (the County seat).

The City is a charter city incorporated on November 7, 1902. The City Charter was originally approved by voters in 1952 and the City operates under a Council-Manager form of government. The seven Councilmembers are elected at large for four-year terms that are staggered so three or four seats are filled at the general municipal election in November of every even-numbered year. Service on the Council is limited to two consecutive terms. Each year in January, the Council elects one of its members as Mayor and another as Vice Mayor.

The City provides the following full range of municipal services which are reflected in this report:

- General government (City management, legal, human resources and financial activities);
- Public safety (Police, fire and paramedic services);
- Public works (Engineering, design and utility maintenance);
- Community development (Community land use development); and

- Culture and recreation (Library, parks, recreation, performing arts and golf course).

The report also includes financial information regarding City-provided water, wastewater and solid waste utility enterprise activities.

The financial reporting entity includes all funds and account groups of the primary government (i.e., the City) as well as all of its component units. Component units are legally separate government entities for which the primary government is financially accountable.

Financially accountable as defined by the GASB means the City Council exercises control through appointment of the governing boards and approval of the budget. However, this does not mean the City assumes the obligations or liabilities of these entities. The Community, Authority and Financing Authority are component units of the City. Separate financial statements for the Community and Authority are included in the City's CAFR. (There is no legal requirement for a separate component unit report for the Financing Authority.) Therefore, these agencies are included in the reporting entity. No other agencies or activities associated with the City or utilizing a name similar to the City's meet the established criteria for inclusion in the reporting entity and, accordingly, are excluded from this report.

The budget process begins in November of each year, when all City departments begin preparation of their budget proposals for the upcoming fiscal year.

Departments submit budget requests to the Budget Review Team (consisting of the Assistant City Manager and the Finance and Administrative Services Director) in late December. The Budget Review Team reviews these requests and submits recommendations to the City Manager.

The City Manager assesses the Budget Review Team's recommendations, meets with department heads for further discussion and submits recommendations to the City Council in the form of the Narrative Budget Report in May. The City Council is then able to review and discuss the recommendations prior to the presentation of the Proposed Budget.

In early June, the Proposed Budget is presented to the City Council and considered at public hearings. The City Charter requires that the annual budget be adopted prior to the beginning of each fiscal year (July 1).

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual budget adopted by the City Council. Budgets are approved at the fund and department level (legal level of control) and may not be exceeded without City Council approval. Transfers and adjustments between funds, departments and capital projects must be submitted to the City Council for approval. The City Charter requires approval by five votes of the seven-member City Council in order to amend the budget. Department heads are responsible for managing expenditures within their budget and assuring funds are only expended for properly authorized City expenses. Department heads are also

responsible for expending funds consistent with the goals and objectives approved by the City Council.

Activities of the General Fund, certain Special Revenue Funds and certain Capital Project Funds are included in the annually adopted budget. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control that reserves annual amounts that have been committed for varying reasons (e.g., contracts, purchase orders). Outstanding encumbrances at year end are reappropriated as part of the following year's budget pursuant to the City Charter.

Debt Service Funds are budgeted by adoption of the indenture provisions for the life of the debt and/or are budgeted each year in the fund obligated for payment of the annual debt service.

Each year, the City adopts a Five-Year Capital Improvement Program but funds only the first year of the program. General capital improvements are budgeted on a project rather than annual basis and appropriations continue until project completion. Budgetary control for these general capital improvements is exercised at the project level.

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

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from a broader perspective of the environment within which the City operates.

Local Economy

Mountain View is centrally located in the heart of the Silicon Valley between San Jose and San Francisco with a population of 72,000 residents and a daytime population that expands to over 100,000 people. In the past eight years, Mountain View has seen significant growth in terms of residential and commercial development that has contributed to a diverse and balanced community. Since 1995, the City has seen more than 1,800 residential units created and over 4.6 million square feet of commercial/office space developed.

Over the years, many leading companies, including Google, Intuit, Synopsys, Veritas, VeriSign, SGI and Actel Corporation, have located their headquarters in Mountain View. A number of companies, including Microsoft, Nokia and AOL/Netscape, also recognized the value of the right location in Silicon Valley and have built substantial corporate campuses in Mountain View.

Biotechnology is a growing economic sector in Mountain View. Currently, Mountain View is home to Alza/Johnson & Johnson Corporation and 36 other biotech companies. The City is attractive to these growing biotech businesses because of Mountain View's close proximity to

research universities that include Stanford, U.C. San Francisco, U.C. Berkeley and San Jose State; the presence of a scientific/engineering-oriented labor base; and the ability to cluster with the various biotech firms. Mountain View is committed to developing and strengthening its diverse business community.

Long-Term Financial Planning

The City has been fortunate in regard to significant growth of General Operating Fund revenues in the past several years, which has allowed for selected service enhancements in high-priority areas. However, the overall National, State and local economies remained weak during Fiscal Year 2002-03 and General Operating Fund revenues continued to reflect this. Revenues for governmental fund types cumulatively declined 6.2 percent over the prior year.

The adopted Fiscal Year 2003-04 budget contains no service enhancements but certain expenditure reductions necessary to maintain the City's future financial well-being. The City has adopted a balanced budget for Fiscal Year 2003-04.

In addition, the City has several initiatives under way intended to have a positive effect on the City's economic health and its services provided to residents and businesses. A few of the major initiatives are outlined below.

Downtown Development—Nine significant building projects neared completion in the downtown area this fiscal year. These developments will add nearly 220 new residential units and almost 300,000 square feet of office and retail space to the center of Mountain View. Each of the new developments is within walking distance of Mountain View's new Downtown Transit Center, contributing to the vitality of the downtown area.

The City Council also authorized the construction of a downtown parking structure at the corner of California and Bryant Streets. The four-story, five-level structure will accommodate 468 cars and have 20,000 square feet of retail space. The structure is expected to be completed in early 2006.

Google Expands in Mountain View—Google, the internationally known Internet search engine company, is expanding the size of its business operations in Mountain View. The company will be subleasing space from SGI and consolidating its operations in a campus on City-owned land located on Charleston Road between Permanente Creek and the award-winning Charleston Park.

Application for New Medical Facility—An application has been submitted to the City to allow for the development of a medical facility on the land once occupied by the Emporium department store at El Camino Real and Highway 85. The Camino Medical Group division of the Palo Alto Medical Group is applying to construct the project. The Palo Alto Medical Foundation is proposing a large medical office and treatment facility of 250,000 square feet to 275,000 square feet.

Improvements to Highway 101 Interchanges—Work on a $142.0 million project by the Valley Transportation Authority (VTA) and Caltrans to make improvements to Highway 101 between Moffett Boulevard and Old Middlefield Way is proceeding on schedule. The project affects four major interchanges in Mountain View and is expected to be completed at the end of 2005.

Computer History Museum—Mountain View is the new permanent location for the Computer History Museum (Museum), the home of approximately 5,000 computer artifacts. The Museum was initially created in Boston but began moving its collection to the Silicon Valley in the 1990s. Recently, the Museum purchased a 119,000 square foot building in Mountain View as its permanent facility.

The Museum, which opened in June, was looking for a Silicon Valley location because of the role this area has played in the development of computers. Mountain View has played an important role in computing history and the creation of the Silicon Valley. Mountain View was the birthplace of the first silicon device research and manufacturing company, the company that patented the first integrated circuit and, over the years, many of the most important high-tech pioneering companies had a presence in Mountain View.

New Senior Center—This year, the City Council decided to move ahead on plans for a new Senior Center. The master plan for the new Senior Center facility calls for a 25,000 square foot building and provides expansion opportunities and space for a senior day health-care facility adjacent to the Senior Center. The City has entered into an agreement with Avenidas, a nonprofit organization providing senior services, to build the senior day health-care facility. The agreement calls for Avenidas to construct its own building and operate and maintain the facility under a 40-year lease.

Management believes the City is taking the necessary combination of expenditure controls and revenue enhancements to maintain the quality of services to the community in a financially responsible manner. Standard & Poors has reconfirmed the City's underlying AAA credit rating, further demonstrating confidence in the City's financial management.

Cash Management Policies and Practices

Cash temporarily idle during the year may be invested in a variety of securities, including obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper, medium-term notes, municipal bonds of the City or its component units and the State of California Local Agency Investment Fund (LAIF). The maturities of the investments generally range from 30 days to 5 years, with the exception of commercial paper, which typically matures between one and seven days. The average maturity of the portfolio was 1.94 years as of June 30, 2003. Cash flow necessary for day-to-day operations is invested in LAIF or short-term commercial paper. The average portfolio yield for the fiscal year was 4.7 percent with a modified duration of 1.82 as of June 30, 2003.

The City's Investment Policy requires the portfolio be managed and performance evaluated by comparison to a published benchmark index of securities with characteristics similar to those permitted in the City's Investment Policy. The investment objective is to match the duration and total return of the benchmark index. For Fiscal Year 2002-03, the City's portfolio had a total return of 5.99 percent and average duration of 1.82 compared to the benchmark total return of 6.09 percent and average duration of 1.82. The portfolio met the performance criteria for the year and was in full compliance with all Investment Policy and legal requirements.

The provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," requires the City to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value in the financial statements.

Risk Management

The City is exposed to various risks of loss related to torts, errors and omissions; injuries to employees or others; unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of $500,000 for general liability claims, $500,000 for Workers' Compensation claims, both supplemented with excess insurance, and the actual costs incurred for unemployment benefits.

The City has accrued amounts for all known general liability and Workers' Compensation claims considered to be probable loss contingencies as of June 30, 2003. In addition, estimated amounts for adverse loss development and claims incurred but not reported have been accrued.

Additional information on the City's risk management activities can be found in Note 10 of the notes to the financial statements.

Pension and Other Postemployment Benefits

The City is a member of the California Public Employees Retirement System (PERS). PERS sets the contribution rates for each represented and nonrepresented group in the City. For Fiscal Year 2002-03, the employer contribution rates were:

Group	Rate (%)
Police and Fire (Public Safety)	17.247
All Others	0.000

There is no unfunded actuarial accrued liability calculated as of June 30, 2001, the most recent information available, and the City has made all required contributions for Fiscal Year 2002-03.

The City also provides certain health care benefits for eligible retired employees under third-party insurance plans. As of the end of the June 30, 2003 fiscal year, there were 211 participants receiving benefits which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. However, the actuarial liability calculated is $21.0 million and the City has accumulated $10.5 million for this liability in an internal service fund.

Additional information on the City's employee retirement plan and postemployment benefits can be found in Notes 8 and 9, respectively, in the notes to the financial statements.

AWARDS AND ACKNOWLEDGMENTS

For the 13th consecutive year, the Government Finance Officers Association (GFOA) awarded a certificate of achievement for excellence in financial reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

For the 19th year, the City received a certificate of award for outstanding financial reporting from the California Society of Municipal Finance Officers (CSMFO) for the fiscal year ended June 30, 2002.

Both awards are valid for a one-year period only. We believe that our current Comprehensive Annual Financial Report continues to meet both programs' requirements and will be submitted to the GFOA and the CSMFO to determine its eligibility for certificates.

The preparation of the Comprehensive Annual Financial Report was made possible by the dedication of the entire Finance and Administrative Services Department staff, in particular Patty Kong, Assistant Finance and Administrative Services Director; Steve Loukopoulos, Accounting Officer; and May Jen and Beryl Delavan, Accountants. Every individual deserves recognition and thanks for their commitment to the City and their profession. We would also like to thank the City Manager and members of the City Council for their support in managing the financial operations of the City in a responsible manner.

Sincerely,

Robert F. Locke
Finance and Administrative Services Director

RFL/PJK/6/FIN/546-09-09-03L^

Exhibit 2

City of Mountain View, California

Directory of City Officials

City Council

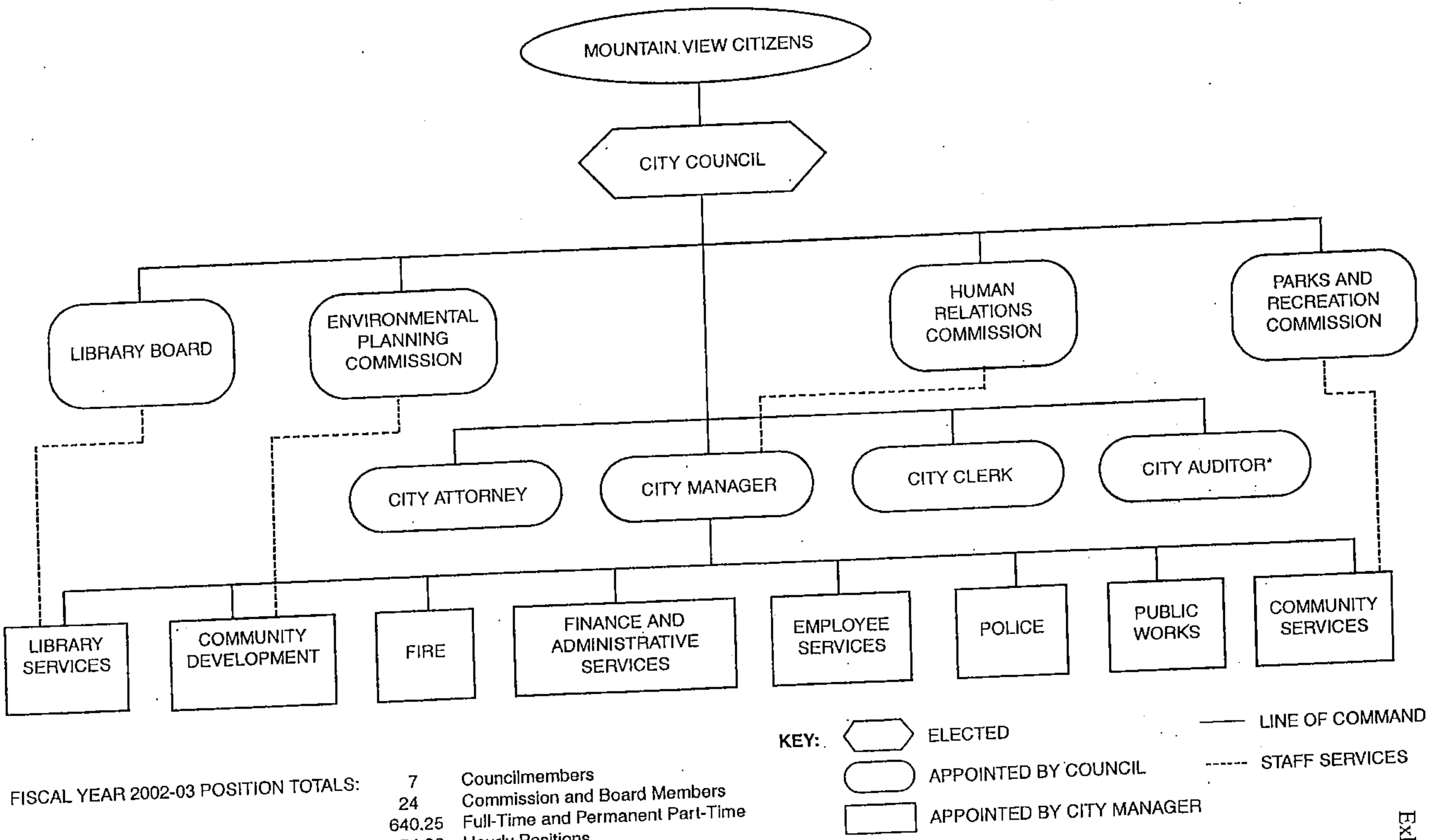
R. Michael Kasperzak, Jr., Mayor

Matt Pear, Vice Mayor
Nick Galiotto
Matt Neely
Gregory Perry
Rosemary Stasek
Mary Lou Zoglin

City Staff

Kevin C. Duggan, City Manager
Nadine P. Levin, Assistant City Manager
Michael D. Martello, City Attorney
Angelita M. Salvador, City Clerk
Robert F. Locke, Finance and Administrative Services Director
Kathy Farrar, Employee Services Director
Elaine Costello, Community Development Director
Cathy R. Lazarus, Public Works Director
David A. Muela, Community Services Director
Karen Burnett, Library Services Director
Marc Revere, Fire Chief
Scott S.G. Vermeer, Police Chief

CITY GOVERNMENT ORGANIZATION



FISCAL YEAR 2002-03 POSITION TOTALS:

7	Councilmembers
24	Commission and Board Members
640.25	Full-Time and Permanent Part-Time
54.96	Hourly Positions

*Finance and Administrative Services Director serves as City Auditor

Exhibit 3

Exhibit 4

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Mountain View, California

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

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

President

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2001-2002

Presented to the

City of Mountain View

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

February 24, 2003

Bret M Plumlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

Exhibit 5

MAZE & ASSOCIATES

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 AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

Honorable Mayor and City Council
City of Mountain View, California

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

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mountain View, California as of June 30, 2003 and the respective changes in the financial position and cash flow, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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. This information has been subjected to the auditing procedures applied in the 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 Introductory Section and Statistical Section have not been subjected to the auditing procedure applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze & Associates

September 4, 2003

A Professional Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Mountain View's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

The City is currently facing significant, and quite possibly unprecedented, financial challenges. The General Operating Fund Budget, the primary provider of City services, has experienced a significant decline in General Operating Fund revenues over the past two years. While the current financial challenges facing the City are substantial, it is fortunate the potential for a serious economic adjustment was identified in previous years. Techniques such as creation of the Economic Stabilization Contingency and a Budget Transition Reserve have allowed the City's adjustment to financial challenges to be less traumatic than would otherwise be the case and will continue to provide flexibility into the future.

The following are some of the key financial highlights for the fiscal year:

- The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2003 by $713.9 million (net assets). Of this amount, $168.0 million (unrestricted net assets) may be used to meet the City's ongoing obligations.

- The City's total net assets increased by $30.0 million during the fiscal year.

- As of June 30, 2003, the City's governmental funds reported combined ending fund balances of $195.0 million. Approximately 73.7 percent of this amount, $143.7 million, is unreserved fund balance and is available to meet the City's current and future needs.

- At the end of the fiscal year, the unreserved fund balance for the General Fund is $64.8 million or 98.3 percent of total General Fund expenditures.

- The City's total long-term debt decreased by $3.2 million compared with the prior year as debt was retired during the normal course of business.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City'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 City is improving or deteriorating.

The Statement of Activities presents information showing how the City'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, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City 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 activities). The governmental activities of the City include general government, public safety, public works, community development, and culture and recreation. The business-type activities of the City include water, wastewater and solid waste operations.

The government-wide financial statements include not only the City itself (known as the primary government) but also three legally separate entities for which the City is financially accountable: (1) Mountain View Shoreline Regional Park Community (Community or SRPC); (2) Mountain View Revitalization Authority (Authority); and (3) City of Mountain View Capital Improvements Financing Authority (Financing Authority). Although legally separate from the City, these component units are blended with the primary government because of their relationship to the City. In addition, separate financial information for the Community and Authority component units are included within the City's CAFR.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service and capital projects funds). Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Revitalization Authority, Shoreline Regional Park Community and Capital Projects Funds, all of which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its major funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with budgets.

Proprietary funds are generally used to account for services for which the City charges customers—either external customers or internal customers or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, wastewater and solid waste operations, all of which are considered to be major funds of the City.

Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet maintenance and equipment replacement and various other self-insurance liability programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the propriety fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of employees of the City and parties outside the City. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the 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

This is the second year the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements, and Management's Discussion and Analysis (MD&A) for State and Local Governments. Because this reporting model changed significantly both the recording and presentation of financial data, the City's financial statements for Fiscal Year 2002 did not provide comparative information in its MD&A. This year, two years of financial information is available in the GASB Statement No. 34 format and a comparative analysis of government-wide data is included in this report. In addition, adjustments have been made to some prior year balances to conform to current year presentation formats.

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $713.9 million at the end of the fiscal year. The following is a condensed summary of the City's net assets for governmental and business-type activities:

Statement of Net Assets
(Dollars in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and other assets	$243,584	222,942	54,802	53,960	298,386	276,902
Capital assets	502,222	501,131	37,671	34,636	539,893	535,767
Total assets	745,806	724,073	92,473	88,596	838,279	812,669
Liabilities:						
Current and other liabilities	12,277	15,154	1,544	1,419	13,821	16,573
Noncurrent liabilities	109,778	114,428	738	693	110,516	115,121
Total liabilities	122,055	129,582	2,282	2,112	124,337	131,694
Net assets:						
Invested in capital assets, net of related debt	446,282	425,650	37,671	34,636	483,953	460,286
Restricted	61,753	56,229	247	-0-	62,000	56,229
Unrestricted	115,716	112,612	52,273	51,848	167,989	164,460
Total net assets	$623,751	594,491	90,191	86,484	713,942	680,975

The largest portion of the City's net assets at $484.0 million, or 67.8 percent, reflects its investment in capital assets (e.g., land, buildings, other improvements, etc.) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

Another significant portion of the City's net assets, $168.0 million or 23.5 percent, represents unrestricted net assets, which may be used to meet the City's ongoing obligations. For governmental activities, the City reported a positive balance of $115.7 million of unrestricted net assets, and for business-type activities, the City reported a positive balance of $52.3 million of unrestricted net assets.

An additional portion of the City's net assets of $62.0 million represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the governmental and the business-type activities.

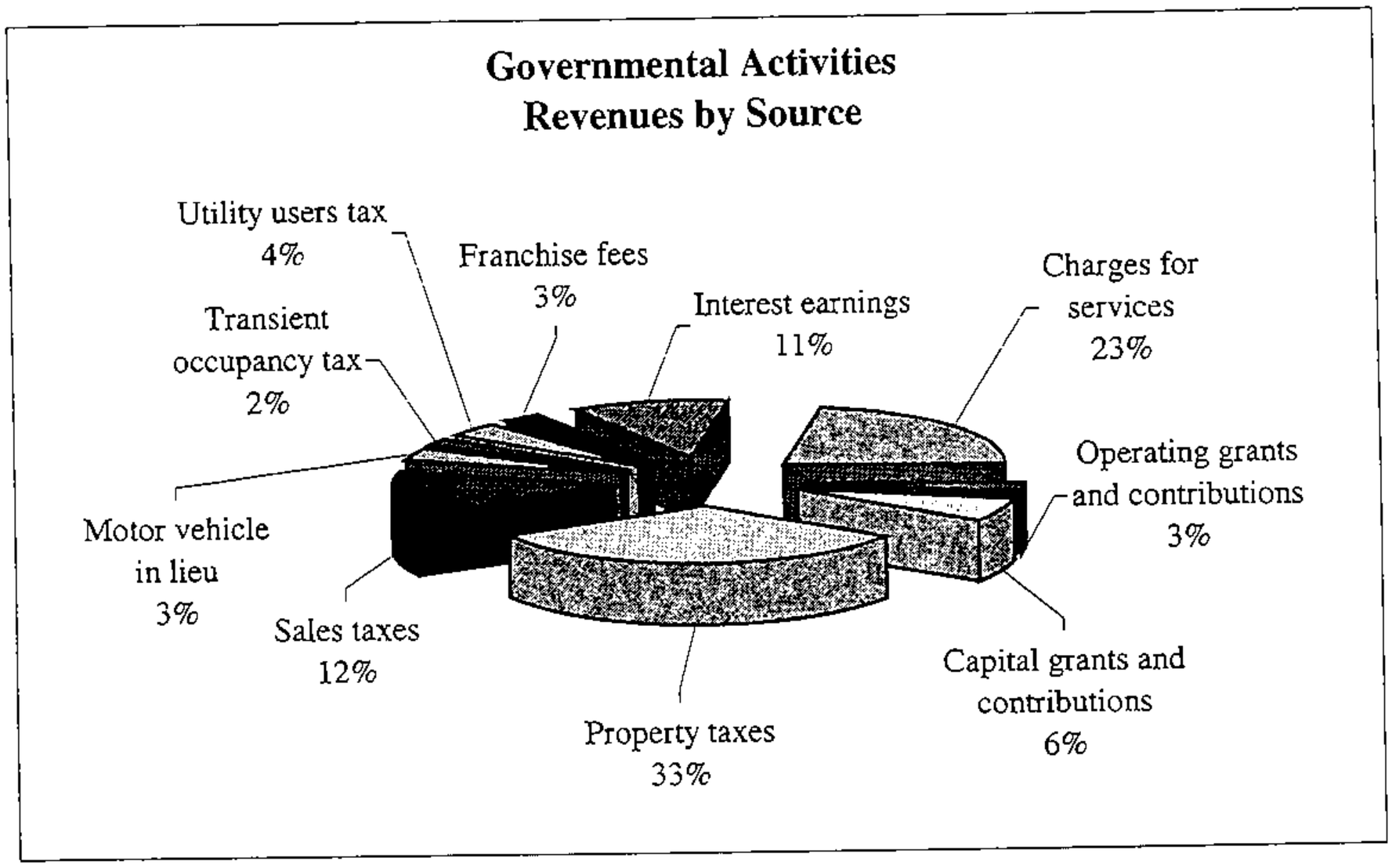
Analysis of Statement of Activities

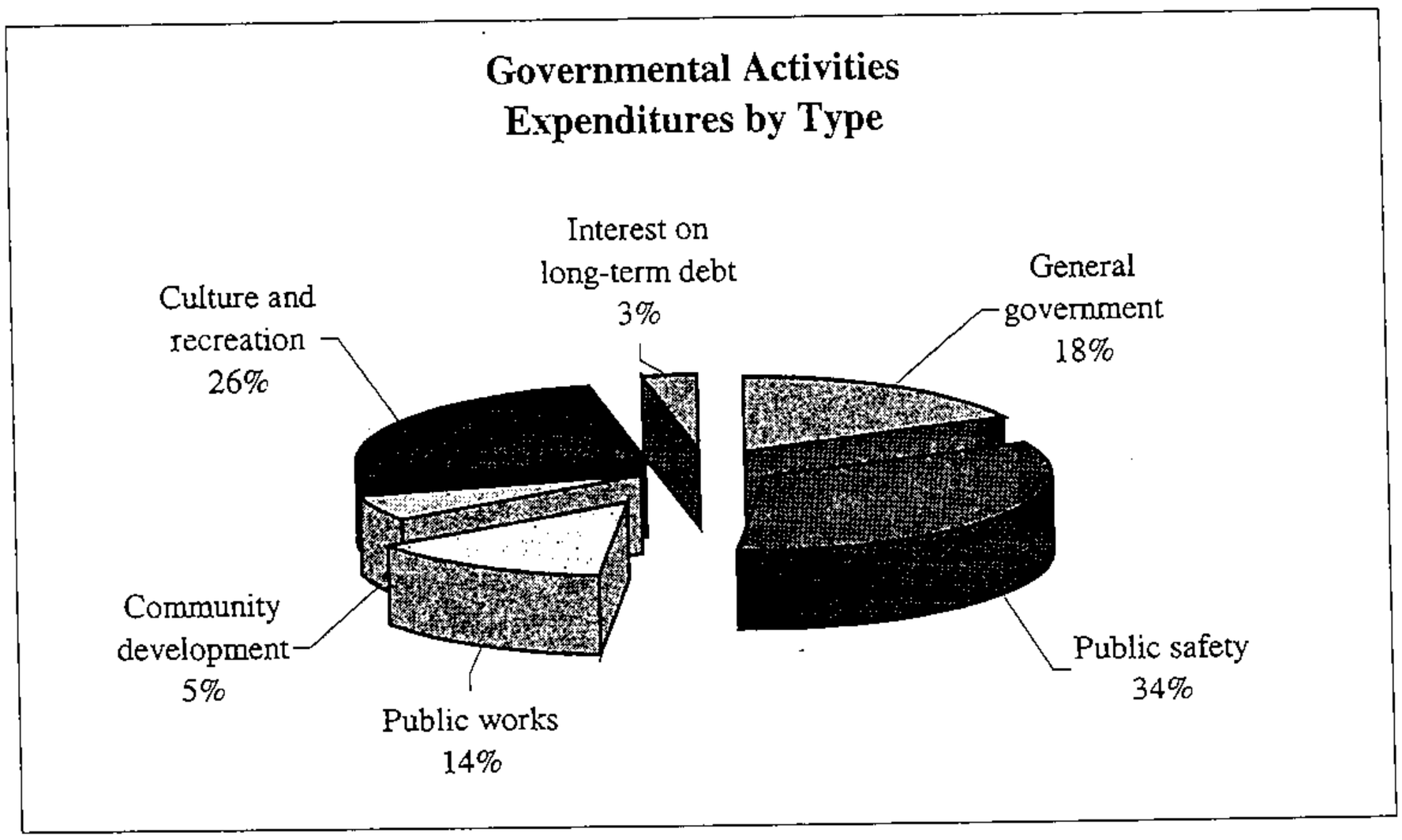
The following table indicates the changes in net assets for governmental and business-type activities:

Statement of Activities
(Dollars in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues:						
Charges for services	$ 28,132	28,673	30,003	31,013	58,135	59,686
Operating grants and contributions	3,230	5,930	100	-0-	3,330	5,930
Capital grants and contributions	7,878	5,031	671	-0-	8,549	5,031
General revenues:						
Property taxes	39,922	39,943	-0-	-0-	39,922	39,943
Sales taxes	14,878	17,259	-0-	-0-	14,878	17,259
Motor vehicle in lieu	4,245	3,971	-0-	-0-	4,245	3,971
Transient occupancy tax	2,367	2,874	-0-	-0-	2,367	2,874
Utility users tax	4,638	4,713	-0-	-0-	4,638	4,713
Franchise and business	3,603	4,002	-0-	-0-	3,603	4,002
Interest earnings	13,878	15,089	2,183	1,681	16,061	16,770
Gain (loss) on sale of capital assets	-0-	-0-	-0-	(5)	-0-	(5)
Bond issuance premium	-0-	349	-0-	-0-	-0-	349
Total revenues	122,771	127,834	32,957	32,689	155,728	160,523
Expenses						
General government	17,268	16,754	-0-	-0-	17,268	16,754
Public safety	32,485	32,089	-0-	-0-	32,485	32,089
Public works	13,387	15,711	-0-	-0-	13,387	15,711
Community development	5,199	5,265	-0-	-0-	5,199	5,265
Culture and recreation	25,109	20,745	-0-	-0-	25,109	20,745
Interest on long-term debt	2,836	7,791	-0-	-0-	2,836	7,791
Water	-0-	-0-	11,954	11,815	11,954	11,815
Wastewater	-0-	-0-	9,600	9,862	9,600	9,862
Solid Waste	-0-	-0-	7,930	6,968	7,930	6,968
Total expenses	96,284	98,355	29,484	28,645	125,768	127,000
Increase in net assets before transfers	26,487	29,479	3,473	4,044	29,960	33,523
Transfers	(234)	(1,400)	234	1,400	-0-	-0-
Change in net assets	26,253	28,079	3,707	5,444	29,960	33,523
Beginning net assets	594,491	566,412	86,484	81,040	680,975	647,452
Retroactive adjustment	3,007	-0-	-0-	-0-	3,007	-0-
Ending net assets	$623,751	594,491	90,191	86,484	713,942	680,975

The City's net assets overall increased by $30.0 million during the current fiscal year. This increase is explained in the governmental and business-type activities discussion below and is primarily a result of revenues exceeding expenses.





Governmental activities increased the City's net assets by $26.3 million, accounting for 87.6 percent of the total increase in the City's net assets. Key factors of this increase are as follows:

- Revenues exceeded expenditures, as explained below.
- Sales taxes continued to decline as the economy remained weak during the year. Interest earnings also declined as interest yields fell as a result of short-term interest rate actions taken by the Federal Reserve Board.
- Overall expenditures declined $2.1 million from the prior year due in part to budget reductions made in response to declining revenues. This decline added to the increase in governmental net assets for the year.

Based on the above, the governmental change in net assets is comparable to the prior year.

Business-type activities increased the City's net assets by $3.7 million, accounting for 12.4 percent of the total increase in the City's net assets. Key factors for this increase are as follows:

- Water net assets increased by $3.0 million, primarily due to the funding of capital assets.
- Wastewater net assets increased by $592,000, primarily due to capital contributions.
- Solid Waste net assets increased by $103,000 as revenues generated matched the cost of services provided.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds—The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $195.0 million, an increase of $18.1 million in comparison to the prior year. The significant component for the increase is related to revenues exceeding expenditures in the SRPC, General and General Capital Projects Funds. Approximately $143.7 million of total fund balance constitutes unreserved fund balance, which is available for spending at the City'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: (1) restricted cash and investments

($1.7 million); (2) to pay debt service ($1.1 million); (3) to reflect loans, receivables, advances and other assets that are long-term in nature and, thus, do not represent available spendable resources ($36.1 million); and (4) to liquidate existing contracts and purchase orders ($12.4 million).

Revenues for governmental functions overall totaled approximately $118.1 million in the fiscal year ended June 30, 2003, which represents a decrease of $7.8 million from the fiscal year ended June 30, 2002. Expenditures for governmental functions, totaling $98.2 million, decreased $4.9 million or 4.7 percent from the prior fiscal year. In the fiscal year ended June 30, 2003, revenues for governmental functions exceeded expenses by approximately $19.9 million or 20.2 percent.

The General Fund is used to account for all revenues and expenditures necessary to carry out basic government activity of the City that is not accounted for through other funds. At the end of the current fiscal year, unreserved fund balance is $64.8 million while total fund balance is $82.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 98.3 percent of total fund expenditures of $65.9 million, while total fund balance represents 125.2 percent of that same amount.

The fund balance of the City's General Fund increased by $3.0 million during the current fiscal year. Although total General Fund revenues declined from the prior year, revenues exceeded expenditures by $3.0 million.

The Revitalization Authority Fund accounts for the activities of the Authority, which was created to prepare and carry out redevelopment plans for a designated area of the City.

The Authority Fund's revenues are $2.7 million in Fiscal Year 2003, a decrease of $49,000. Although use of money and property revenues are down $148,000, property tax increment revenues are $2.6 million in Fiscal Year 2003, up $99,000 from Fiscal Year 2002. Fund expenditures are $420,000 in Fiscal Year 2003, up $188,000 from the prior year, primarily related to a $74,000 shift of property taxes to the State for payment to the Educational Revenue Augmentation Fund (ERAF). The balance of expenditures were for community development.

The Authority's Fund balance of $3.6 million, as of the end of the fiscal year, may be used only for redevelopment purposes. Of this amount, $3.7 million was reserved for loans receivable, outstanding encumbrances and land held for resale, and was not available for expenditure, while a negative $178,000 was unreserved fund balance. The negative unreserved fund balance will be eliminated by future tax increment revenue.

The Shoreline Regional Park Community Fund receives property tax increment revenues on property within the Community. The Fund accounts for the revenues and expenditures of the Community.

Revenues are $24.2 million in Fiscal Year 2003, a decrease of $778,000. Property tax increment revenues decreased to $22.0 million in Fiscal Year 2003, down $1.1 million from Fiscal

Year 2002, due to commercial vacancy rates of approximately 25.0 percent causing a decrease in unsecured property taxes. Expenditures are $5.2 million in Fiscal Year 2003, slightly more than the prior year. Of this amount, $3.1 million was expended on general government and $1.6 million on culture and recreation.

There are net transfers to other funds of $10.0 million in Fiscal Year 2003. Of this amount, $1.4 million was transferred to the General Fund for debt service payments, $4.5 million was transferred to the General Capital Projects Fund for capital projects, and $5.1 million was transferred to various Debt Service Funds for payments of principal and interest on outstanding debt, offsetting $1.0 million of transfers from the General Capital Projects Fund related to capital projects refunds and interest earnings.

The Fiscal Year 2003 year-end fund balance of $35.0 million may be used only for expenditures in the Community project area. Of this amount, $95,000 was reserved for outstanding encumbrances and $7.0 million for advances to other funds and are not available for expenditure. The remaining $27.9 million was unreserved.

The General Capital Projects Fund accounts for all general capital improvements on a pay-as-you-go basis for projects not funded from proprietary funds.

Revenues are $10.1 million in Fiscal Year 2003, an increase of $3.2 million from the prior year. Revenue from use of money and property declined $892,000 due to declines in interest rates. Intergovernmental revenues increased to $5.2 million in Fiscal Year 2003, up $4.1 million from Fiscal Year 2002, primarily due to Caltrans and Measure A and B grants. Expenditures are $14.1 million in Fiscal Year 2003, $2.0 million less than the prior year. All of the $14.1 million was expended on capital outlay.

Net transfers from other funds are $13.3 million in Fiscal Year 2003.

The Fund's Fiscal Year 2003 year-end fund balance of $51.5 million may be used for capital projects. Of this amount, $11.0 million was reserved for restricted cash and investments and outstanding encumbrances, and is not available for expenditure. The balance of $40.5 million was designated primarily for capital projects.

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

At the end of the fiscal year, the unrestricted net assets for the Water, Wastewater and Solid Waste Funds are $24.5 million, $17.9 million and $9.9 million, respectively. The internal service funds which are used to account for certain governmental activities have unrestricted net assets of $32.0 million. The total growth in net assets for the Enterprise Funds is $3.7 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

Fiduciary Funds: The City maintains fiduciary funds for the assets held in trust to benefit agencies outside of the City or employees. As of June 30, 2003, the assets of these funds totaled

$2.4 million, representing an increase of $404,000 in total assets since June 30, 2002. The increase is primarily related to the timing of payments made in the Payroll Fund and the increase in funding of the Santa Clara County Communications Joint Funding Agreement Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund differences between the original Fiscal Year 2003 budget and the final amended budget resulted in a $65,000 increase in budgeted revenues and a $2.7 million increase in expenditure appropriations. Approximately $1.6 million of the adjustment is related to prior-year encumbrances that carry forward at the beginning of the year as specified in the City's Charter. An additional $861,000 appropriation was established for the payment of compensated absences as provided by Council resolution. The balance of adjustments were made mid-year for various operational needs not anticipated during budget adoption and grants or reimbursements received during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2003 amount to $539.9 million (net of accumulated depreciation). Capital assets include land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the City's capital assets for Fiscal Year 2003 was $1.1 million or 0.2 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

Capital Assets
(Dollars in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	$ 69,852	69,852	220	220	70,072	70,072
Construction in progress	67,230	66,358	11,019	9,075	78,249	75,433
Buildings	97,623	96,169	8,927	8,927	106,550	105,096
Improvements other than bldgs.	55,573	48,079	44,376	42,075	99,949	90,154
Machinery and equipment	17,487	16,665	1,616	1,574	19,103	18,239
Parking facility	4,140	4,140	-0-	-0-	4,140	4,140
Traffic signals	5,258	5,255	-0-	-0-	5,258	5,255
Streetlights	7,471	7,445	-0-	-0-	7,471	7,445
Bridges and culverts	7,925	7,925	-0-	-0-	7,925	7,925
Sidewalks, curbs and gutters	103,280	102,155	-0-	-0-	103,280	102,155
Streets and roads	231,676	229,902	-0-	-0-	231,676	229,902
Less accumulated depreciation	(165,293)	(149,807)	(28,487)	(27,235)	(193,780)	(177,042)
	$502,222	504,138	37,671	34,636	539,893	538,774

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

- Governmental activities capital assets increased a total of $13.6 million with a net $15.5 million increase in accumulated depreciation.

- Total construction in progress (CIP) increased by $2.8 million as more capital projects were funded than completed and capitalized during the year.

- Inprovements, other than buildings, increased by $9.8 million. Some of the major assets capitalized from CIP were: Crittenden Park landscaping; Adobe Building renovation; Vista Slope landscaping; Evelyn Avenue improvements design; Cuesta Park playground renovation; and Stevens Creek pedestrian/wildlife, Reach 4.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34.

Additional information about the City's capital assets can be found in Note 6 to the financial statements.

Debt Administration

As of June 30, 2003, the City had $109.8 million of outstanding long-term debt related to governmental activities and $738,000 related to business-type activities, for a total of $110.5 million. Debt outstanding as of June 30, 2003 with a comparison to prior year and the net change follows:

Debt Outstanding
(Dollars in thousands)

	As of June 30, 2003	As of June 30, 2002	Net Change
Tax allocation bonds	$ 52,928	54,962	(2,034)
Certificates of participation	15,432	16,208	(776)
Special assessment debt	2,319	2,713	(394)
Compensated absences	5,772	5,680	92
Landfill containment	33,327	34,865	(1,538)
Total government activity debt	109,778	114,428	(4,650)
Business-type activity	738	693	45
Total	$110,516	115,121	(4,605)

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The City has no general obligation debt outstanding as of June 30, 2003.

Standard & Poor's reconfirmed the City's underlying "AAA" credit rating in August 2003.

Additional information regarding the City's long-term obligations can be found in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The City continues to face a less favorable economic environment from the market decline in the technology industry. The unemployment rate in the City has declined from 6.0 percent to 5.5 percent as of August 2002 and 2003. This is lower than the County and State unemployment rates of 8.6 percent and 6.6 percent, respectively, for August 2002, and 7.9 percent and 6.5 percent, respectively, for August 2003.

- Overall, property taxes for the City are expected to increase for the upcoming fiscal year as new development is completed and comes onto the tax roll.

- Sales tax revenue is expected to slightly decline and then stabilize as the economy also stabilizes.

- Other taxes comprised of Transient Occupancy Tax (TOT) and Utility Users Tax (UUT) are anticipated to remain at the same level for Fiscal Year 2004.

- The State budget deficit continues to be a major concern as the City worked to adjust to its own budget challenges. How the State will continue to deal with its budget issues and how local government revenues will be negatively impacted will be an ongoing concern of the City. However, the City remains committed to taking the necessary actions to adopt a balanced budget annually.

- Increases in water, wastewater and solid waste rates of 6 percent, 8 percent and 2 percent, respectively, have been adopted for Fiscal Year 2004.

All of these factors were considered in preparing the City's budget for Fiscal Year 2004.

REQUEST FOR INFORMATION

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance and Administrative Services Department, 500 Castro Street, Mountain View, California, 94039-7540.

PJK/6/FIN/546-09-09-03R^

Statement of Net Assets
June 30, 2003 (Dollars in Thousands)

	Governmental Activities	Business - Type Activities	Total
Assets:			
Cash and investments (Note 3)	$ 239,297	28,953	268,250
Restricted cash and investments (Note 3)	2,782	0	2,782
Receivables:			
Accounts (net of allowances)	414	4,824	5,238
Special assessments	1,895	0	1,895
Interest	2,575	614	3,189
Loans (Note 4)	9,984	0	9,984
Taxes	3,321	0	3,321
Due from other governments	680	0	680
Internal balances (Note 5C)	(20,411)	20,411	0
Inventory	406	0	406
Deposits and prepaid costs	4	0	4
Land held for redevelopment (Note 1H)	2,637	0	2,637
Capital assets, net of depreciation (Note 6)	502,222	37,671	539,893
Total assets	745,806	92,473	838,279
Liabilities:			
Accounts payable and accrued costs	7,740	1,400	9,140
Accrued self-insurance claims (Note 10)	3,833	0	3,833
Refundable deposits	479	144	623
Deferred revenue	225	0	225
Noncurrent liabilities (Note 7)			
Due within one year	4,313	0	4,313
Due in more than one year	105,465	738	106,203
Total liabilities	122,055	2,282	124,337
Net assets (Note 11):			
Invested in capital assets, net of related debt	446,282	37,671	483,953
Restricted for:			
Financial assurance mechanism	0	247	247
Capital projects	13,300	0	13,300
Debt service	3,626	0	3,626
Low and moderate income housing	3,590	0	3,590
Shoreline Regional Park Community	33,940	0	33,940
Revitalization Authority	(28)	0	(28)
Other purposes	7,325	0	7,325
Unrestricted	115,716	52,273	167,989
Total net assets	$ 623,751	90,191	713,942

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental Activities:							
General government	$ 17,268	18,559	270	0	1,561		1,561
Public safety	32,485	979	417	0	(31,089)		(31,089)
Public works	13,387	260	1,404	7,658	(4,065)		(4,065)
Community development	5,199	3,252	1,075	0	(872)		(872)
Culture and recreation	25,109	5,082	64	220	(19,743)		(19,743)
Interest on long term debt	2,836	0	0	0	(2,836)		(2,836)
Total governmental activities	96,284	28,132	3,230	7,878	(57,044)		(57,044)
Business-type Activities:							
Water	11,954	13,286	0	275	0	1,607	1,607
Wastewater	9,600	9,207	0	396	0	3	3
Solid Waste	7,930	7,510	100	0	0	(320)	(320)
Total business-type activities	29,484	30,003	100	671	0	1,290	1,290
Total	$ 125,768	58,135	3,330	8,549	(57,044)	1,290	(55,754)
General revenues:							
Taxes:							
Property taxes					39,922	0	39,922
Sales taxes					14,878	0	14,878
Motor vehicle in lieu					4,245	0	4,245
Transient occupancy tax					2,367	0	2,367
Utility users tax					4,638	0	4,638
Nonregulatory franchise & business					3,603	0	3,603
Interest earnings					13,878	2,183	16,061
Transfers					(234)	234	0
Total general revenues and transfers					83,297	2,417	85,714
Change in net assets					26,253	3,707	29,960
Beginning net assets					594,491	86,484	680,975
Add: retroactive additions of infrastructures (Note 6)					3,007	0	3,007
Ending net assets					$ 623,751	90,191	713,942

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Governmental Funds
Balance Sheet
June 30, 2003 (Dollars in Thousands)

	General	Revitalization Authority	Shoreline Regional Park Community	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	$ 69,100	3,769	40,801	73,736	17,298	204,704
Restricted cash and investments	0	0	0	218	1,518	1,736
Receivables:						
Accounts (net of allowances)	233	75	1	1	104	414
Special assessments:						
Delinquent	0	0	0	0	9	9
Deferred	0	0	0	0	1,886	1,886
Interest	1,101	82	587	0	393	2,163
Loans	212	1,003	0	0	8,769	9,984
Taxes	3,321	0	0	0		3,321
Due from other governments	680	0	0	0	0	680
Inventory	276	0	0	0	130	406
Deposits and prepaid costs	4	0	0	0	0	4
Land for redevelopment	0	2,637	0	0	0	2,637
Advances to other funds	15,419	0	7,010	0	0	22,429
Total assets	$ 90,346	7,566	48,399	73,955	30,107	250,373
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued costs	$ 3,664	8	66	2,021	346	6,105
Accrued compensated absences	619	0	0	0	0	619
Refundable deposits	342	0	3	51	83	479
Deferred revenue	3,169	0	0	0	2,115	5,284
Advances from other funds	0	3,996	13,333	20,411	5,100	42,840
Total liabilities	7,794	4,004	13,402	22,483	7,644	55,327
Fund balances:						
Reserved for:						
Restricted cash and investments	0	0	0	218	1,518	1,736
Debt service	0	0	0	0	1,074	1,074
Loans receivable	212	1,003	0	0	8,765	9,980
Due from other governments	680	0	0	0	0	680
Inventory	276	0	0	0	130	406
Deposits and prepaid costs	4	0	0	0	0	4
Advances to other funds	15,419	0	7,010	0	0	22,429
Encumbrances	1,153	100	95	10,777	272	12,397
Land held for redevelopment	0	2,637	0	0	0	2,637
Unreserved:						
Designated for:						
Capital improvement program	5,669	0	0	36,555	0	42,224
Contingency operating	3,616	0	0	0	0	3,616
Emergencies	7,250	0	0	0	0	7,250
Revenue stabilization	5,696	0	0	0	0	5,696
Budget transition	9,543	0	0	0	0	9,543
Property management	1,600	0	0	0	0	1,600
Strategic land acquisition	4,575	0	0	0	0	4,575
Unrealized gain on investments	2,971	0	1,316	3,922	0	8,209
Compensated absences	5,455	0	0	0	0	5,455
General fund	18,433	0	0	0	0	18,433
Undesignated:						
Reported in:						
Special revenue funds	0	(178)	26,576	0	7,112	33,510
Capital projects funds	0	0	0	0	3,592	3,592
Total fund balances	82,552	3,562	34,997	51,472	22,463	195,046
Total liabilities and fund balances	$ 90,346	7,566	48,399	73,955	30,107	250,373

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Reconciliation of Governmental Fund Balance with Governmental Activities Net Assets For the Year Ended June 30, 2003 (Dollars in Thousands)

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	
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:	$ 195,046
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	502,222
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	34,593
Restricted cash and investments	1,046
Interest receivable	412
Accounts payable	(109)
Accrued compensated absences	(132)
Accrued self-insurance claims	(3,833)
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	5,059
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 other obligations	(104,006)
Interest payable	(1,526)
Non-current portion of compensated absences	(5,021)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 623,751

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2003 (Dollars in Thousands)

	General	Revitalization Authority	Shoreline Regional Park Community	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 37,205	2,552	22,028	0	2,631	64,416
Licenses, permits and fees	4,433	0	0	0	818	5,251
Fines and forfeitures	630	0	0	0	0	630
Use of money and property	9,446	187	1,995	4,834	1,058	17,520
Intergovernmental revenues	4,941	0	0	5,201	2,685	12,827
Charges for services	9,524	0	0	0	4,705	14,229
Other	2,714	0	158	106	225	3,203
Total revenues	68,893	2,739	24,181	10,141	12,122	118,076
Expenditures:						
Current:						
General government	11,909	0	3,128	0	454	15,491
Public safety	30,583	0	107	0	277	30,967
Public works	6,879	0	211	0	21	7,111
Community development	3,244	420	117	0	966	4,747
Culture and recreation	12,855	0	1,604	0	3,320	17,779
Capital outlay	458	0	12	14,137	51	14,658
Debt service:						
Principal repayment	0	0	0	0	3,519	3,519
Interest and fiscal charges	0	0	0	0	3,953	3,953
Total expenditures	65,928	420	5,179	14,137	12,561	98,225
Excess (deficiency) of revenues over (under) expenditures	2,965	2,319	19,002	(3,996)	(439)	19,851
Other financing sources (uses):						
Transfers in	4,616	148	992	18,237	8,581	32,574
Transfers (out)	(4,547)	(3,883)	(11,021)	(4,952)	(9,930)	(34,333)
Total other financing sources (uses)	69	(3,735)	(10,029)	13,285	(1,349)	(1,759)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	3,034	(1,416)	8,973	9,289	(1,788)	18,092
Beginning fund balances	79,518	4,978	26,024	42,183	24,251	176,954
Ending fund balance	$ 82,552	3,562	34,997	51,472	22,463	195,046

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Reconciliation of the
Net Change in Fund Balances
Total Governmental Funds with the
Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)

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	$18,092
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. The capital outlay and other capitalized expenditures are therefore added back to fund balance	16,674
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $15 thousand which has already been allocated to serviced funds.)	(16,534)
Loss on retirements of capital assets, net of accumulated depreciation	(2,041)
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.	
Repayment of debt principal is added back to fund balance	3,519
Amortization of loss on refunding is deducted from fund balance	(315)
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):	
Long-Term compensated absences	(36)
Long-Term landfill containment	1,370
Interest payable	62
Deferred revenue	2,745
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	2,717
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$26,253

CITY OF MOUNTAIN VIEW, CALIFORNIA

General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
Revenues:				
Taxes	$ 39,750	39,750	37,205	(2,545)
Licenses, permits and fees	4,191	4,191	4,433	242
Fines and forfeitures	517	517	630	113
Use of money and property	9,407	9,407	9,446	39
Intergovernmental revenues	4,778	4,792	4,941	149
Charges for services	9,471	9,471	9,524	53
Other	908	959	2,714	1,755
Amounts available for appropriation	69,022	69,087	68,893	(194)
Expenditures:				
Current:				
General government:				
City Council	219	234	146	88
City Clerk	544	546	451	95
City Attorney	1,169	1,430	1,173	257
City Manager	1,402	1,561	1,316	245
Employee services	2,231	3,110	2,572	538
Finance and administrative services	6,652	6,950	6,251	699
Public safety:				
Fire	14,338	14,394	13,947	447
Police	17,359	17,538	16,636	902
Public works	7,690	7,878	6,879	999
Community development	3,667	3,806	3,244	562
Culture and recreation:				
Community services	9,733	9,906	8,962	944
Library services	4,075	4,143	3,893	250
Capital outlay	402	669	458	211
Total expenditures	69,481	72,165	65,928	6,237
Excess (deficiency) of revenues over (under) expenditures	(459)	(3,078)	2,965	6,043
Other financing sources (uses):				
Transfers in	3,825	3,825	4,616	791
Transfers (out)	(4,564)	(4,564)	(4,547)	17
Total other financing sources (uses)	(739)	(739)	69	808
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,198)	(3,817)	3,034	6,851
Beginning fund balances	79,518	79,518	79,518	0
Ending fund balances	$ 78,320	75,701	82,552	6,851

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Revitalization Authority Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
Revenues:				
Taxes	$ 2,666	2,666	2,552	(114)
Use of money and property	246	246	187	(59)
Amounts available for appropriation	2,912	2,912	2,739	(173)
Expenditures:				
Current:				
Community development	464	574	420	154
Total expenditures	464	574	420	154
Excess (deficiency) of revenues over (under) expenditures	2,448	2,338	2,319	(19)
Other financing sources (uses):				
Transfers in	0	0	148	148
Transfers (out)	(3,979)	(3,979)	(3,883)	96
Total other financing sources (uses)	(3,979)	(3,979)	(3,735)	244
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,531)	(1,641)	(1,416)	225
Beginning fund balances	4,978	4,978	4,978	0
Ending fund balances	$ 3,447	3,337	3,562	225

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Shoreline Regional Park Community Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
Revenues:				
Taxes	$ 19,671	19,671	22,028	2,357
Use of money and property	1,755	1,755	1,995	240
Other	15	16	158	142
Amounts available for appropriation	21,441	21,442	24,181	2,739
Expenditures:				
Current:				
General government:				
City Attorney	10	44	13	31
City Manager	80	80	79	1
Finance and administrative services	3,050	3,059	3,036	23
Public safety:				
Fire	94	100	83	17
Police	26	26	24	2
Public works	274	302	211	91
Community development	159	159	117	42
Culture and recreation:				
Community services	1,824	1,898	1,604	294
Capital outlay	0	12	12	0
Total expenditures	5,517	5,680	5,179	501
Excess of revenues over expenditures	15,924	15,762	19,002	3,240
Other financing sources (uses):				
Transfers in	0	0	992	992
Transfers (out)	(11,465)	(11,571)	(11,021)	550
Total other financing sources (uses)	(11,465)	(11,571)	(10,029)	1,542
Excess of revenues and other financing sources over expenditures and other financing uses	4,459	4,191	8,973	4,782
Beginning fund balances	26,024	26,024	26,024	0
Ending fund balances	$ 30,483	30,215	34,997	4,782

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Proprietary Funds
Statement of Net Assets
June 30, 2003 (Dollars in Thousands)

	Business-type Activities-Enterprise Funds				Governmental Activities-Internal Service Funds
	Water	Wastewater	Solid Waste	Totals	
Current Assets:					
Cash and investments	$ 7,848	12,235	8,870	28,953	34,593
Restricted cash and investments	0	0	0	0	1,046
Receivables:					
Accounts (net of allowances)	1,795	1,422	1,607	4,824	0
Interest	304	203	107	614	412
Total current assets	9,947	13,860	10,584	34,391	36,051
Long-Term Assets:					
Advances to other funds	15,829	4,347	235	20,411	0
Land, buildings, and equipment	29,898	24,888	353	55,139	264
Construction in progress	9,069	1,599	351	11,019	0
Accumulated depreciation	(11,919)	(16,313)	(255)	(28,487)	(194)
Total long-term assets	42,877	14,521	684	58,082	70
Total assets	52,824	28,381	11,268	92,473	36,121
Current Liabilities:					
Accounts payable and accrued costs	755	60	585	1,400	109
Accrued compensated absences	366	238	134	738	132
Accrued self-insurance costs	0	0	0	0	3,833
Refundable deposits	144	0	0	144	0
Total liabilities	1,265	298	719	2,282	4,074
Net Assets:					
Invested in capital assets	27,048	10,174	449	37,671	70
Restricted for financial assurance mechanism	0	0	247	247	0
Unrestricted	24,511	17,909	9,853	52,273	31,977
Total net assets	$ 51,559	28,083	10,549	90,191	32,047

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Proprietary Funds
Statement of Revenues, Expenses and
Changes in Fund Net Assets
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Business-type Activities-Enterprise Funds				All Governmental Activities-Internal Service Funds
	Water	Wastewater	Solid Waste	Totals	
Operating revenues:					
Charges for sales and services	$ 13,286	9,207	7,510	30,003	2,530
Other	421	152	233	806	2,378
Total operating revenues	13,707	9,359	7,743	30,809	4,908
Operating expenses:					
Salaries and related expenses	3,104	1,754	1,517	6,375	1,009
Self-funded insurance	0	0	0	0	1,861
Cost of sales and services	5,463	5,181	4,724	15,368	0
General and administrative	2,635	2,169	1,680	6,484	2,781
Depreciation	752	496	9	1,257	15
Total operating expenses	11,954	9,600	7,930	29,484	5,666
Operating income (loss)	1,753	(241)	(187)	1,325	(758)
Nonoperating revenues (expenses):					
Interest income	341	628	508	1,477	1,950
Net nonoperating revenues	341	628	508	1,477	1,950
Income before transfers	2,094	387	321	2,802	1,192
Contributions	275	396	0	671	0
Transfers in	1,301	307	14	1,622	1,599
Transfers (out)	(658)	(498)	(232)	(1,388)	(74)
Net transfers	918	205	(218)	905	1,525
Change in net assets	3,012	592	103	3,707	2,717
Beginning net assets	48,547	27,491	10,446	86,484	29,330
Ending net assets	$ 51,559	28,083	10,549	90,191	32,047

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Business-type Activities-Enterprise Funds				Governmental Activities-Internal Service Funds
	Water	Wastewater	Solid Waste	Totals	
Cash flows from operating activities:					
Receipts from customers	$ 13,463	9,138	7,617	30,218	4,908
Payments to suppliers	(6,580)	(6,024)	(5,659)	(18,263)	(2,844)
Payments to employees	(3,097)	(1,737)	(1,496)	(6,330)	(997)
Internal activity - payments to other funds	(1,400)	(1,299)	(770)	(3,469)	(18)
Claims paid	0	0	0	0	(1,997)
Other receipts (payments)	421	152	233	806	0
Net cash provided (used) by operating activities	2,807	230	(75)	2,962	(948)
Cash flows from non-capital financing activities:					
Due from other governments	0	0	1,099	1,099	0
Transfers in	1,301	307	14	1,622	1,599
Transfers (out)	(658)	(498)	(232)	(1,388)	(74)
Net cash provided (used) by noncapital financing activities	643	(191)	881	1,333	1,525
Cash flows from capital and related financing activities:					
Acquisition and construction of fixed assets, net	(2,364)	(1,188)	(69)	(3,621)	0
Advances to other funds for construction in progress	(509)	175	(78)	(412)	0
Net cash flows provided (used) by capital and related financing activities	(2,873)	(1,013)	(147)	(4,033)	0
Cash from investing activities:					
Interest received	371	664	506	1,541	1,998
Net increase (decrease) in cash and cash equivalents	948	(310)	1,165	1,803	2,575
Cash and cash equivalents at beginning of period	6,900	12,545	7,705	27,150	33,064
Cash and cash equivalents at end of period	$ 7,848	12,235	8,870	28,953	35,639
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	$ 1,753	(241)	(187)	1,325	(758)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	752	496	9	1,257	15
Change in assets and liabilities:					
Receivables, net	172	(69)	107	210	0
Accounts and other payables	130	44	(4)	170	(205)
Net cash provided (used) by operating activities	$ 2,807	230	(75)	2,962	(948)
Noncash investing, capital, and financing activities:					
Contributions of capital assets, net	$ 275	396	0	671	

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2003 (Dollars in Thousands)

	Agency Funds
Assets:	
Cash and investments (Note 3)	$ 2,211
Restricted cash (Note 3)	148
Total assets	$ 2,359
Liabilities:	
Accrued payroll	$ 1,709
Sports Pavilion maintenance	25
Collections payable	625
Total liabilities	$ 2,359

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mountain View, California (City) was incorporated in 1902 and is a charter city, having had its first charter granted by the State of California in 1952. The City operates under the Council-Manager form of government and provides the following services: public safety (police, fire, and paramedic), public works and utilities, community development, community and leisure services, and administration and support services.

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units, which are described below, are all blended.

The Mountain View Shoreline Regional Park Community (Community) - is a separate government entity created for the purpose of developing approximately 1,550 acres of bayfront lands. The Community is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Community. Its financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements in the Shoreline Regional Community Park Special Revenue and the Tax Allocation Bond Debt Service Funds. Separate financial statements for the Community are also included in the City's Comprehensive Annual Financial Report.

The Mountain View Revitalization Authority (Authority) - is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of an area within the City. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. Its financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements in the Revitalization Authority Special Revenue Fund and the Police/Fire Building Refunding 1995 Certificates of Participation Debt Service Fund. Separate financial statements for the Authority are also included in the City's Comprehensive Annual Financial Report.

The City of Mountain View Capital Improvement Financing Authority (Financing Authority) - is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Financing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Financing Authority. All outstanding indebtedness was retired in fiscal year 2002, the Financing Authority is currently inactive. Separate financial statements for the Financing Authority are not required and therefore, not issued.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Major Funds*

Major funds are defined as funds which have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total of governmental and enterprise funds. Major governmental and business-type funds are 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. The General Fund is always a major fund, and the City may select other funds it believes should be presented as major funds. The City selected the Mountain View Revitalization Authority for presentation as a major fund because of its importance.

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

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Revitalization Authority Fund – This fund accounts for the activities of the Authority which was created to prepare and carry out redevelopment plans for a designated area of the City.

Shoreline Regional Park Community Fund – This fund receives tax increment revenues on property within the Community. The fund accounts for the revenues and expenditures of the Community.

General Capital Projects Fund – This fund accounts for all general capital improvements on a pay-as-you-go basis for projects not funded from proprietary funds.

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

Water Fund – This fund accounts for the expenses related to the operation, maintenance and capital outlay required to supply, distribute and meter water, which are paid from revenues derived from user fees.

Wastewater Fund – This fund accounts for the expenses related to the operation, maintenance and capital outlays required to provide wastewater services, which are paid from revenues derived from user fees. The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Solid Waste Fund – This fund accounts for disposal services, recycling operations, other solid waste operations and certain costs related to maintenance of the closed landfill sites. Collection operations are provided by an outside private contractor. The City has an agreement with the Cities of Palo Alto and Sunnyvale for disposal transfer capacity at the Sunnyvale Materials and Recovery Transfer (SMaRT) Station.

The City also reports the following fund types:

Internal Service funds. These funds account for equipment maintenance and replacement; retirees' health and employee benefits plans; and for workers' compensation, unemployment self-insurance, general liability self-insurance, and property insurance coverage; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary funds. These Agency funds account for assets held by the City as an agent for individual, private organizations, and other governments.

D. *Basis of Accounting*

The government-wide, proprietary, 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 City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, landfill containment costs and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

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

Those revenues susceptible to accrual are property taxes, sales taxes, utility user taxes, transient occupancy taxes, earned grant entitlements, special assessments due within the current year, certain intergovernmental revenues, and interest revenue. All other revenue items are considered to be measurable and available only when cash is received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's business-type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory of Materials and Supplies

Inventories are valued at cost (first in, first out). Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Inventories of the Shoreline Golf Links Special Revenue Fund consist of merchandise held for resale to consumers. The cost is recorded as an expenditure at the time individual inventory items are sold. Reported General and Special Revenue Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. Property Tax

Santa Clara County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 for the fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. Compensated Absences

Compensated absences representing vacation, sick leave pay and related costs of Governmental Fund Types that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay them.

Amounts not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Assets in addition to the balance reported in the Governmental Funds Balance Sheet. General, Revitalization Authority, Shoreline Regional Park Community, and Shoreline Golf Links funds are used to liquidate compensated absences. The entire vacation, sick leave pay and related costs in Proprietary Fund Types are accrued when incurred and reported as a fund liability. The City uses the termination payment method for the calculation of compensated absences.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Land Held for Redevelopment

At June 30, 2003 the Authority had two parcels held for redevelopment; one purchased in fiscal year 2000 and one purchased in fiscal year 2003, which are being held for future development projects. The parcels are accounted for at the lower of cost or net realizable value.

I. Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual and/or accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The City adopts an annual budget on or before June 30 for the ensuing fiscal year for the General Fund and all Special Revenue Funds except the Deferred Assessments Fund, Grants Fund and Police Asset Forfeitures Fund.

No annual budgets are adopted for the Debt Service Funds. Repayment of the debt is authorized by the adoption of the indenture provisions for the life of the debt.

The Storm Drain Construction and Park Land Dedication Capital Projects Funds are budgeted annually. All other Capital Projects Funds are budgeted on a project basis. Such budgets are based on a project time frame, rather than a fiscal year "operating" time frame, whereby unused appropriations continue until project completion.

Budget appropriations become effective each July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund and department level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

All Governmental Fund Type annual budgets are presented on a basis consistent with the basic financial statements prepared in accordance with generally accepted accounting principles.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year and reappropriated amounts for prior-year encumbrances. City Council must approve appropriation increases to departmental budgets; however, management may transfer Council-approved budgeted amounts within fund and departmental expenditure classifications. Judgments, settlements and accrual entries are not subject to budgetary control and expenditures exceeding budget due to these items do not constitute a violation of budget policy or control. Supplemental appropriations were approved during the course of the year as needed.

B. Encumbrance Accounting

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. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are automatically reappropriated for inclusion in the following year's budget.

NOTE 3 – CASH & INVESTMENTS

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The City pools cash from all sources and all funds, except Restricted Cash and Investments with Fiscal Agents, so the pool of funds can be invested consistent with goals for safety and liquidity, while maximizing yield. Cash is pooled so individual funds can make expenditures at any time.

Investment income is allocated among funds on the basis of average daily cash and investment balances in each fund, unless there are specific legal or contractual requirements to do otherwise.

A. Categorization of Credit Risk of Securities Instruments

The City invests 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 increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

Category 2 - Securities instruments and book entry form securities in this category are in the Bank's name but are held by the Bank's Trust Department in a separate account in the City's name.

Category 3 - Includes only City-owned securities instruments or book entry form securities which are not in the City's name and 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 and are categorized as follows at June 30, 2003 (dollars in thousands):

	Cash and Investments		
	Available for Operations	Restricted	Total
Category 1 Investments:			
U.S. Treasury obligations	$ 123,580	0	123,580
U.S. Agency obligations	104,014	0	104,014
Municipal Bonds	134	0	134
Pooled Investments (non Categorized):			
Local Agency Investment Fund	42,343	1,517	43,860
Mutual funds (government securities)	0	1	1
Total investments	270,071	1,518	271,589
Cash in banks and on hand	390	1,412	1,802
Total cash and investments	$ 270,461	2,930	273,391

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City must maintain required amounts of cash and investments with trustees under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All these funds have been invested as permitted under the Code.

Investments in municipal bonds shown above represent the City's investment in its 2000 Yardis Court Special Assessment Debt. The balance as of June 30, 2003 is stated at amortized cost, which approximates fair value.

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 (dollars in thousands):

Cash and investments	$268,250
Restricted cash and investments	2,782
Cash and investments of the City	271,032
Cash and investments in Fiduciary Funds (separate statement)	2,359
Total cash and investments	$ 273,391

B. Cash Deposits

Cash in banks is classified insured (Category 1) or collateralized by the trust department or agent of the institution holding the deposit with collateral held in the City's name (Category 2), or as uncollateralized (Category 3).

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the City's cash on deposit as collateral for these deposits. Under California Law collateral is held in the City's name and places the City ahead of general creditors of the institution. At June 30, 2003, the total market value of securities held by Bank of America in the pool collateralizing all government deposits, including the City's deposits was $1.5 billion. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The carrying amount of the City's cash deposits was $1.8 million at June 30, 2003. At that date bank balances before reconciling items were $2.9 million, of which $247,000 was insured (Category 1), $1.7 million was collateralized as discussed above (Category 2), and $984,000 was uninsured and not collateralized (Category 3) at June 30, 2003.

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Authorized City Investments*

The City's investment policy and the California Government Code allow the City to invest in the following:

Securities of the U.S. Government or its agencies
Mortgage-backed Securities
Commercial Paper
Banker's Acceptances
Medium-term Notes issued by U.S. corporations
Mutual Funds invested in U.S. Government securities
Certificates of Deposit
Municipal Bonds issued by the City or any of its component units
California Local Agency Investment Fund

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

Cash and investments with an original maturity of three months or less are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

NOTE 4 – LOANS RECEIVABLE

At June 30, 2003, the City's notes and loans receivable, by loan type, was comprised of the following (dollars in thousands):

CDBG Rehabilitation	$ 374
CDBG Blimp	21
Support Network for Women	55
Ginzton Terrace	517
Latham Street Apartments	1,941
Project Match	132
Shorebreeze Apartments	977
Central Park Apartments	1,949
Stoney Pine Charities	124
HomeSafe	100
Pacific Autism Center for Education	20
Charities Housing Development Corporation Land Lease	3,558
Employee Housing	212
Deferred Assessments	4
Total	$ 9,984

A. Housing Loans

The City engages in programs designed to encourage construction or improvement of housing for persons with low- to moderate-income or other such projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. Since the City does not expect to collect these loans in the near term, they have been offset by reserved fund balance in the fund financial statements.

CDBG Rehabilitation

The City administers a housing rehabilitation loan program initially funded with Community Development Block Grants (CDBG) funds. Under this program, individuals with incomes below a stated level are eligible to receive low interest loans for rehabilitation work on their home. These loans are secured by deeds of trust, which may be subordinated with the prior written consent of the City. The loan repayments may be amortized over the life of the loans, deferred to maturity or a combination of both. There are thirteen such loans totaling $374,000 as of June 30, 2003.

CDBG Blimp

Blimp loans are rehabilitation loans which require monthly payments. There is one Blimp loan outstanding totaling $21,000 as of June 30, 2003.

NOTE 4 – LOANS RECEIVABLE (Continued)

B. Support Network for Women

On December 23, 1980 the City loaned $55,000 to Mid-Peninsula Support Network for the acquisition and rehabilitation of a residential structure for the purpose of providing temporary shelter for battered parents and their children. The loan was funded by CDBG funds. The loan becomes payable upon demand by the City upon failure to comply with the terms of the loan agreement. The loan carries a 12 percent annual interest rate and shall accrue beginning 30 days following the date of demand. The loan is collateralized by a first deed of trust.

C. Ginzton Terrace

On December 11, 1991 the City loaned $380,000 to the Mid-Peninsula Housing Coalition for predevelopment and land acquisition costs related to the development of a 107 unit affordable senior housing complex located at 375 Oaktree Drive. On May 1, 1993 the City amended the loan agreement and loaned Mid-Peninsula Housing Coalition an additional $215,000 for the purpose of paying park and recreation fees required prior to occupancy of the land. On February 12, 1996 excess funds not used were returned to the City in the amount of $78,000. The loan balance of $517,000 was funded by CDBG funds. The loan is deferred until June 1, 2013, at which time the loan balance and accrued interest will become due and payable, at six percent simple interest. The loan is collateralized by a first deed of trust.

D. Latham Street Apartments

On August 30, 1995 the City and the Authority loaned $2.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 75 unit apartment complex at 2230 Latham Street to provide affordable housing for very low- to moderate-income families. The loan was funded by $992,000 of Authority Housing Set-Aside Funds, $688,000 of CDBG funds and $387,000 of Home Investment Partnership Act (HOME) grant funds. The various components of the loan are to be repaid over a 20 to 24 year period at three percent annual simple interest. The loan is collateralized by a first deed of trust.

E. Project Match

On May 1, 1997 the City loaned $132,000 to Project Match for the acquisition of the house located at 1675 South Wolfe Road, Sunnyvale, to provide affordable housing for low-income seniors. The loan was funded by HOME grant funds. The loan is to be repaid over a 30 year period at three percent annual simple interest. The loan is collateralized by a second deed of trust.

NOTE 4 – LOANS RECEIVABLE (Continued)

F. Shorebreeze Apartments

On June 1, 1997 the City loaned $1.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 120 unit apartment complex at 460 Shoreline Boulevard to provide affordable housing for very low- to moderate income families. The loan was funded by $320,000 of HOME grant funds and $748,000 of CDBG funds. The various components of the loan are to be repaid over a 30 year period at three percent simple interest. The loan is collateralized by a second deed of trust.

G. Central Park Apartments

On July 1, 1998 the City and the Authority loaned $2.2 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 149 unit apartment complex known as Central Park Apartments at 90 Sierra Vista Avenue to be used to provide housing for seniors of very low to low income. The entire project was funded by 3 loans: $388,000 from Authority Housing Set-Aside funds to be repaid over 9 years, commencing in fiscal year 1999 and bearing three percent annual interest; $1.2 million of CDBG funds to be repaid over 36 years commencing in fiscal year 2013 and bearing three percent annual interest; and $612,000 from HOME grant funds to be repaid over 21 years commencing in fiscal year 2005 and bearing three percent annual interest.

H. Stoney Pine Charities

On August 16, 2000 the City loaned $124,000 to the Stoney Pine Charities Housing Corporation for the construction of a 23 unit apartment complex at 212 North Mathilda Avenue and 271-283 West California Avenue, Sunnyvale, to provide affordable housing for very low-income persons with developmental disabilities. The loan was funded by $9,000 of CDBG funds and $115,000 of HOME grant funds. The loans bear simple interest at three percent, but repayment of interest and principal is deferred for 40 years. The loans and accumulated interest remain deferred unless during the term of the loan, or after 40 years, the apartments no longer meet the affordability test for very low-income persons with developmental disabilities, or if the property is sold or transferred. The loan is collateralized by a second deed of trust.

I. HomeSafe

On February 21, 2001 the City loaned $100,000 to the HomeSafe Santa Clara L.P. for the construction of a 25-unit apartment complex at 611 El Camino Real, Santa Clara, to provide affordable housing for women and children who are victims of domestic violence. The loan was funded by $100,000 of HOME grant funds. The loan bears simple interest at three percent, but repayment of interest and principal is deferred for 55 years. The loan and accumulated interest are deferred for 55 years unless during the term of the loan, the apartments no longer meet the affordability test for low and very low-income victims of domestic violence, or if the property is sold or transferred. The loan is collateralized by a first deed of trust.

NOTE 4 – LOANS RECEIVABLE (Continued)

J. Pacific Autism Center for Education

On October 15, 2001, the City loaned $20,000 to the Pacific Autism Center for Education for the purchase of a single family residence located at 854 Gary Avenue, Sunnyvale, to provide a home for very low- to low-income developmentally disabled persons. The loan was funded by $20,000 of CDBG funds. The loan bears interest at six percent, but repayment of interest and principal is deferred unless the residence no longer meets the affordability test for very low- to low-income developmentally disabled persons, or if the property is sold or transferred. The loan is secured by a fourth deed of trust.

K. Charities Housing Development Corporation Land Lease

On April 25, 2002 the City approved loaning up to $3.2 million of CDBG funds and HOME funds to Charities Housing Development Corporation for the prepayment of a 65 year lease of approximately 1.688 acres of unimproved land. The City approved loaning up to $4.5 million of CDBG funds and HOME grant funds to Charities Housing Development Corporation for predevelopment costs. The land must be used to provide affordable housing for low and very-low income persons. The loan is provided at zero percent interest with repayment deferred until the project is constructed and at least 90 percent occupied. As of June 30, 2003 the balance loaned is $3.6 million, of which $2.5 million consists of CDBG funds and $1.1 million consists of HOME grant funds.

L. Employee Housing

On August 14, 2002, the City approved loaning $216,000 to one of its employees. The loan is secured by a first deed of trust and has a term of 30 years with interest at approximate three percent. Principal and interest payments are due semimonthly. The employee must repay any outstanding balance of the loan within one year of ending employment with the City. As of June 30, 2003 the loan balance was $212,000.

M. Deferred Assessments

Deferred assessments are loans for special assessment improvements made to property owners who qualify under the City's deferred assessment program. As of June 30, 2003, $4,000 was owed the City under this program.

NOTE 5 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made an expenditure on behalf of another fund. Less often, transfers may be made to open or close a fund.

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2003 were as follows (dollars in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Revitalization Authority	$ 110	A
	Shoreline Regional Park Community	1,384	B
	General Capital Projects	1,394	C
	Non-Major Governmental	1,652	F
	Water	75	D
Revitalization Authority	General Capital Projects	148	C
Shoreline Regional Park Community	General Capital Projects	992	C
General Capital Projects	General Fund	2,494	F
	Revitalization Authority	3,048	F
	Shoreline Regional Park Community	4,481	F
	Non-Major Governmental	7,565	F
	Water	450	F
	Wastewater	200	F
Non-Major Governmental	General Fund	1,013	F
	Revitalization Authority	724	F
	Shoreline Regional Park Community	5,096	F
	General Capital Projects	1,200	C
	Non-Major Governmental	548	C
Water	General Capital Projects	897	C
	Wastewater	204	E
	Solid Waste	126	E
	Internal Service	74	F
Wastewater	General Capital Projects	307	C
Solid Waste	General Capital Projects	14	C
Internal Service	General Fund	1,040	F
	Revitalization Authority	1	F
	Shoreline Regional Park Community	60	F
	Non-Major Governmental	165	F
	Water	133	F
	Wastewater	94	F
	Solid Waste	106	F
Total Interfund Transfers		$ 35,795	

The reasons for these transfers are set forth below:

A To fund development activities.
B To fund debt service payments.
C To refund remaining balances on completed capital improvement projects.
D Contribution to Geographic Information System and environmental management programs.
E Contribution to utility billing and management activities paid for by the Water fund.
F Recurring transfers

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advances

The Funds below had made advances, which were not expected to be repaid within the next year. These long-term interfund advances are expected to be repaid out of future revenues. The balances outstanding as of June 30, 2003 were as follows (dollars in thousands):

Fund Making Advance	Fund Receiving Advance	Amount of Advance
General Fund	Revitalization Authority Special Revenue Fund	$ 2,086
	Shoreline Regional Park Community Special Revenue Fund	13,333
Special Revenue Fund:		
Shoreline Regional Park Community	Shoreline Golf Links Special Revenue Fund	5,100
Shoreline Regional Park Community	Revitalization Authority Special Revenue Fund	1,910
Enterprise Funds:	**Capital Projects Fund:**	
Water Enterprise Fund	General Capital Projects	15,829
Wastewater Enterprise Fund	General Capital Projects	4,347
Solid Waste Enterprise Fund	General Capital Projects	235
		$ 42,840

Revitalization Authority advance of $1.7 million from the General Fund will be repaid at a reamortized interest rate of six percent over the sixteen-year remaining life of the Authority. A payment of $61,000 was made in fiscal year 2003. The remaining advance of $413,000 will be paid in full upon the sale of the property located at 253-255 Franklin Street.

The advance of $1.9 million from the Community is an interest-deferred advance for the purchase of property. The advance, plus interest at a rate of six percent, will be repaid from future revenues realized when the property is developed or sold.

Shoreline Regional Park Community advance of $13.3 million is being repaid over a period of 28 years at ten percent interest in equal annual installments, which began in fiscal 1989. During fiscal year 2003 a payment of $510,000 was made.

Shoreline Golf Links advance of $5.1 million for the acquisition of the golf course will be repaid as resources become available in the fund. Interest terms have not been determined.

General Capital Projects advances totaling $20.4 million are part of the City's capital projects budgeting and funding process, whereby resources from Enterprise Funds are advanced to the General Capital Projects Fund where the project will be completed and the costs incurred.

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

C. *Internal Balances*

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

NOTE 6 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets as assets with an initial individual cost of more than $3,000 and an estimated useful life in excess of two years.

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

Buildings	25 to 50 years
Improvements	5 to 50 years
Machinery and equipment	3 to 10 years
Parking facilities	40 years
Traffic signals	20 years
Street lights	50 years
Bridges and culverts	60 years
Sidewalks, curbs and gutters	40 years
Streets and roads	40 years

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

NOTE 6 – CAPITAL ASSETS (Continued)

A. *Capital Asset Additions and Retirements*

Capital assets at June 30, 2003 comprise (dollars in thousands):

	Balance at June 30, 2002 (including retroactive additions)	Additions	Retirements	Transfers	Balance at June 30, 2003
Governmental activities					
Capital assets not being depreciated:					
Land	$ 69,852	0	0	0	69,852
Construction in progress	66,358	15,198	0	(14,326)	67,230
Total capital assets not being depreciated	136,210	15,198	0	(14,326)	137,082
Capital assets being depreciated:					
Buildings	96,169	0	(511)	1,965	97,623
Improvements other than buildings	48,079	0	(1,577)	9,071	55,573
Machinery and equipment	16,665	1,225	(1,016)	613	17,487
Parking facilities	4,140	0	0	0	4,140
Traffic signals	5,255	3	0	0	5,258
Street lights	7,445	26	0	0	7,471
Bridges and culverts	7,925	0	0	0	7,925
Sidewalks, curbs and gutters	102,155	107	0	1,018	103,280
Streets and roads	229,902	115	0	1,659	231,676
Total capital assets being depreciated	517,735	1,476	(3,104)	14,326	530,433
Less accumulated depreciation for:					
Buildings	(27,074)	(2,572)	206	0	(29,440)
Improvements other than buildings	(13,223)	(3,763)	0	0	(16,986)
Machinery and equipment	(11,754)	(1,682)	857	0	(12,579)
Parking facilities	(1,133)	(99)	0	0	(1,232)
Traffic signals	(1,832)	(125)	0	0	(1,957)
Street lights	(4,565)	(178)	0	0	(4,743)
Bridges and culverts	(1,636)	(189)	0	0	(1,825)
Sidewalks, curbs and gutters	(27,827)	(2,446)	0	0	(30,273)
Streets and roads	(60,763)	(5,495)	0	0	(66,258)
Total accumulated depreciation	(149,807)	(16,549)	1,063	0	(165,293)
Net capital assets being depreciated	367,928	(15,073)	(2,041)	14,326	365,140
Governmental activity capital assets, net	$ 504,138	125	(2,041)	0	502,222

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at June 30, 2002	Additions	Retirements	Transfers	Balance at June 30, 2003
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 220	0	0	0	220
Construction in progress	9,075	3,574	0	(1,630)	11,019
Total capital assets not being depreciated	9,295	3,574	0	(1,630)	11,239
Capital assets, being depreciated:					
Buildings	8,927	0	0	0	8,927
Improvements other than buildings	42,075	671	0	1,630	44,376
Machinery and equipment	1,574	47	(5)	0	1,616
Total capital assets being depreciated	52,576	718	(5)	1,630	54,919
Less accumulated depreciation for:					
Buildings	(7,610)	(171)	0	0	(7,781)
Improvements other than buildings	(18,262)	(1,036)	0	0	(19,298)
Machinery and equipment	(1,363)	(50)	5	0	(1,408)
Total accumulated depreciation	(27,235)	(1,257)	5	0	(28,487)
Net capital assets being depreciated	25,341	(539)	0	1,630	26,432
Business-type activity capital assets, net	$ 34,636	3,035	0	0	37,671

Under GASB Statement No. 34 the City is allowed four years to record its infrastructure. During fiscal year 2003 the City continued to inventory its infrastructure capital assets and determined that its parking facilities network with a net book value of $3.0 million should be added to the City's Capital Assets.

NOTE 6 – CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function were as follows (dollars in thousands):

Governmental Activities:		
General government	$	1,708
Public safety		1,208
Public works		7,924
Community development		452
Culture and recreation		5,257
	$	16,549
Business-type Activities:		
Water	$	752
Wastewater		496
Solid Waste		9
	$	1,257

C. Construction Commitments

The City has active construction projects at June 30, 2003. The projects include buildings and building improvements, improvements to parks, trails and other facilities, street, sidewalks and traffic signal improvements, and water system improvements. Commitments with contractors for construction at June 30 are as follows (dollars in thousands):

		Spent to Date	Remaining Commitment
Buildings and building improvements	$	353	1,602
Improvements to other facilities		8,206	445
Streets, sidewalks, and traffic signal improvements		3,309	3,929
Water system improvements		1,316	620
Wastewater system improvements		378	563
Total	$	13,562	7,159

All commitments are funded from general, special revenue fund, and enterprise fund revenues transferred to the various projects in the capital projects fund.

NOTE 7 – LONG-TERM OBLIGATIONS

A. Governmental Long-Term Obligations

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

Long-term obligations as of June 30, 2003 follow (dollars in thousands):

	Original Issue Amount	Balance June 30, 2002	Retirements	Balance June 30, 2003	Due Within One Year
Governmental Activity Debt:					
Tax Allocation Bonds:					
Shoreline Regional Park Community					
1993 Tax Allocation Bonds					
3.1% to 5.75%, due 2018	$ 25,465	20,415	(760)	19,655	795
1996 Tax Allocation Bonds					
4.0% to 5.6%, due 2021	21,750	19,285	(565)	18,720	590
2001 Tax Allocation Bonds					
3.5% to 5.25%, due 2016	17,520	17,520	(870)	16,650	915
Less deferred amount on refunding	(2,419)	(2,258)	161	(2,097)	0
Total Tax Allocation Bonds	62,316	54,962	(2,034)	52,928	2,300
Certificates of Participation:					
Revitalization Authority					
1995 Refunding					
4.0% to 6.0%, due 2016	9,175	7,485	(340)	7,145	355
City					
2001 Refunding					
3.5% to 4.75%, due 2015	10,720	10,720	(590)	10,130	620
Less deferred amount on refunding	(2,151)	(1,997)	154	(1,843)	0
Total Certificates of Participation	17,744	16,208	(776)	15,432	975

(Continued)

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

	Original Issue Amount	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003	Due Within One Year
Special Assessment Debt with City Commitment:						
1986 California Street Underground						
5.25%-8.2%, due 09/01/06	592	245	0	(45)	200	40
1986 Plymouth						
5.25%-8.2%, due 09/01/06	1,133	480	0	(80)	400	90
1986 Charleston-Joaquin-Huff Improvements						
6.0%-8.2%, due 09/02/07	2,690	1,080	0	(185)	895	200
1990 Alta Avenue						
6.5%-8.0%, due 09/02/06	845	405	0	(70)	335	75
1996 Centre-Church-El Ranchito-Bay						
4.10%-6.375%, due 09/02/22	561	365	0	(10)	355	10
2000 Yardis Court						
7.0%, due 09/02/20	195	138	0	(4)	134	4
Total Special Assessment Debt with City Commitment	6,016	2,713	0	(394)	2,319	419
Compensated Absences		5,680	901	(809)	5,772	619
Landfill Containment		34,865	0	(1,538)	33,327	
Total Governmental Activity Debt	$ 86,076	114,428	901	(5,551)	109,778	4,313
Business-Type Activities:						
Compensated Absences		$ 693	64	(19)	738	0

B. Descriptions of Long-Term Obligations

1993 Tax Allocation Bonds Shoreline Regional Park Community – On September 8, 1993 the Community issued bonds in the amount of $25.5 million to provide financing for certain landfill closure projects. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

1995 Refunding Bonds Revitalization Authority Certificates of Participation – In fiscal 1996, the City transferred ownership of the Police/Fire Building to the Authority and then entered into a 20-year lease for such property with the Authority. Simultaneously, the Authority entered into an indebtedness agreement, whereby the Authority pledges tax increment revenue in amounts equal to the lease payments. The City has assigned the indebtedness payments to a trustee for the benefit of the owners of the 1995 Certificates of Participation (COPs). The indebtedness payments are scheduled to be sufficient in both time and amount, to pay the principal and interest on the 1995 COPs when due. To the extent the indebtedness payments are not sufficient to pay the principal and interest on the 1995 COPs, the City is obligated to make lease payments sufficient to satisfy the principal and interest payments on the 1995 COPs when due. When the 1995 COPs are repaid and the lease expires, ownership of the property will revert back to the City.

1996 Tax Allocation Bonds Shoreline Regional Park Community – On August 15, 1996 the Community issued bonds in the amount of $21.8 million to provide financing for land purchases, including road, water, sewer, and other public improvements within the Community. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

2001 Tax Allocation Bonds Shoreline Regional Park Community - On July 24, 2001, the Community issued $17.5 million of Tax Allocation Refunding Bonds, 2001 Series A, to refund a portion of the Community's 1992 Tax Allocation Bonds. At June 30, 2003 the 1992 Tax Allocation Bonds outstanding with a final maturity value of $5,060,000 are considered defeased. The reacquisition price exceeded the net carrying amount of the 1992 Bonds by $2.4 million. This amount is being amortized over the remaining life of the new debt issue which is equivalent to the life of the refunded Bonds. The net present value of the savings, less the City's cash payment resulted in an economic gain of $1.9 million. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

2001 Refunding Certificates of Participation - On July 24, 2001, the City issued $10.7 million of 2001 Refunding Certificates of Participation to refund a portion of the City's obligations under a 1992 Lease Agreement. The Financing Authority's 1992 Revenue Bonds were used to purchase the obligations of the City under the 1992 Lease Agreement. At June 30, 2003 the 1992 Revenue Bonds outstanding with a final maturity value of $5.3 million are considered defeased. The reacquisition price exceeded the net carrying amount of the 1992 COPs by $2.2 million. This amount is being amortized over the remaining life of the new debt issue which is equivalent to the life of the refunded COPs. The 2001 Refunding COPs are collateralized by revenue received from the City by the Trustee under the City Hall/Community Theater complex lease agreement. The net present value of the savings, less the City's cash payment resulted in an economic gain of $1.8 million. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from general revenues of the City.

Special Assessment Debt with City Commitment - Special assessment districts exist in the City to provide improvements to properties located within 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. The total amount of the assessment is recorded as a receivable and a deferred revenue at the time the related debt is issued, and is reduced as assessments are collected.

The City is committed to be the purchaser of last resort or to advance available City funds to repay this debt in the event of default by any property owners of these districts. The City accounts for resources available to pay special assessment debt in its Special Assessment Debt Service Fund.

These Special Assessment Bonds were issued at various times to provide financing for electrical and community service facilities, street and utility improvements, water and sewer connections, storm drain improvements, and other related projects.

Principal payments are payable annually, and interest payments semiannually.

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

C. *Debt Service Requirements (dollars in thousands):*

Annual debt service requirements to maturity follows (dollars in thousands):

For the Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	$ 3,694	3,770
2005	3,869	3,594
2006	4,060	3,398
2007	4,255	3,196
2008	3,915	2,998
2009-2013	22,617	11,862
2014-2018	24,673	5,231
2019-2022	7,536	697
Total	$ 74,619	34,746

Reconciliation of long-term debt principal:

Principal requirement as reported above	$ 74,619
Less: deferred amount on refunding	(3,940)
Total long-term debt principal	$ 70,679

There are a number of limitations, covenants and restrictions contained in the various bond indentures. The City is in compliance with all material limitations, covenants and restrictions.

D. *Landfill Containment*

The City is responsible for managing and controlling methane gas and containment of leachate at three former City-operated landfill sites.

As of June 30, 2003, City engineers and professional engineering consultants have estimated that the maximum total cost for potential pollution containment and control at such landfill sites, excluding post-closure care costs, is approximately $24.1 million. As the landfill-related projects were funded by the Community in fiscal 1994, the liability has been transferred to the City's General Capital Projects Fund. As of June 30, 2003, the entire $24.1 million obligation has been spent on landfill closure.

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

Pursuant to a Postclosure Maintenance Plan filed with the State, the City is obligated for additional postclosure care costs for two of its landfill sites in the amount of $1.4 million annually for a period of thirty (30) years. The remaining amount of this obligation as of June 30, 2003 is approximately $33.3 million. Annual revenues from the Solid Waste Enterprise Fund will fund the postclosure care costs. In accordance with a State-mandated Financial Assurance Mechanism (FAM), the City has pledged future Solid Waste Enterprise Fund revenues in the amount of $1.4 million per year for postclosure care costs on these two landfill sites. The third landfill site does not require a FAM to be established for the closure of the site, and, therefore, is excluded from the obligation. The estimated costs of postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

E. Debt without City Commitment

As part of the City's program to provide affordable rental housing for low and moderate income households, it assisted the developer of the Villa-Mariposa housing project in the issuance of multifamily housing revenue bonds. These bonds are secured by a First Deed of Trust on the project and by municipal insurance, and are payable solely out of revenues from the project. Neither the faith and credit nor the taxing power of the City, the State, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. The outstanding balance due on these bonds at June 30, 2003 was $18.3 million.

NOTE 8 – EMPLOYEE RETIREMENT PLAN

A. Plan Description

All permanent employees are required to participate in the Public Employees' Retirement Fund (Fund) of the State's Public Employees Retirement System (PERS). The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state government agencies within California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age, and highest year of compensation. Employees vest after five years of service and normally receive retirement benefits at age 50 for public safety employees and age 55 for miscellaneous employees (nonsafety employees).

Benefit provisions and all other requirements are established by State statute and City resolution. Copies of PERS' annual financial report may be obtained from their Executive Office-400 P Street, Sacramento, California, 95814.

NOTE 8 – EMPLOYEE RETIREMENT PLAN (Continued)

B. Funding Policy

Participants are required to contribute nine percent of covered payroll for public safety personnel and seven percent for miscellaneous employees. The City is required to contribute at an actuarially determined rate. The contribution requirements of the plan members and the City are established and may be amended by PERS.

C. Actuarially Determined Contribution Requirements and Contributions

For fiscal year 2003, the City's annual pension costs for PERS was equal to the City's required and actual contributions. The required contributions were determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 8.25 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility of the market value of investments over a four-year period (smoothed market value). Investment gains and losses are accumulated as they are realized and 10 percent of the net balance is amortized annually. The PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends on June 30, 2016.

D. Trend Information

Three-year historical trend information is presented below (dollars in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	$ 512	100%	---
2002	2,420	100%	---
2003	2,722	100%	---

NOTE 8 – EMPLOYEE RETIREMENT PLAN (Continued)

E. Funding Progress

The following schedule of funding progress is presented for the most recent actuarial valuations as of June 30, 2001 (dollars in thousands):

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1999	$ 171,139	199,085	(27,946)	116.3%	37,204	(75.116%)
2000	202,491	224,390	(21,899)	110.8%	39,739	(55.107%)
2001	220,183	231,421	(11,238)	105.1%	41,427	(27.127%)

NOTE 9 – POST-EMPLOYMENT BENEFITS

By Council resolution, the City provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans. Employees who have worked for the City for a minimum of 5 to 10 years (depending on the labor group) if hired prior to July 1, 1989 and 5 to 15 years (depending on the labor group) if hired subsequent to July 1, 1989, are eligible for this benefit. As of June 30, 2003, approximately 211 participants were eligible to receive benefits. Expenses are recognized as insurance claims or premiums are paid. For fiscal 2003, expenses totaled $733,000.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, injuries to employees or others, unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of $500,000 for general liability claims, $500,000 for workers' compensation claims with statutory excess insurance and actual costs incurred for unemployment benefits.

For general liability claims, the City has excess liability coverage through the Authority for California Cities Excess Liabilities (ACCEL) to cover the risk of loss for claims in excess of $500,000 per incident. ACCEL is a joint powers authority of medium-sized California municipalities which pools catastrophic general liability, automobile liability and public officials errors and omissions losses. ACCEL coverage consists of an excess insurance policy purchased for a limit of $19.5 million per occurrence, with an aggregate limit of $19.5 million.

NOTE 10 – RISK MANAGEMENT (Continued)

Charges to the General Fund and other insured funds are determined from an analysis of self-insured claims costs and reserve requirements and are recorded as operating expenditures or expenses of such funds and operating revenues of the various Internal Service Funds.

Estimated liabilities are recorded for claims in cases where such amounts are reasonably determinable and where the liability is likely for claims which are incurred through the end of the fiscal year but not reported until after that date. The estimated liability is determined based upon historical claims data and independently determined estimates of the amounts needed to pay prior and current year claims.

Changes in accrued self-insurance claims for the fiscal year ended June 30 were as follows (dollars in thousands):

	2003	2002
Beginning Balance	$ 3,969	3,551
Liability for current and prior fiscal year claims and claims incurred but not reported (IBNR)	965	1,492
Claims paid	(1,101)	(1,074)
Ending Balance	$ 3,833	3,969

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

NOTE 11 - NET ASSETS AND FUND BALANCES

A. *Net Assets*

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

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

NOTE 11 - NET ASSETS AND FUND BALANCES (Continued)

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

Unrestricted describes the portion of net assets which is not restricted as to use.

B. Fund Balances, Reserves and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less it's liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Fund balances/retained earnings consist of reserved and unreserved amounts. Reserved fund balances/retained earnings represent that portion of fund balance/retained earnings which are not available for appropriation or are legally segregated for a specific future use. The remaining portion is unreserved fund balance/retained earnings.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change.

Accumulated retained earnings of the Internal Service Funds are in accordance with City reserve policies.

C. Fund Equity Deficit

The Shoreline Golf Links Special Revenue Fund had deficit of $3.0 million, which is expected to be eliminated from future revenues.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is a defendant in several lawsuits and other matters arising in the normal course of operations. The City's management and legal counsel are of the opinion that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial position of the City.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

B. Grant Programs

The City participates in Federal and State grant programs. These programs have been audited through the fiscal year ended June 30, 2003 by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

C. City of Palo Alto Regional Water Quality Control Plant

The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant. The agreement provides that the City will purchase capacity for 50 years. The agreement also provides for Palo Alto to set service charges annually with quarterly billings based on estimated use. A reconciliation of actual to estimated charges is completed annually. For fiscal 2003, these costs totaled $5.2 million.

D. Sunnyvale Material Recovery and Transfer (SMaRT) Station

During fiscal 1993, the City entered into a Memorandum of Understanding (MOU) with the City of Sunnyvale to obtain solid waste and recycling services at the Sunnyvale Materials Recovery and Transfer (SMaRT) Station. The MOU provides that the City has capacity share of 23.45 percent of this facility for 30 years. Annual service charges are determined based on actual per-ton charges. For fiscal 2003, these costs totaled $4.7 million.

NOTE 13 – LEASING ARRANGEMENTS

A. Shoreline Amphitheatre Partners

In fiscal 1986, the City and the Community, as lessors, entered into a 35-year operating lease with the Shoreline Amphitheatre Partners (SAP), an entity not affiliated with the City or the Community. This lease provides for the rental of City land underneath the Shoreline Amphitheatre. The lease payments include a minimum lease payment and a portion equal to a percentage of gross receipts, including concession revenues, of Shoreline Amphitheatre operations. A substantial portion of the future minimum lease payments was paid in advance by SAP in fiscal 1997 as permitted in the lease agreement.

The lease payments based on gross receipts totaled approximately $957,000 in fiscal 2003.

NOTE 13 – LEASING ARRANGEMENTS (Continued)

B. Goldman Sachs, Inc.

In fiscal 2001, SGI assigned the two lease agreements described below to Goldman Sachs, Inc., an entity not affiliated with SGI or the City.

In fiscal 1995, the City, as lessor, entered into a 55-year lease with Silicon Graphics, Inc. (SGI), an entity not affiliated with the City. This lease provides for the rental of City land located within the Community upon which SGI has constructed a 500,000 square foot corporate campus.

In fiscal 1997, the City, as lessor, entered into another 55-year lease with SGI. This lease provides for the rental of City land located within the Community upon which SGI has constructed a second 556,000 square foot facility.

The future minimum lease payments due to the City under the aforementioned leases follow (dollars in thousands):

Year Ending June 30	Amount
2004	$ 4,091
2005	4,065
2006	3,658
2007	3,450
2008	3,233
Thereafter	155,784
Total	$ 174,282

NOTE 14 – SUBSEQUENT EVENT

In September 2003 the City caused to be issued the 2003 Certificates of Participation (Refunding and Capital Projects) in an aggregate principal amount of $16.9 million to refund the 1995 Refunding Certificates of Participation and to finance the construction of a new parking facility. Simultaneously, the Authority entered into an Indebtedness Agreement with the City, whereby in exchange for the bond proceeds to finance the construction of the new parking facility in the redevelopment area, the Authority pledged tax increment revenue in amounts equal to the debt service payments on the 2003 COPs.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Gas Tax Fund accounts for gas tax revenues received from the State and expended for construction and maintenance of City streets.

The Construction and Conveyance Tax Fund accounts for revenues from taxes on real property transferred in the City. These revenues are used for acquisition, improvement, maintenance, expansion or implementation of the Capital Improvements Program.

The Below Market Housing In lieu Fees Fund accounts for fees paid by developers in lieu of providing ten percent of new residential units available to low and moderate income households.

The Transit Oriented Development Fund accounts for revenues that will be used to encourage development and rejuvenation of areas served by transit facilities.

The Shoreline Golf Links Fund – This fund accounts for revenues from user fees at Shoreline Golf Links and related golf course operations and improvements.

The Parking District No. 2 Fund accounts for revenues received for off-street parking in the District and for annual ad valorem rate and direct assessments levied against the property owners within the District.

The Grants Fund accounts for grants received, including Community Development Block Grants, the Local Law Enforcement Block Grant Program, the Supplemental Law Enforcement Services Fund and the Measure A/B Pavement Management Program.

The Police Asset Forfeitures Fund accounts for funds derived from criminal assets seized by police, primarily from illegal narcotics sales activity.

The Cable Television Fund accounts for cable franchise revenues received and costs contributed to a third party for the development and operations of the local cable television system.

The Deferred Assessments Fund accounts for a program which allows certain property owners to defer up to 100 percent of any special assessment levied on their property. The assessment becomes due upon certain specified occurrences.

DEBT SERVICE FUNDS

The Police/Fire Building Refunding 1995 Certificates of Participation Fund accounts for resources used for the purpose of paying the principal, interest and related costs on the 1995 Refunding Certificates of Participation as they become due.

The Special Assessments Fund accounts for resources financed by special assessments levied against property receiving special benefits, contributions from other funds for general benefits and certain reserve requirements.

The Shoreline Community 1993 Tax Allocation Bond Fund accounts for the resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 1993 Tax Allocation Bonds as they become due.

The Shoreline Community 1996 Tax Allocation Bond Fund accounts for the resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 1996 Tax Allocation Bonds as they become due.

The Shoreline Community 2001 Tax Allocation Bond Fund accounts for the resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 2001 Tax Allocation Bonds as they become due.

The 2001 Refunding Certificates of Participation Fund accounts for the resources used for the purpose of paying the principal, interest and related costs on the 2001 Refunding Certificates of Participation as they become due.

CAPITAL PROJECTS FUNDS

The Storm Drain Construction Fund accounts for revenues derived from off-site drainage fees used for storm drain projects in the Capital Improvements Program.

The Park Land Dedication Fund (previously titled the Recreation Construction Fund) accounts for revenues derived from fees on residential subdivisions used for park and recreation projects.

The Special Assessment Construction Fund accounts for capital improvement construction funded from the proceeds of special assessment debt.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2003 (Dollars in Thousands)

	SPECIAL REVENUE FUNDS			
	Gas Tax	Construction & Conveyance Tax	Below Market Housing In lieu Fees	Transit Oriented Development
Assets				
Cash and investments	$ 1	6,293	1,142	803
Restricted cash and investments	0	0	0	0
Receivables:				
Accounts (net of allowances)	0	0	0	0
Special assessments:				
Delinquent	0	0	0	0
Deferred	0	0	0	0
Interest	13	144	13	24
Loans	0	0	0	0
Inventory	0	0	0	0
Total assets	$ 14	6,437	1,155	827
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued costs	$ 0	0	250	0
Refundable deposits	0	0	76	0
Deferred revenue	0	0	0	0
Advance from other funds	0	0	0	0
Total liabilities	0	0	326	0
Fund balances:				
Reserved for:				
Restricted cash and investments	0	0	0	0
Debt service	0	0	0	0
Loans receivable	0	0	0	0
Inventory	0	0	0	0
Encumbrances	0	0	18	0
Unreserved:				
Designated for:				
Capital improvement program	0	0	0	0
Unrealized gain on investments	0	188	41	0
Undesignated	14	6,249	770	827
Total fund balances	14	6,437	829	827
Total liabilities and fund balances	$ 14	6,437	1,155	827

Shoreline Golf Links	Parking District No 2	Grants	Police Asset Forfeitures	Cable Television	Deferred Assessments
2,234	1,095	288	46	494	352
0	0	0	0	750	0
0	0	6	0	98	0
0	0	0	0	0	0
0	0	0	0	0	0
29	54	4	0	0	0
0	0	8,765	0	0	4
130	0	0	0	0	0
2,393	1,149	9,063	46	1,342	356
86	5	2	0	3	0
7	0	0	0	0	0
225	0	0	0	0	4
5,100	0	0	0	0	0
5,418	5	2	0	3	4
0	0	0	0	750	0
0	0	0	0	0	0
0	0	8,765	0	0	0
130	0	0	0	0	0
18	0	149	0	82	0
0	0	0	0	0	0
0	84	13	0	37	0
(3,173)	1,060	134	46	470	352
(3,025)	1,144	9,061	46	1,339	352
2,393	1,149	9,063	46	1,342	356

(Continued)

CITY OF MOUNTAIN VIEW, CALIFORNIA

Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2003 (Dollars in Thousands)

	DEBT SERVICE FUNDS			
	Police/Fire Building 1995 C.O.P.	Special Assessments	Shoreline Community 1993 T.A.	Shoreline Community 1996 T.A.
Assets				
Cash and investments	$ 0	1,065	0	0
Restricted cash and investments	768	0	0	0
Receivables:				
Accounts (net of allowances)	0	0	0	0
Special assessments:				
Delinquent	0	9	0	0
Deferred	0	1,886	0	0
Interest	0	0	0	0
Loans	0	0	0	0
Inventory	0	0	0	0
Total assets	$ 768	2,960	0	0
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued costs	$ 0	0	0	0
Refundable deposits	0	0	0	0
Deferred revenue	0	1,886	0	0
Advance from other funds	0	0	0	0
Total liabilities	0	1,886	0	0
Fund balances:				
Reserved for:				
Restricted cash and investments	768	0	0	0
Debt service	0	1,074	0	0
Loans receivable	0	0	0	0
Inventory	0	0	0	0
Encumbrances	0	0	0	0
Unreserved:				
Designated for:				
Capital improvement program	0	0	0	0
Unrealized gain on investments	0	0	0	0
Undesignated	0	0	0	0
Total fund balances	768	1,074	0	0
Total liabilities and fund balances	$ 768	2,960	0	0

		CAPITAL PROJECTS FUNDS			
Shoreline Community 2001 T.A.	2001 Refunding C.O.P.	Storm Drain Construction	Park Land Dedication	Special Assessments Construction	Total Nonmajor Governmental Funds
0	0	726	2,703	56	17,298
0	0	0	0	0	1,518
0	0	0	0	0	104
0	0	0	0	0	9
0	0	0	0	0	1,886
0	0	10	102	0	393
0	0	0	0	0	8,769
0	0	0	0	0	130
0	0	736	2,805	56	30,107
0	0	0	0	0	346
0	0	0	0	0	83
0	0	0	0	0	2,115
0	0	0	0	0	5,100
0	0	0	0	0	7,644
0	0	0	0	0	1,518
0	0	0	0	0	1,074
0	0	0	0	0	8,765
0	0	0	0	0	130
0	0	0	0	5	272
0	0	706	0	51	757
0	0	30	103	0	496
0	0	0	2,702	0	9,451
0	0	736	2,805	56	22,463
0	0	736	2,805	56	30,107

CITY OF MOUNTAIN VIEW, CALIFORNIA

Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2003 (Dollars in Thousands)

	SPECIAL REVENUE FUNDS			
	Gas Tax	Construction & Conveyance Tax	Below Market Housing In lieu Fees	Transit Oriented Development
Revenues:				
Taxes	$ 0	2,162	0	0
Licenses, permits and fees	0	0	0	0
Use of money and property	0	292	16	91
Intergovernmental revenues	1,383	0	0	0
Charges for services	0	0	891	0
Other	0	0	0	0
Total revenues	1,383	2,454	907	91
Expenditures:				
Current:				
General government	0	0	0	0
Public safety	0	0	0	0
Public works	21	0	0	0
Community development	0	0	252	0
Culture and recreation	0	0	0	0
Capital outlay	0	0	0	0
Debt service:				
Principal repayment	0	0	0	0
Interest and fiscal charges	0	0	0	0
Total expenditures	21	0	252	0
Excess (deficiency) of revenues over (under) expenditures	1,362	2,454	655	91
Other financing sources (uses):				
Transfers in	135	383	55	0
Transfers (out)	(1,953)	(2,814)	0	0
Total other financing sources (uses)	(1,818)	(2,431)	55	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(456)	23	710	91
Beginning fund balances	470	6,414	119	736
Ending fund balances	$ 14	6,437	829	827

Shoreline Golf Links	Parking District No.2	Grants	Police Asset Forfeitures	Cable Television	Deferred Assessments
0	51	0	0	0	0
0	67	0	0	532	0
108	49	44	1	47	10
0	3	1,293	6	0	0
3,655	159	0	0	0	0
80	1	10	0	98	4
3,843	330	1,347	7	677	14
0	0	0	0	454	0
0	0	277	0	0	0
0	0	0	0	0	0
0	90	624	0	0	0
3,320	0	0	0	0	0
40	0	6	0	5	0
0	0	0	0	0	0
0	0	0	0	0	0
3,360	90	907	0	459	0
483	240	440	7	218	14
72	715	12	0	0	0
(735)	(2,475)	0	0	(233)	0
(663)	(1,760)	12	0	(233)	0
(180)	(1,520)	452	7	(15)	14
(2,845)	2,664	8,609	39	1,354	338
(3,025)	1,144	9,061	46	1,339	352

(Continued)

CITY OF MOUNTAIN VIEW, CALIFORNIA

Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2003 (Dollars in Thousands)

	DEBT SERVICE FUNDS			
	Police/Fire Building 1995 C.O.P.	Special Assessments	Shoreline Community 1993 T.A.	Shoreline Community 1996 T.A.
Revenues:				
Taxes	$ 0	418	0	0
Licenses, permits and fees	0	0	0	0
Use of money and property	18	179	0	0
Intergovernmental revenues	0	0	0	0
Charges for services	0	0	0	0
Other	0	0	0	0
Total revenues	18	597	0	0
Expenditures:				
Current:				
General government	0	0	0	0
Public safety	0	0	0	0
Public works	0	0	0	0
Community development	0	0	0	0
Culture and recreation	0	0	0	0
Capital outlay	0	0	0	0
Debt service:				
Principal repayment	340	394	760	565
Interest and fiscal charges	418	196	1,130	1,035
Total expenditures	758	590	1,890	1,600
Excess (deficiency) of revenues over (under) expenditures	(740)	7	(1,890)	(1,600)
Other financing sources (uses):				
Transfers in	724	0	1,890	1,600
Transfers (out)	0	0	0	0
Total other financing sources (uses)	724	0	1,890	1,600
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(16)	7	0	0
Beginning fund balances	784	1,067	0	0
Ending fund balances	$ 768	1,074	0	0

		CAPITAL PROJECTS FUNDS			
Shoreline Community 2001 T.A.	2001 Refunding C.O.P.	Storm Drain Construction	Park Land Dedication	Special Assessments Construction	Total Nonmajor Governmental Funds
0	0	0	0	0	2,631
0	0	0	219	0	818
0	0	41	162	0	1,058
0	0	0	0	0	2,685
0	0	0	0	0	4,705
0	0	32	0	0	225
0	0	73	381	0	12,122
0	0	0	0	0	454
0	0	0	0	0	277
0	0	0	0	0	21
0	0	0	0	0	966
0	0	0	0	0	3,320
0	0	0	0	0	51
870	590	0	0	0	3,519
751	423	0	0	0	3,953
1,621	1,013	0	0	0	12,561
(1,621)	(1,013)	73	381	0	(439)
1,606	1,002	20	367	0	8,581
0	0	(61)	(1,113)	(546)	(9,930)
1,606	1,002	(41)	(746)	(546)	(1,349)
(15)	(11)	32	(365)	(546)	(1,788)
15	11	704	3,170	602	24,251
0	0	736	2,805	56	22,463

CITY OF MOUNTAIN VIEW, CALIFORNIA

Budgeted Non-Major Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Gas Tax			Construction & Conveyance Tax		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	$ 0	0	0	2,035	2,162	127
Licenses, permits and fees	0	0	0	0	0	0
Use of money and property	72	0	(72)	499	292	(207)
Intergovernmental	1,546	1,383	(163)	0	0	0
Charges for services	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total revenues	1,618	1,383	(235)	2,534	2,454	(80)
Expenditures:						
Current:						
General government:						
City Manager	0	0	0	0	0	0
Public works	0	21	(21)	0	0	0
Community development	0	0	0	0	0	0
Culture and recreation	0	0	0	0	0	0
Capital outlay	0	0	0	0	0	0
Total expenditures	0	21	(21)	0	0	0
Excess (deficiency) of revenues over (under) expenditures	1,618	1,362	(256)	2,534	2,454	(80)
Other financing sources (uses):						
Transfers in	0	135	135	0	383	383
Transfers (out)	(2,093)	(1,953)	140	(2,814)	(2,814)	0
Total other financing sources (uses)	(2,093)	(1,818)	275	(2,814)	(2,431)	383
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	$ (475)	(456)	19	(280)	23	303
Adjustment to budgetary basis						
Funds not budgeted						
Grants		0			0	
Police Assets Forfeitures		0			0	
Deferred Assessments		0			0	
Police/Fire Building 1995 C.O.P.		0			0	
Special Assessments		0			0	
Special Assessments Construction		0			0	
Beginning fund balances		470			6,414	
Ending fund balances		$ 14			6,437	

Below Market Housing In lieu Fees			Transit Oriented Development			Shoreline Golf Links		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
5	16	11	0	91	91	144	108	(36)
0	0	0	0	0	0	0	0	0
0	891	891	0	0	0	4,063	3,655	(408)
0	0	0	0	0	0	0	80	80
5	907	902	0	91	91	4,207	3,843	(364)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
295	252	43	0	0	0	0	0	0
0	0	0	0	0	0	3,453	3,320	133
0	0	0	0	0	0	47	40	7
295	252	43	0	0	0	3,500	3,360	140
(290)	655	945	0	91	91	707	483	(224)
0	55	55	0	0	0	0	72	72
0	0	0	0	0	0	(735)	(735)	0
0	55	55	0	0	0	(735)	(663)	72
(290)	710	1,000	0	91	91	(28)	(180)	(152)
0			0			0		
0			0			0		
0			0			0		
0			0			0		
0			0			0		
0			0			0		
119			736			(2,845)		
829			827			(3,025)		

(Continued)

CITY OF MOUNTAIN VIEW, CALIFORNIA

Budgeted Non-Major Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2003 (Dollars in Thousands)

	Parking District No.2			Cable Television		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	48	51	3	$ 0	0	0
Licenses, permits and fees	71	67	(4)	640	532	(108)
Use of money and property	192	49	(143)	38	47	9
Intergovernmental	2	3	1	0	0	0
Charges for services	160	159	(1)	0	0	0
Other	1	1	0	73	98	25
Total revenues	474	330	(144)	751	677	(74)
Expenditures:						
Current:						
General government:						
City Manager	0	0	0	551	454	97
Public works	0	0	0	0	0	0
Community development	151	90	61	0	0	0
Culture and recreation	0	0	0	0	0	0
Capital outlay	0	0	0	5	5	0
Total expenditures	151	90	61	556	459	97
Excess (deficiency) of revenues over (under) expenditures	323	240	(83)	195	218	23
Other financing sources (uses):						
Transfers in	0	715	715	0	0	0
Transfers (out)	(1,929)	(2,475)	(546)	(265)	(233)	32
Total other financing sources (uses)	(1,929)	(1,760)	169	(265)	(233)	32
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,606)	(1,520)	86	$ (70)	(15)	55
Adjustment to budgetary basis						
Funds not budgeted						
Grants		0			0	
Police Assets Forfeitures		0			0	
Deferred Assessments		0			0	
Police/Fire Building 1995 C.O.P.		0			0	
Special Assessments		0			0	
Special Assessments Construction		0			0	
Beginning fund balances		2,664			1,354	
Ending fund balances		1,144			$ 1,339	

Storm Drain Construction			Park Land Dedication			TOTALS		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
0	0	0	0	0	0	2,083	2,213	130
0	0	0	0	219	219	711	818	107
37	41	4	376	162	(214)	1,363	806	(557)
0	0	0	0	0	0	1,548	1,386	(162)
0	0	0	0	0	0	4,223	4,705	482
10	32	22	0	0	0	84	211	127
47	73	26	376	381	5	10,012	10,139	127
0	0	0	0	0	0	551	454	97
0	0	0	0	0	0	0	21	(21)
0	0	0	0	0	0	446	342	104
0	0	0	0	0	0	3,453	3,320	133
0	0	0	0	0	0	52	45	7
0	0	0	0	0	0	4,502	4,182	320
47	73	26	376	381	5	5,510	5,957	447
0	20	20	0	367	367	0	1,747	1,747
(61)	(61)	0	(1,217)	(1,113)	104	(9,114)	(9,384)	(270)
(61)	(41)	20	(1,217)	(746)	471	(9,114)	(7,637)	1,477
(14)	32	46	(841)	(365)	476	(3,604)	(1,680)	1,924
				0			9,061	
				0			46	
				0			352	
				0			768	
				0			1,074	
				0			56	
				704			3,170			12,786
				736			2,805			22,463

INTERNAL SERVICE FUNDS

The Equipment Maintenance and Replacement Fund accounts for equipment maintenance services provided to other funds and the replacement of certain equipment.

The Workers' Compensation Insurance Fund accounts for the City's self-insurance program for Workers' Compensation benefits and for the administration of safety and loss prevention programs.

The Unemployment Self-Insurance Fund accounts for State and Federal-mandated unemployment insurance benefits for employees.

The Liability Self-Insurance Fund accounts for the City's general liability self-insurance program.

The Retirees' Health Plan Fund accounts for the health plan expenses incurred for retired City employees.

The Employee Benefits Plan Fund accounts for the City's self-insurance retention health plan, vision, and other benefits for City employees.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Internal Service Funds
Combining Statement of Net Assets
June 30, 2003 (Dollars in Thousands)

	Equipment Maintenance/ Replacement	Workers' Compensation Insurance	Unemployment Self-Insurance	Liability Self-Insurance
Asset:				
Cash and investments	$ 12,471	4,657	569	4,730
Restricted cash and investments	0	62	0	984
Receivables:				
Interest	145	55	7	56
Machinery and equipment	264	0	0	0
Accumulated depreciation	(194)	0	0	0
Total assets	12,686	4,774	576	5,770
Liabilities:				
Accounts payable and accrued costs	74	18	0	15
Accrued compensated absences	132	0	0	0
Accrued self-insurance costs	0	3,509	0	324
Total liabilities	206	3,527	0	339
Net Assets:				
Invested in capital assets	70	0	0	0
Unrestricted	12,410	1,247	576	5,431
Total net assets	$ 12,480	1,247	576	5,431

Retirees' Health Plan	Employee Benefits Plan	Total
11,838	328	34,593
0	0	1,046
145	4	412
0	0	264
0	0	(194)
11,983	332	36,121
2	0	109
0	0	132
0	0	3,833
2	0	4,074
0	0	70
11,981	332	31,977
11,981	332	32,047

CITY OF MOUNTAIN VIEW, CALIFORNIA

Internal Service Funds
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Equipment Maintenance/ Replacement	Workers' Compensation Insurance	Unemployment Self-Insurance	Liability Self-Insurance
Operating revenues:				
Charges for services	$ 1,542	0	0	798
Other	85	1,208	47	1,020
Total operating revenues	1,627	1,208	47	1,818
Operating expenses:				
Salaries and related expenses	913	96	0	0
Self-funded insurance	0	952	65	834
General and administrative	1,782	146	2	63
Depreciation	15	0	0	0
Total operating expenses	2,710	1,194	67	897
Operating income (loss)	(1,083)	14	(20)	921
Nonoperating revenues (expenses):				
Interest income	688	263	33	246
Net nonoperating revenues	688	263	33	246
Income (loss) before transfers	(395)	277	13	1,167
Transfers:				
Transfers in	1,599	0	0	0
Transfers (out)	(74)	0	0	0
Net transfers	1,525	0	0	0
Change in net assets	1,130	277	13	1,167
Beginning net assets	11,350	970	563	4,264
Ending net assets	$ 12,480	1,247	576	5,431

Retirees' Health Plan	Employee Benefits Plan	Total
125	65	2,530
18	0	2,378
143	65	4,908
0	0	1,009
0	10	1,861
733	55	2,781
0	0	15
733	65	5,666
(590)	0	(758)
701	19	1,950
701	19	1,950
111	19	1,192
0	0	1,599
0	0	(74)
0	0	1,525
111	19	2,717
11,870	313	29,330
11,981	332	32,047

CITY OF MOUNTAIN VIEW, CALIFORNIA

Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Equipment Maintenance/ Replacement	Workers' Compensation Insurance	Unemployment Self-Insurance	Liability Self-Insurance
Cash flows from operating activities:				
Receipts from customers	$ 1,627	1,208	47	1,818
Payments to suppliers	(1,827)	(157)	(2)	(66)
Payments to employees	(901)	(96)	0	0
Internal activity - payments to other funds	(18)	0	0	0
Claims paid	0	(1,187)	(65)	(735)
Net cash provided (used) by operating activities	(1,119)	(232)	(20)	1,017
Cash flows from non-capital financing activities:				
Transfers in	1,599	0	0	0
Transfers (out)	(74)	0	0	0
Net cash provided by noncapital financing activities	1,525	0	0	0
Cash from investing activities:				
Interest received	699	271	34	251
Net increase (decrease) in cash and cash equivalents	1,105	39	14	1,268
Cash and cash equivalents at beginning of period	11,366	4,680	555	4,446
Cash and cash equivalents at end of period	$ 12,471	4,719	569	5,714
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ (1,083)	14	(20)	921
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	15	0	0	0
Change in assets and liabilities:				
Accounts and other payables	(51)	(246)	0	96
Net cash provided (used) by operating activities	$ (1,119)	(232)	(20)	1,017

Retirees' Health Plan	Employee Benefits Plan	Total
143	65	4,908
(735)	(57)	(2,844)
0	0	(997)
0	0	(18)
0	(10)	(1,997)
(592)	(2)	(948)
0	0	1,599
0	0	(74)
0	0	1,525
724	19	1,998
132	17	2,575
11,706	311	33,064
11,838	328	35,639
(590)	0	(758)
0	0	15
(2)	(2)	(205)
(592)	(2)	(948)

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AGENCY FUNDS

The Payroll Agency Fund accounts for payroll-related liabilities.

The Mountain View Sports Pavilion Agency Fund accounts for maintenance funds deposited on behalf of the Mountain View School District to cover the District's share of operating costs associated with a gymnasium located at Graham Middle School.

The Center for the Performing Arts Agency Fund accounts for money received by the Center for the Performing Arts.

The Fire Union Agency Fund accounts for money received on behalf of the Fire Union used for union activities.

The Police Union Agency Fund accounts for money received on behalf of the Police Union used for union activities.

The Flexible Benefits Plan Agency Fund accounts for the assets and liabilities of the employer's flexible benefits plan established under Internal Revenue Code Section 125.

The SCC Data Communications Joint Funding Agreement Agency Fund accounts for the assets and liabilities of the countywide radio interoperability and public safety radio and data communications task force feasibility study.

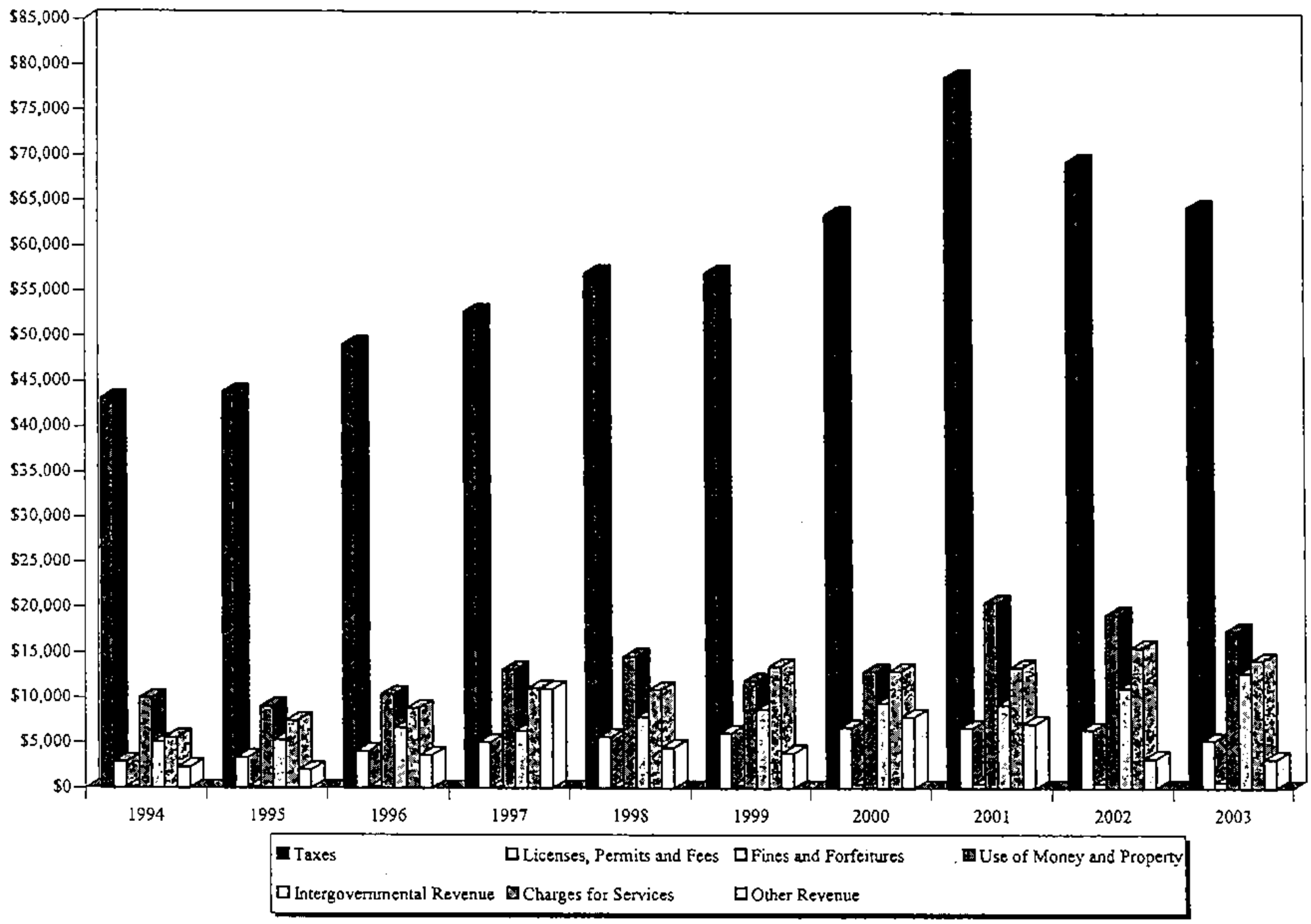
CITY OF MOUNTAIN VIEW, CALIFORNIA

Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Payroll Fund				
Assets:				
Cash and investments	$ 1,445	1,709	1,445	1,709
Liabilities:				
Accrued payroll	$ 1,445	1,709	1,445	1,709
Mountain View Sports Pavilion Fund				
Assets:				
Cash and investments	$ 81	25	81	25
Liabilities:				
Sports Pavilion maintenance	$ 81	25	81	25
Center For The Performing Arts Fund				
Assets:				
Restricted cash	$ 116	103	116	103
Liabilities:				
Collections payable	$ 116	103	116	103
Fire Union Fund				
Assets:				
Cash and investments	$ 8	2	8	2
Liabilities:				
Collections payable	$ 8	2	8	2

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Police Union Fund				
Assets:				
Cash and investments	$ 7	14	7	14
Liabilities:				
Collections payable	$ 7	14	7	14
Flexible Benefits Plan Fund				
Assets:				
Restricted cash	$ 36	45	36	45
Liabilities:				
Collections payable	$ 36	45	36	45
SCC Data Comm Joint Funding Agreement				
Assets:				
Cash and investments	$ 262	461	262	461
Liabilities:				
Collections payable	$ 262	461	262	461
All Agency Funds				
Assets:				
Cash and investments	$ 1,803	2,211	1,803	2,211
Restricted cash	152	148	152	148
Total assets	$ 1,955	2,359	1,955	2,359
Liabilities:				
Accrued payroll	$ 1,445	1,709	1,445	1,709
Sports Pavilion maintenance	81	25	81	25
Collections payable	429	625	429	625
Total liabilities	$ 1,955	2,359	1,955	2,359

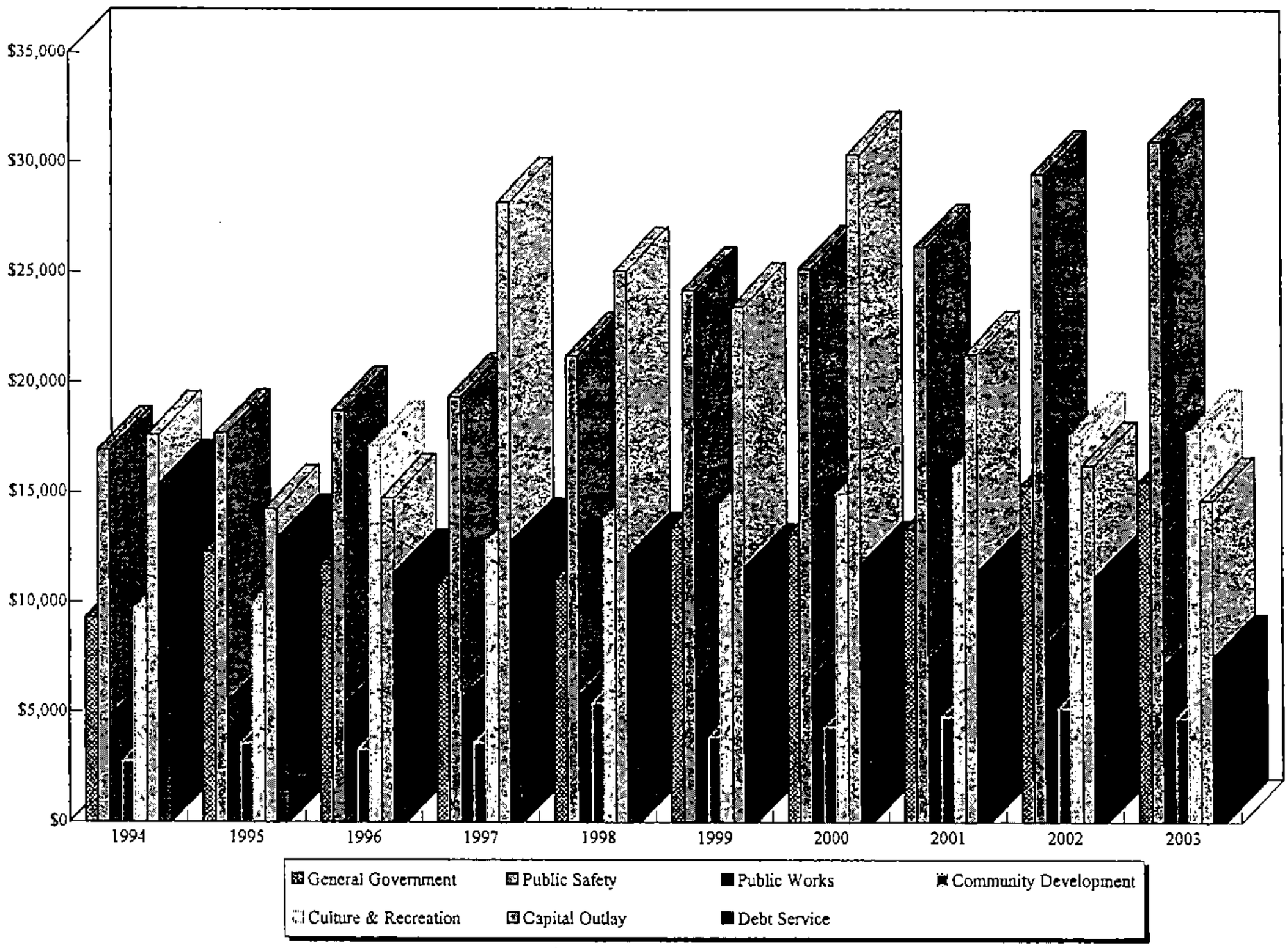
CITY OF MOUNTAIN VIEW, CALIFORNIA
GENERAL REVENUES BY SOURCE (a)
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)



Fiscal Year	Taxes	Licenses, Permits and Fees	Fines and Forfeitures	Use of Money and Property	Intergovernmental Revenue	Charges for Services	Other Revenue	Total
1994	$ 43,109	2,912	161	9,994	5,030	5,549	2,297	69,052
1995	43,803	3,376	161	9,065	5,289	7,459	2,023	71,176
1996	49,113	4,078	149	10,420	6,648	8,834	3,645	82,887
1997	52,712	5,046	144	13,188	6,333	11,073	11,003	99,499
1998	57,083	5,651	180	14,655	7,872	10,951	4,498	100,890
1999	57,150	6,116	296	11,933	8,726	13,519	3,882	101,622
2000	63,556	6,686	400	12,990	9,443	13,018	7,891	113,984
2001	78,764	6,675	458	20,613	9,240	13,450	7,137	136,337
2002	69,488	6,458	538	19,273	11,156	15,629	3,301	125,843
2003	64,416	5,251	630	17,520	12,827	14,229	3,203	118,076

(a) General revenues by source shown are for the following fund types of the City: General Fund, Special Revenue, Debt Service and Capital Projects.

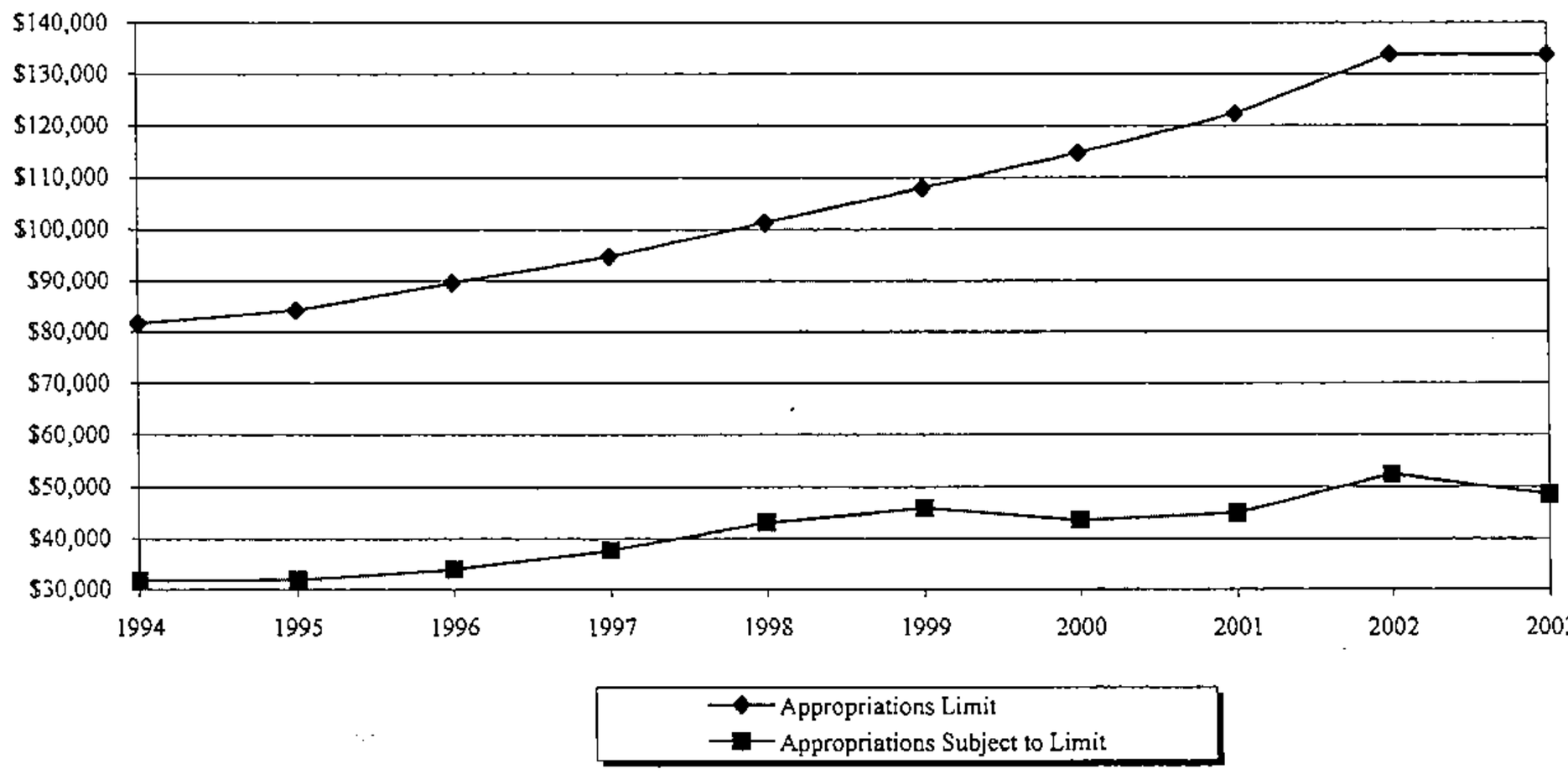
CITY OF MOUNTAIN VIEW, CALIFORNIA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (a)
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)



Fiscal Year	General Government	Public Safety	Public Works	Community Development	Culture & Recreation	Capital Outlay	Debt Service	Total
1994	$ 9,304	16,897	4,779	2,761	9,718	17,595	15,337	76,391
1995	12,276	17,678	5,442	3,551	9,985	14,245	12,881	76,058
1996	11,711	18,719	5,290	3,276	17,118	14,749	11,314	82,177
1997	10,876	19,337	5,562	3,594	12,770	28,210	12,728	93,077
1998	11,052	21,189	5,719	5,418	13,793	25,081	12,081	94,333
1999	13,395	24,182	6,444	3,866	14,482	23,470	11,563	97,402
2000	13,074	25,166	6,536	4,307	14,946	30,375	11,708	106,112
2001	13,316	26,163	7,360	4,785	16,153	21,277	11,384	100,438
2002	15,322	29,485	8,072	5,198	17,619	16,248	11,135	103,079
2003	15,491	30,967	7,111	4,747	17,779	14,658	7,472	98,225

(a) General expenditures by function shown are for the following fund types of the City: General Fund, Special Revenue, Debt Service and Capital Projects.

CITY OF MOUNTAIN VIEW, CALIFORNIA
APPROPRIATIONS LIMIT
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)



Fiscal Year	(1) CPI/PI/AV Factor (a)	(2) Population Factor	(1)*(2) Ratio of Change	Appropriations Limit	Percent Year to Year Change	Appropriations Subject to Limit	Percentage of Limit Appropriated
1994	1.0272 (P)	1.0171	1.0448	$ 81,557	4.48%	$ 31,695 (c)	38.86%
1995	1.0154 (A)	1.0160 (b)	1.0316	84,139	3.17%	31,897	37.91%
1996	1.0472 (P)	1.0154 (b)	1.0633	89,467	6.33%	33,825	37.81%
1997	1.0467 (P)	1.0108 (b)	1.0580	94,657	5.80%	37,613	39.74%
1998	1.0467 (P)	1.0216 (b)	1.0693	101,217	6.93%	43,033	42.52%
1999	1.0415 (P)	1.0228	1.0652	107,821	6.52%	45,835	42.51%
2000	1.0453 (P)	1.0173 (b)	1.0634	114,656	6.34%	43,510	37.95%
2001	1.0491 (P)	1.0163 (b)	1.0662	122,246	6.62%	44,901	36.73%
2002	1.0782 (P)	1.0147 (b)	1.0940	133,743	9.40%	52,325	39.12%
2003	0.9873 (P)	1.0125 (b)	0.9996	133,695	(-0.04%)	48,454	36.24%

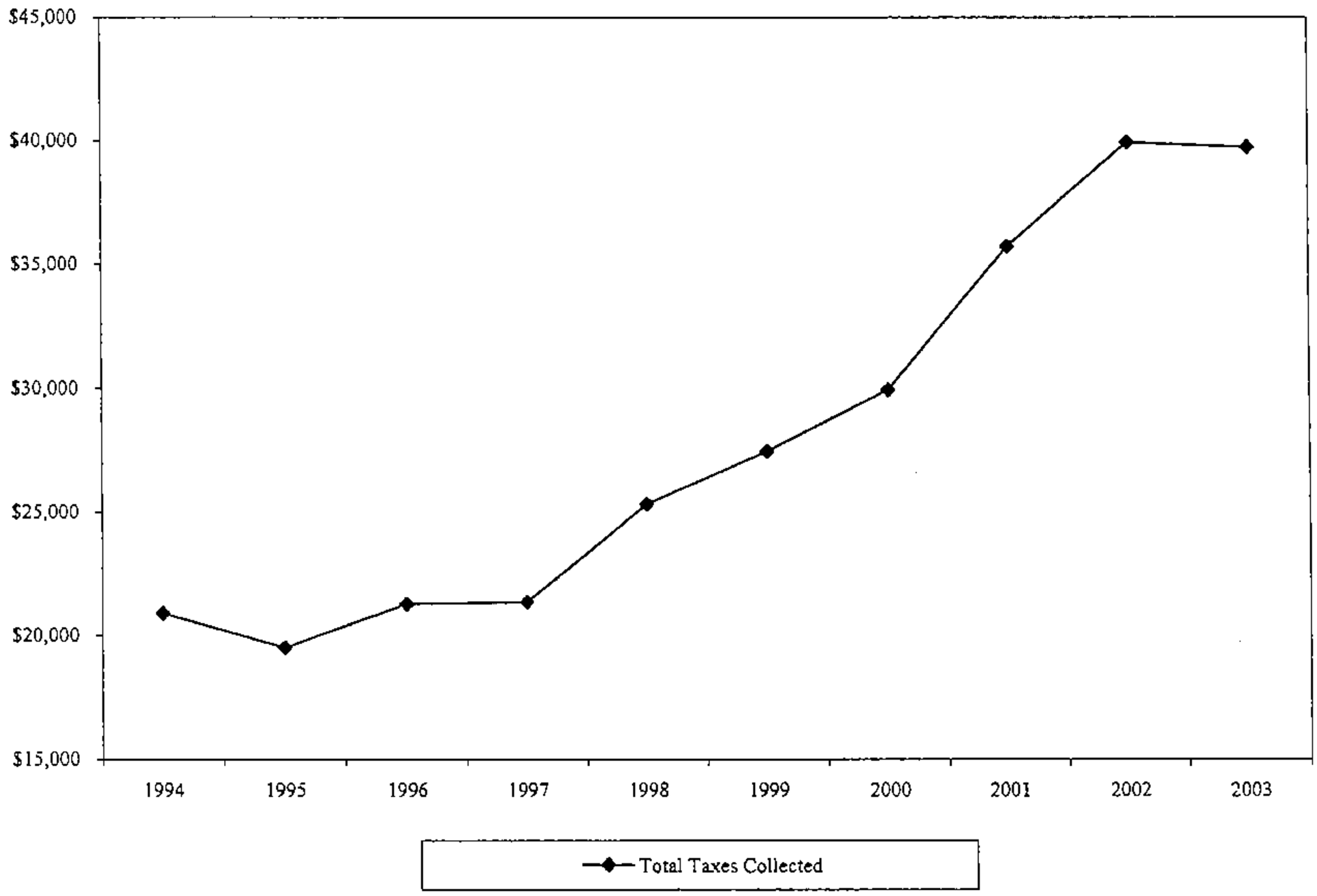
Data Source:

(a) "C" refers to Consumer Price Index
"P" refers to Per Capita Personal Income
"A" refers to Assessed Valuation of non-residential construction

(b) Population change of the County

(c) It was determined that it is not necessary to include proceeds of taxes in certain funds that were previously included.

CITY OF MOUNTAIN VIEW, CALIFORNIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)



Fiscal Year	Taxes Levied (a)	Current Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Taxes Collected	Percent of Levy
1994	$ 20,280	$ 20,280	100.00%	$ 610 (b)	$ 20,890	103.01%
1995	19,503	19,503	100.01%	2	19,505	100.01%
1996 (c)	21,275	21,275	100.00%	0	21,275	100.00%
1997	21,339	21,339	100.00%	0	21,339	100.00%
1998	25,332	25,332	100.00%	0	25,332	100.00%
1999	27,471	27,471	100.00%	0	27,471	100.00%
2000	29,933	29,933	100.00%	0	29,933	100.00%
2001	35,729	35,729	100.00%	0	35,729	100.00%
2002	39,939	39,939	100.00%	0	39,939	100.00%
2003	39,741	39,741	100.00%	0	39,741	100.00%

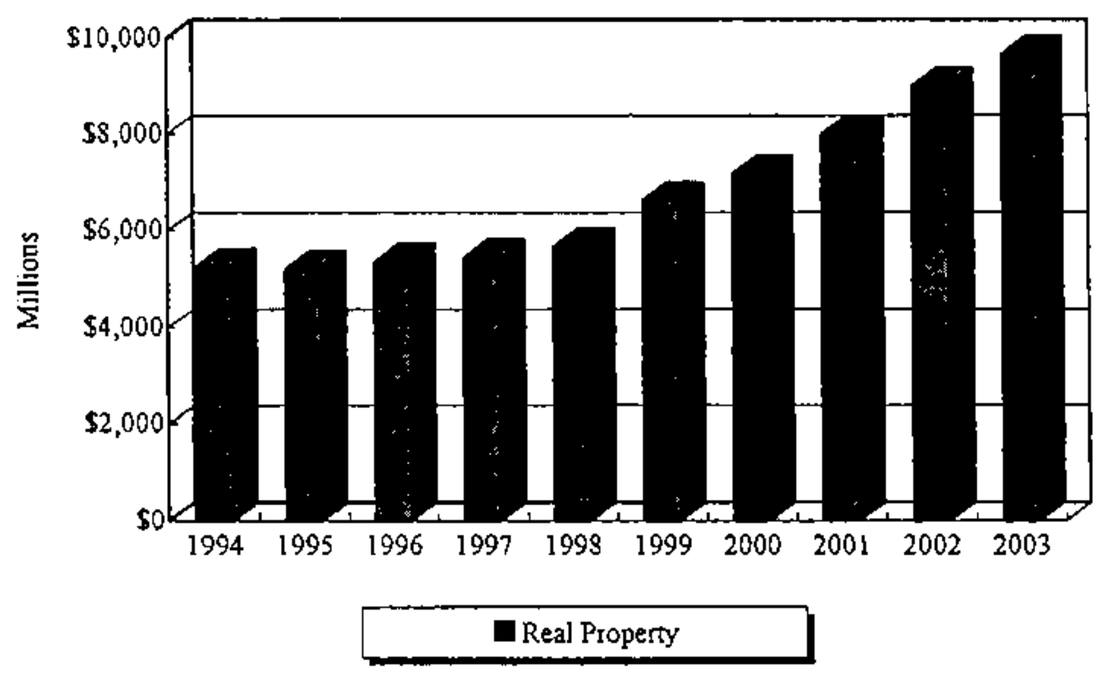
(a) Levies include real and personal property.

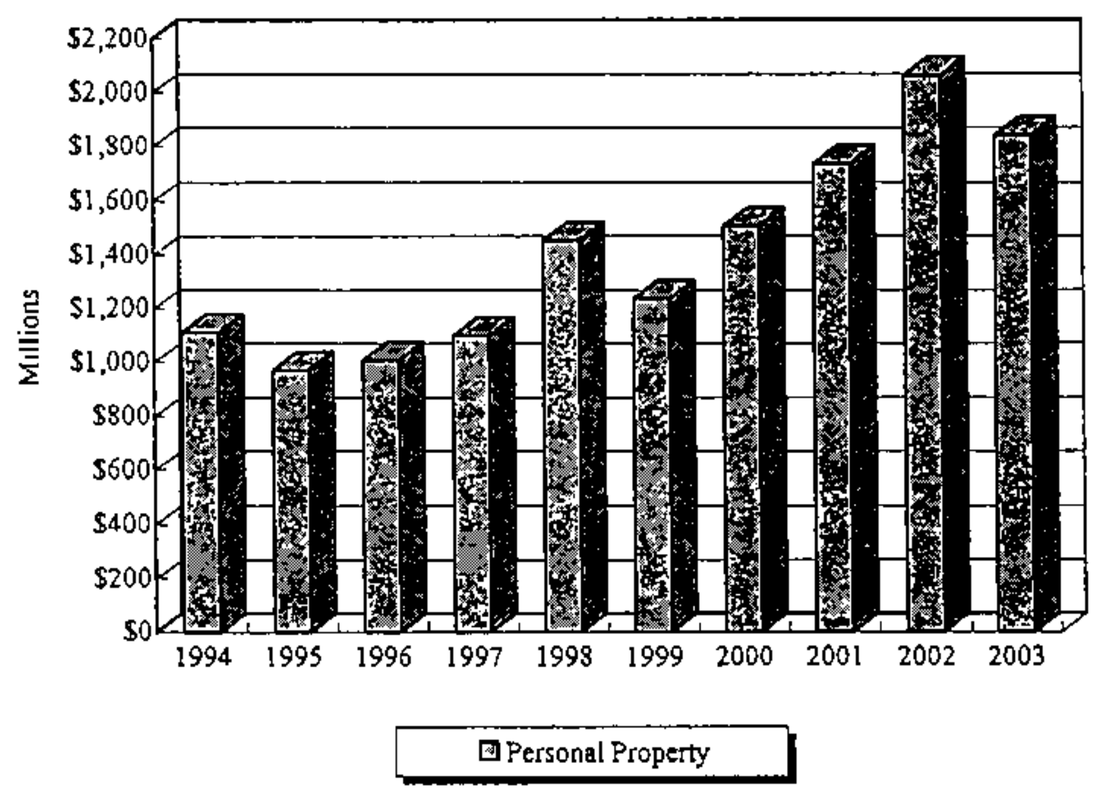
(b) The City selected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes. The "Teeter" plan does not apply to Special Assessment Districts.

(c) Beginning in Fiscal Year in 1995-96, amounts exclude Special Assessments.

Source: To Fiscal Year 1994-95, Santa Clara County Department of Finance
From Fiscal Year 1995-96, City of Mountain View

CITY OF MOUNTAIN VIEW, CALIFORNIA
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)





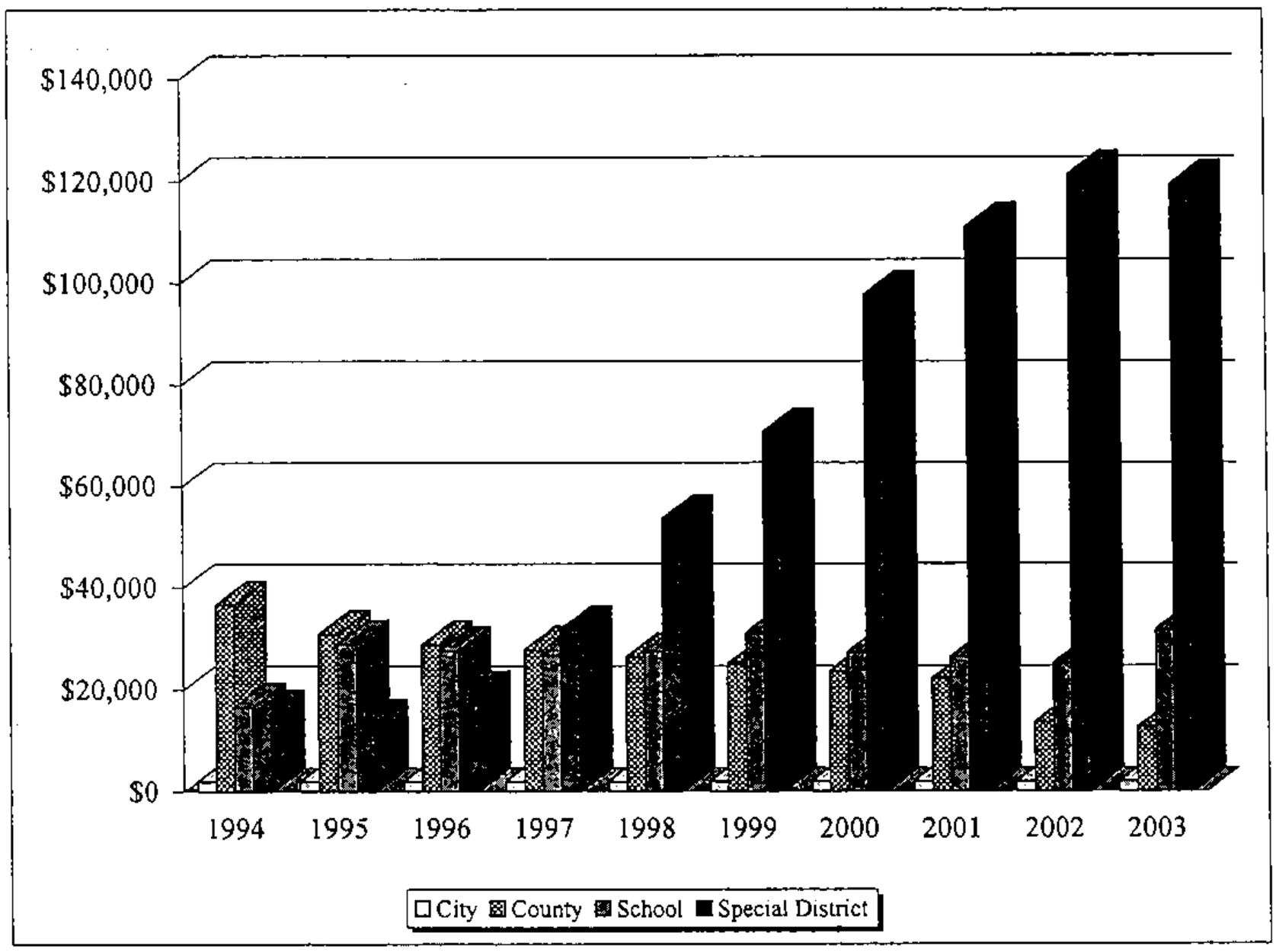
	Real Property		Personal Property		Exemptions	Total		Ratio of Total
Fiscal Year	Assessed Value	Estimated Actual Value (a)	Assessed Value	Estimated Actual Value	Real Property	Gross Assessed Value	Estimated Actual Value (a)	Assessed to Total Estimated Actual Value
1994	$ 5,230,170	N/A	1,109,558	1,109,558	(255,699)	6,084,029	N/A	N/A
1995	5,193,289	N/A	971,462	971,462	(175,077)	5,989,674	N/A	N/A
1996	5,352,033	N/A	1,005,958	1,005,958	(187,694)	6,170,297	N/A	N/A
1997	5,430,717	N/A	1,096,539	1,096,539	(125,224)	6,402,032	N/A	N/A
1998	5,664,768	N/A	1,453,089	1,453,089	(135,681) (b)	6,982,176	N/A	N/A
1999	6,616,087	N/A	1,235,470	1,235,470	(140,389)	7,711,168	N/A	N/A
2000	7,165,568	N/A	1,505,821	1,505,821	(119,235)	8,552,154	N/A	N/A
2001	7,979,310	N/A	1,734,494	1,734,494	(138,735)	9,575,069	N/A	N/A
2002	8,981,713	N/A	2,063,069	2,063,069	(144,887)	10,899,895	N/A	N/A
2003	9,645,988	N/A	1,839,351	1,839,351	(156,127)	11,329,212	N/A	N/A

(a) Data is not available in California.

(b) Homeowners exemption not included in total exemptions.

Source: Santa Clara County Assessor

CITY OF MOUNTAIN VIEW, CALIFORNIA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)



Fiscal	City		County		School		Special District		Total Overlapping		Total Assessed
Year	Debt	Percent	Debt	Percent	Debt	Percent	Debt	Percent	Debt	Percent	Value (a)
1994	$36,530	0.72%	$ 16,534	0.33%	$15,078	0.30%	$ 6,340	0.12%	$ 74,482	1.47%	$ 5,079,443
1995	30,840	0.61%	28,853	0.57%	13,313	0.26%	11,822	0.23%	84,828	1.67%	5,033,212
1996	28,675	0.56%	27,632	0.54%	18,988	0.37%	12,035	0.24%	87,330	1.72%	5,079,069
1997	27,710	0.53%	26,734	0.51%	31,759	0.61%	13,366	0.26%	99,569	1.91%	5,221,721
1998	26,345	0.47%	27,535	0.49%	53,532	0.95%	13,174	0.23%	120,586	2.15%	5,620,600
1999	25,004	0.40%	31,065	0.50%	70,683	1.14%	14,780	0.24%	141,532	2.28%	6,206,363
2000	23,524	0.34%	27,331	0.40%	97,600	1.41%	16,289	0.24%	164,744	2.38%	6,914,772
2001	22,139	0.29%	26,378	0.35%	111,002	1.47%	20,040	0.27%	179,559	2.38%	7,547,092
2002	13,490	0.16%	25,102	0.29%	121,120	1.42%	19,407	0.23%	179,119	2.10%	8,525,437
2003	12,454	0.14%	31,601	0.35%	119,349	1.31%	19,610	0.22%	183,014	2.02%	9,079,727

(a) Assessed value net of tax incremental valuation.

Source: California Municipal Statistics, Inc.
Note: California Municipal Statistics, Inc. uses the equalized roll from the County for assessed valuations. This roll is published in September of the Fiscal Year.

CITY OF MOUNTAIN VIEW, CALIFORNIA
SPECIAL ASSESSMENTS BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)

FISCAL YEAR	CURRENT ASSESSMENT BILLINGS	CURRENT ASSESSMENT COLLECTIONS	RATIO OF COLLECTIONS TO AMOUNT DUE
1994	$ 1,980	1,922	97.07%
1995	1,718	1,703	99.13%
1996	1,004	964	96.02%
1997	824	821	99.64%
1998	754	726	96.29%
1999	752	744	98.94%
2000	619	609	98.38%
2001	603	602	99.83%
2002	595	591	99.33%
2003	(a) 595	588	98.82%

Source: Santa Clara County Controller.

(a) Assessment Billings are net of County Administration Fees

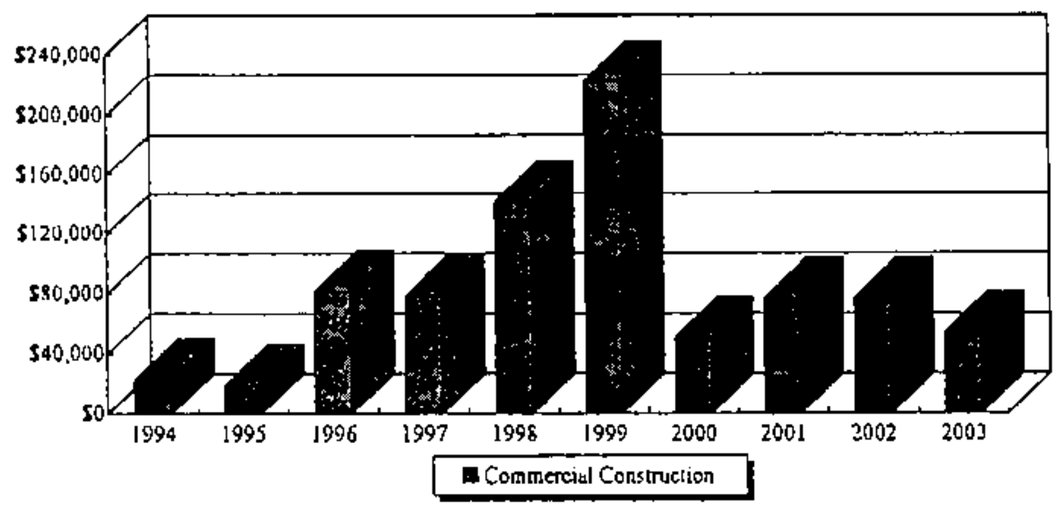
CITY OF MOUNTAIN VIEW, CALIFORNIA
RATIO OF ANNUAL DEBT SERVICE
FOR GENERAL BONDED DEBT TO
GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)

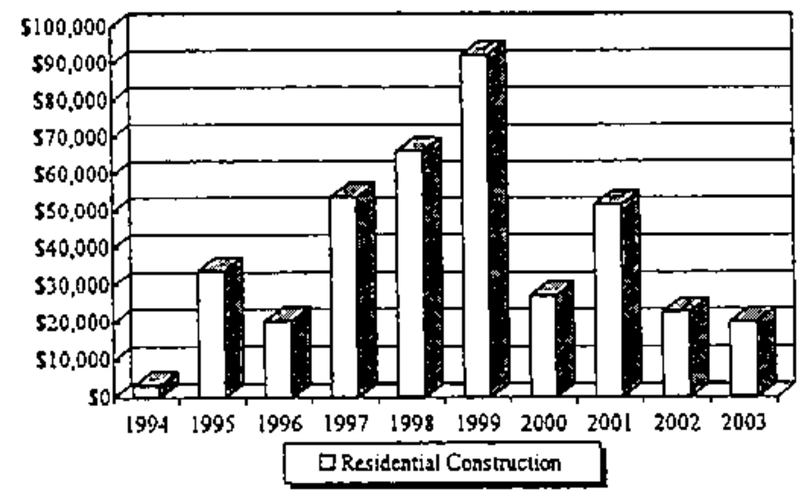
Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures (a)	Ratio of Debt Service to General Expenditures
1994 (b)	$ 1,280	$ 46	$ 1,326	$ 76,391	1.74%
1995	0	0	0	76,058	0.00%
1996	0	0	0	82,177	0.00%
1997	0	0	0	93,077	0.00%
1998	0	0	0	94,333	0.00%
1999	0	0	0	97,402	0.00%
2000	0	0	0	106,112	0.00%
2001	0	0	0	100,438	0.00%
2002	0	0	0	103,079	0.00%
2003	0	0	0	98,225	0.00%

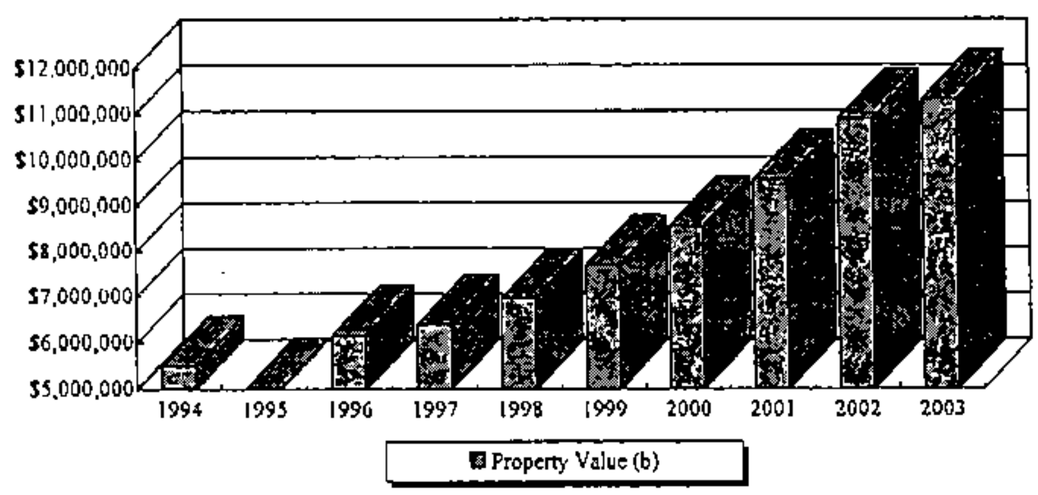
(a) Includes General Fund, Special Revenues, Debt Service and Capital Projects.

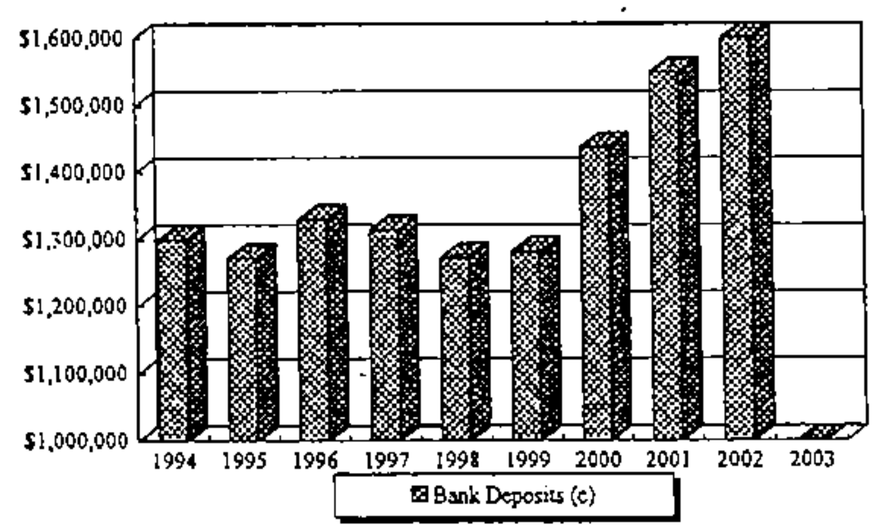
(b) G.O. Bonds retired in Fiscal Year 1993-94.

CITY OF MOUNTAIN VIEW, CALIFORNIA
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)









Fiscal Year	Commercial Construction (a) Number of Units	Commercial Construction (a) Value	Residential Construction (a) Number of Units	Residential Construction (a) Value	Property Value (b) Commercial	Property Value (b) Residential	Property Value (b) Nontaxable	Property Value (b) Total	Bank Deposits (c)
1994	11	$ 22,902	15	$ 3,154	1,792,404	3,969,808	(255,699)	5,506,513	1,299,773
1995	32	18,731	144	33,905	2,109,301	3,098,988	(175,077)	5,033,212	1,272,393
1996	14	81,309	146	20,399	3,219,044	3,138,947	(187,694)	6,170,297	1,330,017
1997 (d)	259	78,443	546	53,941	3,261,203	3,266,052	(125,224)	6,402,032	1,314,000
1998 (d)	244	141,546	737	66,370	3,624,363	3,493,494	(135,681)	6,982,176	1,272,622
1999	263	222,117	654	92,415	4,000,963	3,850,594	(140,389)	7,711,168	1,281,243
2000 (e)	38	50,546	177	27,214	4,419,183	4,252,206	(119,235)	8,552,154	1,438,107
2001	34	76,496	337	51,858	5,053,029	4,660,775	(138,735)	9,575,069	1,548,978
2002	188	76,856	458	22,903	5,875,272	5,169,510	(144,887)	10,899,895	1,599,921
2003	190	54,038	463	20,240	5,935,373	5,549,966	(156,127)	11,329,212	N/A

Source: (a) City of Mountain View Building Inspection.

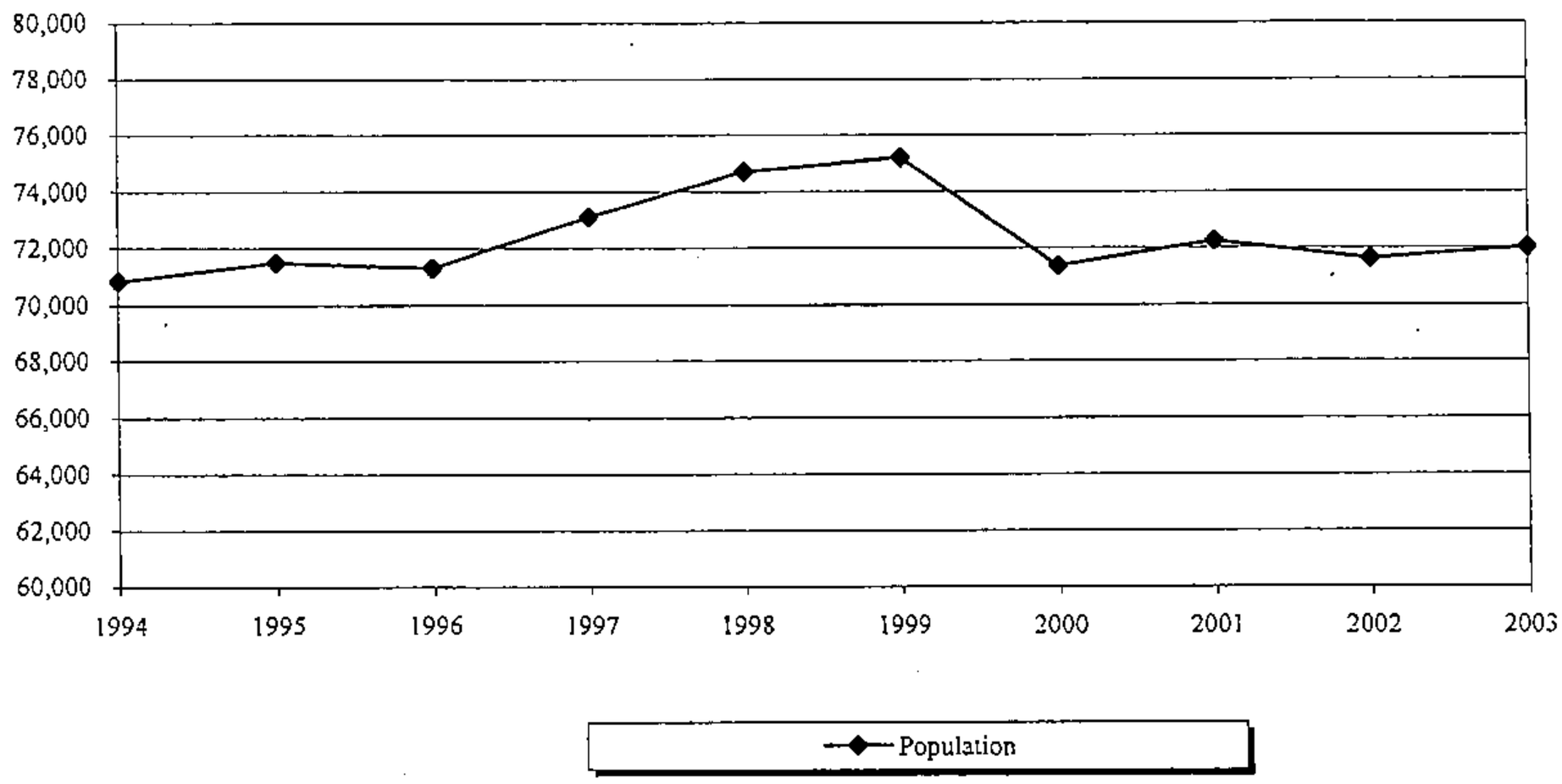
(b) Santa Clara County Assessor as of June 30, 2003.
Note: May include or exclude property in Mountain View and surrounding cities.
Fiscal Year 1994-95 values are from California Municipal Statistics, Inc. and exclude unsecured property value.

(c) California State Banking Department.
As of Fiscal Year 1996-97 data not available from the California State Banking Department.
Source as of Fiscal Year 1996-97 FDIC Web site (this does not include Credit Unions, however there are no credit unions currently located in the City of Mountain View).

(d) Fiscal Years 1996-97 and 1997-98 revised to include both new construction and alterations.

(e) Fiscal Year 1999-2000 includes new construction only, information for alterations not available.

CITY OF MOUNTAIN VIEW, CALIFORNIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
(DOLLARS IN THOUSANDS)



Fiscal Year	Population	Population Density (Sq. Mile)	Per Capita Personal Income (a)	School Enrollment	Unemployment Rate % (a)
1994	70,835	6,054	$ 29	6,284	6.77%
1995	71,496	6,111	30	6,472	5.70%
1996	71,300	6,094	33	6,510	4.20%
1997	73,100	6,248	35	6,385	3.10%
1998	74,700	6,385	38	6,262	3.00%
1999	75,200	6,427	41	6,361	3.40%
2000	71,369	6,100	47	6,238	2.20%
2001	72,242	6,175	55	6,123	4.30%
2002	71,610	6,121	52	6,025	7.60%
2003	72,000	6,154	(b)	6,851	8.60%

(a) For Santa Clara County.
(b) Data for fiscal year 2002-03 not available until May 2004

Source: Santa Clara County Office of Education.
State of California, Department of Finance.
U.S. Department of Commerce, Bureau of the Census.
Santa Clara County.

CITY OF MOUNTAIN VIEW, CALIFORNIA
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2003
(DOLLARS IN THOUSANDS)

Assessed value (net) - June 30, 2003 (a)	$ 9,079,727
Debt limit - 15% of assessed value	$ 1,361,959
Less total bonded debt, general obligation	0
Legal debt margin (b)	$ 1,361,959

(a) Source: California Municipal Statistics, Inc., excluding tax allocation increment.

(b) The legal debt margin for the City of Mountain View, California, is calculated using a debt limit of 15 percent of the assessed value of property within the City limits.

CITY OF MOUNTAIN VIEW, CALIFORNIA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2003

2002-03 Assessed Valuation:	$11,329,212,000
Redevelopment Incremental Valuation:	2,249,433,480
Adjusted Assessed Valuation:	$ 9,079,778,520

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/30/03
Santa Clara County Flood Control and Water Conservation District, Zone W-1	5.956%	$ 419,302
Santa Clara County Flood Control and Water Conservation District, Zone NC-1	0.269	578
Foothill-DeAnza Community College District	14.772	15,354,022
Fremont Union High School District	0.490	660,643
Mountain View-Los Altos Union High School District	54.125	25,686,341
Los Altos School District	14.309	12,103,132
Mountain View School District	96.251	29,731,934
Sunnyvale School District	1.131	351,175
Whisman School District	95.716	27,157,875
City of Mountain View 1915 Act Bonds	100.	2,324,071
Santa Clara Valley Water District Benefit Assessment District	4.985	10,152,950
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$123,942,023
Less: Santa Clara County Flood Control and Water Conservation District, Zone NC-1		578
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$123,941,445
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Santa Clara County General Fund Obligations	4.985%	$30,234,025
Santa Clara County Board of Education Certificates of Participation	4.985	948,147
Foothill-DeAnza Community College District Certificates of Participation	14.772	3,902,762
Mountain View-Los Altos Union High School District Certificates of Participation	54.125	2,516,813
Mountain View School District Certificates of Participation	96.251	1,881,707
Sunnyvale School District Certificates of Participation	1.131	2,658
City of Mountain View General Fund Obligations	**100.**	**17,275,000**
Midpeninsula Regional Park District General Fund Obligations	8.747	9,456,835
El Camino Hospital District Authority	28.241	344,540
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$66,562,487
Less: **City of Mountain View Certificates of Participation (100% self-supporting from tax increment revenues)**		**7,145,000**
El Camino Hospital District Authority		344,540
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$59,072,947
GROSS COMBINED TOTAL DEBT		$190,504,510 (1)
NET COMBINED TOTAL DEBT		$183,014,392

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

Ratios to 2002-03 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt	1.09%
Total Net Overlapping Tax and Assessment Debt	1.09%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt ($17,275,000)	**0.19%**
Net Combined Direct Debt ($10,130,000)	**0.11%**
Gross Combined Total Debt	2.10%
Net Combined Total Debt	2.02%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: $0

Source: California Municipal Statistics, Inc.

CITY OF MOUNTAIN VIEW, CALIFORNIA
TOP TEN PROPERTY TAXPAYERS
June 30, 2003
(DOLLARS IN THOUSANDS)

OWNER	Primary Use	Assessed Valuation	Percentage of Total Assessed Valuation
Legacy Partners, Inc	Unsecured	$ 248,500	2.20%
Alza Corporation	Industrial	188,370	1.66%
BP Shoreline Technology Park LLC	Industrial	178,152	1.57%
Silicon Graphics Inc.	Unsecured	127,182	1.12%
Mission West Shoreline LLC	Industrial	125,000	1.10%
P &.A Charleston Road LLC	Commercial	113,000	1.00%
Richard T. Peery Trust	Industrial/Commercial	150,724	1.33%
Shoreline Park LLC	Industrial	83,742	0.74%
SL Investments III LLC	Industrial	71,711	0.63%
Sun Microsystems, Inc.	Unsecured	70,109	0.62%
Subtotal		$ 1,356,490	11.97%

Fiscal Year 2002-03 Total Gross Assessed Valuation $ 11,329,212

Source: Santa Clara County Assessor Fiscal Year 2002-03 Combined Tax Rolls (as of June 30, 2003).

CITY OF MOUNTAIN VIEW, CALIFORNIA
MISCELLANEOUS STATISTICS
June 30, 2003

Date of incorporation	November 7, 1902
Form of Government	Council-Manager
Number of Employees (excluding police & fire)	
Classified	609
Exempt	101
Area in square miles	11.7
Name of government facilities and services:	
Miles of streets	142.4
Number of street lights	3,757
Culture and recreation:	
City parks	31
City park acreage	212
Roadway landscaping acreage	119.5
Regional parks	1
Regional park acreage	772
Regional park facilities:	
Golf courses (18 holes)	1
Boathouse	1
Sailing lake acreage	50
Clubhouse and banquet facility	1
Historic house	1
Community Gardens	2
Community Centers	1
Swimming pools	2
Tennis courts	35
Senior Center	1
Cuesta Tennis Center	1
Mountain View Sports Pavilion	1
Whisman Sports Center	1
Deer Hollow Farm	1
Performing Arts Center	1
Fire Protection:	
Number of stations	5
Number of fire personnel & officers	98
Number of calls for service	4,677
Number of primary fire inspections conducted	1,062
Number of environmental safety inspections conduct	1,477

Police Protection:	
Number of stations	1
Number of police personnel & officers	149
Number of police reserves	13
Number of patrol units	35
Number of calls answered	61,846
Number of law violations:	
Physical arrests	3,270
Traffic violations	9,241
Parking violations	5,725
Sewage System:	
Miles of sanitary sewers	175
Miles of storm sewers	79
Number of treatment plants	0
Number of storm drain inlets	1,954
Number of sewer service connections	16,568
Daily average treatment in gallons	8,460,000
Maximum daily capacity of treatment plant in gallons	14,400,000
Water System:	
Miles of water mains	167
Number of water service connections	16,568
Number of fire hydrants	2,324
Daily average consumption in gallons	11,923,000
Maximum daily capacity of system in gallons	30,800,000
Public Education:	
Number of elementary schools	8
Number of elementary school instructors	197
Number of middle schools	2
Number of middle school instructors	61
Number of secondary schools	3
Number of secondary school instructors	94
Number of community colleges	0
Number of universities	0
Hospitals:	
Number of hospitals	1
Number of patient beds	411

Source: City of Mountain View

MOUNTAIN VIEW SHORELINE REGIONAL PARK COMMUNITY

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MAZE & ASSOCIATES

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 AUDITORS' REPORT

The Board of Directors
Mountain View Shoreline Regional Park Community
City of Mountain View, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mountain View Shoreline Regional Park Community (Community), a component unit of the City of Mountain View, California, as of and for the year ended June 30, 2003 which collectively comprise the Community's basic component unit financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Community's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities and each major fund of the Community as of June 30, 2003, and the respective changes in the financial position and the respective budgetary comparison for the Special Revenue Fund for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

Maze & Associates

September 4, 2003

A Professional Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Mountain View Shoreline Regional Park Community's (Community or SRPC) basic component unit financial statements presents a narrative overview and analysis of the financial activities of the Community for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our transmittal letter of the City of Mountain View (City).

FINANCIAL HIGHLIGHTS

The Community's principal revenue source is incremental property taxes, which as a result of higher office vacancy rates decreased in Fiscal Year 2003. Fiscal Year 2003 financial highlights include the following:

- The assets of the Community exceeded its liabilities at the close of the fiscal year ended June 30, 2003 by $76.6 million (net assets). Of this amount, $33.9 million (unrestricted net assets) may be used to meet the Community's ongoing obligations.
- The Community's total net assets increased by $11.6 million during the fiscal year.
- Community-wide revenues included program revenues, general revenues and net transfers of $22.5 million.
- Community-wide expenses are $10.9 million.
- Governmental fund balances increased to $35.0 million in Fiscal Year 2003, up $9.0 million from the prior year's $26.0 million.
- Governmental fund revenues decreased to $24.2 million in Fiscal Year 2003, down $781,000 from the prior year's $25.0 million.
- Governmental fund expenditures are $10.3 million in Fiscal Year 2003, down from $10.7 million in Fiscal Year 2002.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Community's basic component unit financial statements. The Community's basic component unit financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Community's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Community'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 Community is improving or deteriorating.

The Statement of Activities presents information showing how the Community'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, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The Community, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Community are governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Community's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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.

The Community maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the Community Special Revenue Fund, SRPC 1993 Tax Allocation Fund, SRPC 1996 Tax Allocation Fund and SRPC 2001 Tax Allocation Fund, all of which are reported as major funds.

The Community adopts an annual appropriated budget for its Special Revenue Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with budget.

Notes to the 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

This is the second year the Community has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments. Because this reporting model changed significantly both the recording and presentation of financial data, the Community's financial statements for Fiscal Year 2002 did not provide comparative information in its MD&A. This year, two years of financial information is available in the GASB Statement No. 34 format and a comparative analysis of government-wide data is included in this report.

Analysis of Net Assets

A summary of net assets follows:

Statement of Net Assets
(Dollars in thousands)

	2003	2002
Assets:		
Current and other assets	$ 48,399	39,917
Capital assets	95,571	95,116
Total assets	143,970	135,033
Liabilities:		
Current and other liabilities	14,459	15,110
Noncurrent liabilities	52,928	54,962
Total liabilities	67,387	70,072
Net Assets:		
Invested in capital assets, net of related debt	42,643	40,154
Restricted	-0-	15
Unrestricted	33,940	24,792
Total net assets	$ 76,583	64,961

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Community, assets exceeded liabilities by $76.6 million at the end of the fiscal year. The major components of net assets are as follows:

- The largest portion of the Community's net assets of $42.6 million is invested in capital assets, net of related debt.

- Another significant portion of the Community's net assets of $33.9 million is unrestricted, which may be used to meet the Community's ongoing obligations.

The Community's net assets increased $11.6 million for the fiscal year. This is primarily from incremental property tax revenues resulting from successful redevelopment activities and capital contributions.

Statement of Activities

A summary of the changes in net assets follows:

Statement of Activities
(Dollars in thousands)

	2003	2002
Revenues		
Program revenues	$ 79	117
General revenues:		
Taxes	22,028	23,176
Interest earnings	1,916	1,613
Other	3,444	424
Total revenues	27,467	25,330
Expenses		
General government	3,128	2,956
Public safety	107	55
Public works	211	164
Community development	117	118
Culture and recreation	4,447	2,748
Interest on long-term debt	2,902	5,046
Total expenses	10,912	11,087
Increase in net assets before transfers	16,555	14,243
Transfers	(4,933)	2,875
Change in net assets	11,622	17,118
Beginning net assets	64,961	47,843
Ending net assets	$76,583	64,961

The major component of the Community's Fiscal Year 2003 revenue is $22.0 million from incremental property taxes. This amount compares with $23.2 million in Fiscal Year 2002, a decline of $1.2 million in unsecured property taxes as a result of continued high commercial vacancy rates. Investment earnings accounted for $1.9 million of Community revenues, an increase of $303,000 from the prior year. Other revenues include $158,000 of miscellaneous revenues, capital contributions of $3.3 million and net transfers to the City of Mountain View of $4.9 million.

Expenses totaled $10.9 million, of which $3.1 million is for general government, $4.4 million for culture and recreation and $2.9 million for interest on long-term debt.

FINANCIAL ANALYSIS OF THE COMMUNITY'S FUNDS

As noted earlier, the Community uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Community's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the Community's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the Community's funds reported combined fund balances of $35.0 million, an increase of $9.0 million from Fiscal Year 2002's fund balances of $26.0 million. Approximately $27.9 million of this total amount represents unreserved fund balance, which is available for spending at the Community's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for restricted purposes.

Revenues for the fiscal year ending June 30, 2003 totaled $24.2 million, a decrease of $781,000, or 3.1 percent, over the prior fiscal year. Expenditures totaled $10.3 million, a decrease of $449,000, or 4.2 percent, over the prior fiscal year.

The Community Special Revenue Fund is the general fund for the Community and receives tax increment revenues on property within the Community. The fund accounts for the revenues and expenditures of the Community. At the end of the fiscal year, the unreserved fund balance was $27.9 million while the total fund balance is $35.0 million. As a measure of the fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. The unreserved fund balance represents 538.6 percent of the total fund expenditures of $5.2 million, while the total fund balance represents 675.7 percent of that same amount.

The fund balance of the Community's Special Revenue Fund increased by $9.0 million during the current fiscal year. Key factors in this growth are as follows:

- Total revenues are $24.2 million in Fiscal Year 2003, a decrease of $778,000 from the prior year. Property tax increment revenues are $22.0 million in Fiscal Year 2003, a decrease of $1.2 million from Fiscal Year 2002. Investment earnings increased slightly to $2.0 million as interest rate declines were offset by higher average investment balances.

- Expenditures are $5.2 million in Fiscal Year 2003, an increase of $418,000 from the prior year.

- The Community transferred $5.1 million for debt service in other financing sources. Other net transfers of $4.9 million were made to the City primarily for capital projects of the Community.

The SRPC 1993 Tax Allocation Fund accounts for resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 1993 Tax Allocation and Refunding Bonds as they become due.

Debt service expenditures included $760,000 in principal retirement and $1.1 million in interest payments in Fiscal Year 2003.

The SRPC 1996 Tax Allocation Fund accounts for resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 1996 Tax Allocation and Refunding Bonds as they become due.

Debt service expenditures included $565,000 in principal retirement and $1.0 million in interest payments in Fiscal Year 2003.

The SRPC 2001 Tax Allocation Fund accounts for resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 2001 Tax Allocation and Refunding Bonds as they become due.

Debt service expenditures included $870,000 in principal retirement and $751,000 in interest payments in Fiscal Year 2003.

CAPITAL ASSETS

A summary of capital assets follows:

Capital Assets
(Dollars in thousands)

	2003	2002
Land	$14,332	14,332
Construction in progress	32,466	35,581
Buildings	6,621	6,621
Improvements other than buildings	24,905	18,934
Machinery and equipment	481	39
Traffic signals	714	714
Streetlights	1,014	1,014
Bridges and culverts	3,323	3,323
Sidewalks, curbs and gutters	7,421	7,421
Streets and roads	20,385	20,385
Less accumulated depreciation	(16,091)	(13,248)
Total	$95,571	95,116

At the end of Fiscal Year 2003, capital assets recorded on the Community's financial statements amount to $95.6 million (net of accumulated depreciation). There were additions of $3.3 million to construction in progress during Fiscal Year 2003, and depreciation of $2.8 million is provided for in Fiscal Year 2003. Further details on capital assets and depreciation charges may be found in Note 5.

DEBT ADMINISTRATION

The Community's debt issues are discussed in detail in Note 6 to the financial statements. As of June 30, 2003, the Community has $52.9 million of outstanding long-term debt and all debt principal payments were made as scheduled.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Overall property taxes for the Community are expected to decrease for the upcoming fiscal year as commercial vacancy rates remain high, and unsecured property tax is anticipated to decline for Fiscal Year 2004.

- The yield on investments purchased have declined as the Federal Reserve has continued to lower key interest rates.

These factors were considered in preparing the Community's budget for Fiscal Year 2004.

REQUEST FOR INFORMATION

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the Community's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance and Administrative Services Department, 500 Castro Street, Mountain View, California, 94039-7540.

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MOUNTAIN VIEW SHORELINE REGIONAL PARK COMMUNITY

Statement of Net Assets
June 30, 2003 (Dollars in Thousands)

Assets:	
Cash and investments (Note 3)	$ 40,801
Receivables:	
Accounts	1
Interest	587
Advance to City of Mountain View (Note 4)	7,010
Capital assets (net where applicable of accumulated depreciation) (Note 5)	95,571
Total assets	143,970
Liabilities:	
Accounts payable and accrued costs	66
Interest payable	1,057
Advances from the City of Mountain View (Note 4)	13,333
Refundable deposits	3
Revenue and tax allocation bonds (Note 6):	
Due in one year	2,300
Due in more than one year	50,628
Total liabilities	67,387
Net assets (Note 8):	
Invested in capital assets, net of related debt	42,643
Unrestricted	33,940
Total net assets	$ 76,583

See accompanying notes to financial statements.

MOUNTAIN VIEW SHORELINE REGIONAL PARK COMMUNITY

Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:			
General government	$ 3,128	0	(3,128)
Public safety	107	0	(107)
Public works	211	0	(211)
Community development	117	79	(38)
Culture and recreation	4,447	0	(4,447)
Interest on long term debt	2,902	0	(2,902)
Total governmental activities	$ 10,912	79	(10,833)
General revenues:			
Property taxes			22,028
Interest earnings			1,916
Other			158
Capital contributions			3,286
Transfers from the City of Mountain View (Note 4)			992
Transfers to the City of Mountain View (Note 4)			(5,925)
Total general revenues and transfers			22,455
Change in net assets			11,622
Beginning net assets			64,961
Ending net assets			$ 76,583

See accompanying notes to financial statements.

MOUNTAIN VIEW SHORELINE REGIONAL PARK COMMUNITY

Governmental Funds
Balance Sheet
June 30, 2003 (Dollars in Thousands)

	Special Revenue	Shoreline Regional Park Community 1993 Tax Allocation	Shoreline Regional Park Community 1996 Tax Allocation	Shoreline Regional Park Community 2001 Tax Allocation	Total Governmental Funds
Assets:					
Cash and investments (Note 3)	$ 40,801	0	0	0	40,801
Receivables:					
Accounts	1	0	0	0	1
Interest	587	0	0	0	587
Advance to City of Mountain View (Note 4)	7,010	0	0	0	7,010
Total assets	$ 48,399	0	0	0	48,399
Liabilities and fund balances:					
Accounts payable and accrued costs	$ 66	0	0	0	66
Refundable deposits	3	0	0	0	3
Advances from the City of Mountain View (Note 4)	13,333	0	0	0	13,333
Total liabilities	13,402	0	0	0	13,402
Fund balances (Note 8):					
Reserved for:					
Advance to City of Mountain View	7,010	0	0	0	7,010
Encumbrances	95	0	0	0	95
Unreserved:					
Designated for:					
Unrealized gain on investments	1,316	0	0	0	1,316
Undesignated	26,576	0	0	0	26,576
Total fund balances	34,997	0	0	0	34,997
Total liabilities and fund balances	$ 48,399	0	0	0	

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.	95,571
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	(52,928)
Interest payable	(1,057)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 76,583

See accompanying notes to financial statements.

MOUNTAIN VIEW SHORELINE REGIONAL PARK COMMUNITY

Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Special Revenue	Shoreline Regional Park Community 1993 Tax Allocation	Shoreline Regional Park Community 1996 Tax Allocation	Shoreline Regional Park Community 2001 Tax Allocation	Total Governmental Funds
Revenues:					
Taxes	$ 22,028	0	0	0	22,028
Use of money and property	1,995	0	0	0	1,995
Other	158	0	0	0	158
Total revenues	24,181	0	0	0	24,181
Expenditures:					
Current:					
General government	3,128	0	0	0	3,128
Public safety	107	0	0	0	107
Public works	211	0	0	0	211
Community development	117	0	0	0	117
Culture and recreation	1,604	0	0	0	1,604
Capital outlay	12	0	0	0	12
Debt service:					
Principal repayment	0	760	565	870	2,195
Interest and fiscal charges	0	1,130	1,035	751	2,916
Total expenditures	5,179	1,890	1,600	1,621	10,290
Excess (deficiency) of revenues over (under) expenditures	19,002	(1,890)	(1,600)	(1,621)	13,891
Other financing sources (uses):					
Transfers in (Note 4)	0	1,890	1,600	1,606	5,096
Transfers (out) (Note 4)	(5,096)	0	0	0	(5,096)
Transfers from the City of Mountain View (Note 4)	992	0	0	0	992
Transfers to the City of Mountain View (Note 4)	(5,925)	0	0	0	(5,925)
Total other financing sources (uses)	(10,029)	1,890	1,600	1,606	(4,933)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	8,973	0	0	(15)	8,958
Beginning fund balances	26,024	0	0	15	26,039
Ending fund balances	$ 34,997	0	0	0	34,997

See accompanying notes to financial statements.

MOUNTAIN VIEW SHORELINE REGIONAL PARK COMMUNITY

Reconciliation of the
Net Change in Fund Balances
Total Governmental Funds with the
Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, 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	$ 8,958
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	12
Depreciation expense is deducted from the fund balance	(2,843)
Infrastructure and improvements constructed by the City contributed to the Community are capitalized in the Statement of Activities, but the expenditure is not recorded in the Fund Statements because the transfer out to the City to fund those assets occurred in prior years.	3,286
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.	
Repayment of debt principal is added back to fund balance	2,195
Amortization of loss on refunding is deducted from fund balance	(161)
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):	
Interest payable	175
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 11,622

See accompanying notes to financial statements.

MOUNTAIN VIEW SHORELINE REGIONAL PARK COMMUNITY

Special Revenue Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Budgeted Amounts			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget
Revenues:				
Taxes	$ 19,671	19,671	22,028	2,357
Use of money and property	1,755	1,755	1,995	240
Other	15	16	158	142
Amounts available for appropriation	21,441	21,442	24,181	2,739
Expenditures:				
Current:				
General government:				
City Attorney	10	44	13	31
City Manager	80	80	79	1
Finance and administrative services	3,050	3,059	3,036	23
Public safety:				
Fire	94	100	83	17
Police	26	26	24	2
Public works	274	302	211	91
Community development	159	159	117	42
Culture and recreation:				
Community services	1,824	1,898	1,604	294
Capital outlay	0	12	12	0
Total expenditures	5,517	5,680	5,179	501
Excess of revenues over expenditures	15,924	15,762	19,002	3,240
Other financing sources (uses):				
Transfers (out)	(5,030)	(5,136)	(5,096)	40
Transfers from the City of Mountain View	0	0	992	992
Transfers to the City of Mountain View	(6,435)	(6,435)	(5,925)	510
Total other financing sources (uses)	(11,465)	(11,571)	(10,029)	1,542
Excess of revenues and other financing sources over expenditures and other financing uses	4,459	4,191	8,973	4,782
Beginning fund balances	26,024	26,024	26,024	0
Ending fund balances	$ 30,483	30,215	34,997	4,782

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT REPORTING POLICIES

The Mountain View Shoreline Regional Park Community (Community) was established in 1969 pursuant to the provisions of the Mountain View Shoreline Regional Park Community Act. The purpose of the Community is to provide for the development of approximately 1,550 acres of bayfront lands.

The Community is an integral part of the City of Mountain View (City). It primarily services the City and the City's City Council serves as governing body of the Community. Therefore, the financial data of the Community has also been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2003.

The Community's primary source of revenue is incremental property taxes, which are computed and allocated to the Community in the following manner:

a. The assessed valuation of all property within the Community's boundaries is determined and "frozen" for allocation purposes on the date of adoption of the Community by a designation of a fiscal year assessment roll.

b. Increments in property taxes resulting from any increase in assessed values after the adoption of the Community are allocated to the Community; all property taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes within the Community's boundaries.

The Community has no power to levy or collect taxes. Any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay principal and interest on debt or loans from the City and any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues available for this purpose. The Community is also authorized to finance the Revitalization Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuance of Community debt.

A. Basis of Presentation

The Community's basic component unit financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Community government. Eliminations have been made to minimize the double counting of internal activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Community's 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 charges paid by the recipients of goods or services offered by the programs. 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 Community's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

B. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. All of the Community's funds are major funds.

The Community reports the following major governmental funds in the accompanying financial statements:

Special Revenue Fund – This fund receives tax increment revenues on property within the Community. The fund accounts for the revenues and expenditures of the Community.

1993 Tax Allocation Fund (Debt Service) – This fund accounts for the resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 1993 Tax Allocation Bonds as they become due.

1996 Tax Allocation Fund (Debt Service) – This fund accounts for the resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 1996 Tax Allocation Bonds as they become due.

2001 Tax Allocation Fund (Debt Service) – This fund accounts for the resources used for the purpose of paying the principal, interest and related costs on the Shoreline Regional Park Community 2001 Tax Allocation Bonds as they become due.

C. Basis of Accounting

The government-wide 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Community 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. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Community gives or receives value without directly receiving or giving equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

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

D. Property Tax

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the Community. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 for the fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Community in the fiscal year they are assessed, provided they become available as defined above.

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The Community adopts an annual budget on or before June 30 for the ensuing fiscal year for the Special Revenue Fund. All Debt Service is budgeted annually in the Special Revenue Fund, the fund obligated for such payments.

Budgeted appropriations become effective each July 1. The Community Board may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund and department level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

The Special Revenue Fund's annual budget is presented on a basis consistent with the governmental financial statements prepared in accordance with generally accepted accounting principles.

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year and reappropriated amounts for prior-year encumbrances. The Community Board must approve appropriation increases to departmental budgets; however, management may transfer Board-approved budgeted amounts within fund and departmental expenditure classifications. Supplemental appropriations were approved during the course of the year as needed.

B. Encumbrance Accounting

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. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are automatically reappropriated for inclusion in the following year's budget.

NOTE 3 – CASH AND INVESTMENTS

The Community's cash is included in a City-wide cash and investments pool, the details of which are presented in the City's basic financial statements. The City's investment policy and the California Government Code permit investments in the following: Securities issued by the U.S. Government or an agency of the U.S. Government, mortgage-backed securities, commercial paper, banker's acceptances, medium term notes issued by U.S. corporations, mutual funds invested in U.S. Government securities, certificates of deposit, municipal bonds issued by the City or any of its component units and the State Treasurer's investment pool (Local Agency Investment Fund). As of June 30, 2003 the City's portfolio was composed primarily of investments in securities issued by the U.S. Government and its agencies and the State of California Local Agency Investment Fund.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, 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 4 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Board approval, resources may be transferred from one Community 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. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2003 were as follows (dollars in thousands):

	Transfers	
	In	Out
Major Governmental Funds:		
Special Revenue Fund	$ 0	5,096 (A)
1993 Tax Allocation Debt Service Fund	1,890	0
1996 Tax Allocation Debt Service Fund	1,600	0
2001 Tax Allocation Debt Service Fund	1,606	0
Total All Funds	$ 5,096	5,096

The reason for these transfers are set forth below:

(A) To fund debt service payments

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

During the year ended June 30, 2003 the Community made transfers to the City in the amount of $5.9 million to fund debt service payments, fund capital projects, and to fund internal service fund activities. Transfers from the City to the Community were $992,000 to refund remaining balances on completed capital improvement projects.

B. Long-term Advances to the City

The Community advanced the City's Shoreline Golf Links fund $5.1 million for the acquisition of the golf course. No interest accrues on this advance. This advance will be repaid as resources become available in the fund. The Community also advanced the Revitalization Community Special Revenue Fund $1.9 million for the purchase of property. This advance, plus interest at a rate of six percent, will be repaid from future revenues realized when the property is developed or sold.

C. Long-term Advances from the City

Improvements to the Community have been partially funded by advances from the City. The Community's management believes that future property tax increment revenues will be sufficient to repay the advances. The advances are being repaid over a period of 28 years at 10 percent interest in equal annual installments, which began in fiscal 1989. During fiscal 2003 a payment of $510,000 was made.

NOTE 5 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets are assets with an initial individual cost of more than $3,000 and an estimated useful life in excess of two years.

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

Buildings	25 to 50 years
Improvements	5 to 50 years
Machinery and equipment	3 to 10 years
Traffic signals	20 years
Street Lights	50 years
Bridges and culverts	60 years
Sidewalks, curbs and gutters	40 years
Streets and roads	40 years

NOTE 5 – CAPITAL ASSETS (Continued)

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

Capital assets at June 30, 2003 comprise (dollars in thousands):

	Balance at June 30, 2002	Additions	Transfers/ Retirements	Balance at June 30, 2003
Governmental activities				
Capital assets not being depreciated:				
Land	$ 14,332	0	0	14,332
Construction in progress	35,581	3,286	(6,401)	32,466
Total capital assets not being depreciated	49,913	3,286	(6,401)	46,798
Capital assets being depreciated:				
Buildings	6,621	0	0	6,621
Improvements other than buildings	18,934	0	5,971	24,905
Machinery and equipment	39	12	430	481
Traffic signals	714	0	0	714
Street lights	1,014	0	0	1,014
Bridges and culverts	3,323	0	0	3,323
Sidewalks, curbs and gutters	7,421	0	0	7,421
Streets and roads	20,385	0	0	20,385
Total capital assets being depreciated	58,451	12	6,401	64,864
Less accumulated depreciation for:				
Buildings	(1,952)	(218)	0	(2,170)
Improvements other than buildings	(2,569)	(1,831)	0	(4,400)
Machinery and equipment	(13)	(12)	0	(25)
Traffic signals	(245)	(17)	0	(262)
Street lights	(202)	(24)	0	(226)
Bridges and culverts	(640)	(79)	0	(719)
Sidewalks, curbs and gutters	(2,032)	(177)	0	(2,209)
Streets and roads	(5,595)	(485)	0	(6,080)
Total accumulated depreciation	(13,248)	(2,843)	0	(16,091)
Net capital assets being depreciated	45,203	(2,831)	6,401	48,773
Governmental activity capital assets, net	$ 95,116	455	0	95,571

NOTE 6 – LONG TERM DEBT OBLIGATIONS

A. Composition and Changes

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

The Community's long term debt as of June 30, 2003 follows (dollars in thousands):

	Original Issue Amount	Balance June 30, 2002	Retirements	Balance June 30, 2003	Due Within One Year
1993 Tax Allocation Bonds					
3.1% to 5.75%, due 2018	$ 25,465	20,415	(760)	19,655	795
1996 Tax Allocation Bonds					
4.0% to 5.6%, due 2021	21,750	19,285	(565)	18,720	590
2001 Tax Allocation Bonds					
3.5% to 5.25%, due 2016	17,520	17,520	(870)	16,650	915
Less deferred amount on refunding	(2,419)	(2,258)	161	(2,097)	0
	$ 62,316	54,962	(2,034)	52,928	2,300

B. Description of General Long-Term Obligations

1993 Tax Allocation Bonds Shoreline Regional Park Community – On September 8, 1993 the Community issued bonds in the amount of $25.5 million to provide financing for certain landfill closure projects. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

1996 Tax Allocation Bonds Shoreline Regional Park Community – On August 15, 1996 the Community issued bonds in the amount of $21.8 million to provide financing for land purchases, including road, water, sewer, and other public improvements within the Community. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

NOTE 6 – LONG TERM DEBT OBLIGATIONS (Continued)

2001 Tax Allocation Bonds Shoreline Regional Park Community - On July 24, 2001, the Community issued $17.5 million of Tax Allocation Refunding Bonds, 2001 Series A, to refund a portion of the Community's 1992 Tax Allocation Bonds. At June 30, 2003 the 1992 Tax Allocation Bonds outstanding with a final maturity value of $5.1 million are considered defeased. The reacquisition price exceeded the net carrying amount of the 1992 Bonds by $2.4 million. This amount is being amortized over the remaining life of the new debt issue which is equivalent to the life of the refunded Bonds. The net present value of the savings, less the City's cash payment resulted in an economic gain of $1.9 million. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

C. Debt Service Requirements:

The Community's annual debt service requirements to maturity follows (dollars in thousands):

For the Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	$ 2,300	2,810
2005	2,410	2,707
2006	2,515	2,594
2007	2,630	2,476
2008	2,755	2,349
2009-2013	15,945	9,488
2014-2018	19,029	4,638
2019-2022	7,441	690
Total	$ 55,025	27,752

Reconciliation of long-term debt principal:

Principal requirement as reported above	$ 55,025
Less: deferred amount on refunding	(2,097)
Total long-term debt principal	$ 52,928

NOTE 7 – RISK MANAGEMENT

The Community is covered under the City's insurance program. The City is exposed to various risks of loss related to torts, errors and omissions, injuries to employees or others, unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of $500,000 for general liability claims, $500,000 for workers' compensation claims with statutory excess insurance and actual costs incurred for unemployment benefits.

For general liability claims, the City has excess liability coverage through the Community for California Cities Excess Liabilities (ACCEL) to cover the risk of loss for claims in excess of $500,000 per incident. ACCEL is a joint powers Community of medium-sized California municipalities which pools catastrophic general liability, automobile liability and public officials errors and omissions losses. ACCEL coverage consists of an excess insurance policy purchased for a limit of $19.5 million per occurrence, with an aggregate limit of $19.5 million.

Additional information regarding the City' insurance programs can be found in the City's June 30, 2003 Comprehensive Annual Financial Report.

NOTE 8 – NET ASSETS AND FUND BALANCES

A. *Net Assets*

Net assets is the excess of all the Community's assets over all its liabilities, regardless of fund. Net assets are divided into three captions on the Statement of Net Assets. 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 Community'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 Community cannot unilaterally alter. These principally include debt service requirements.

Unrestricted describes the portion of net assets which is not restricted as to use.

NOTE 8 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances, Reserves and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less it's liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which are not available for appropriation or are legally segregated for a specific future use. The remaining portion is unreserved fund balance.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Community may be a defendant in several lawsuits and other matters arising in the normal course of operations. The Community's management and legal counsel are of the opinion that the potential claims against the Community not covered by insurance resulting from such litigation would not materially affect the financial position of the Community.

MOUNTAIN VIEW REVITALIZATION AUTHORITY

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MAZE & ASSOCIATES

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 AUDITORS' REPORT

Members of the
Mountain View Revitalization Authority
City of Mountain View, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mountain View Revitalization Authority (Authority), a component unit of the City of Mountain View, California as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic component unit financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2003, and the respective changes in the financial position and the respective budgetary comparisons for the Revitalization Authority and Housing Set-Aside Funds for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

Maze & Associates

September 4, 2003

A Professional Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Mountain View Revitalization Authority's (Authority) basic component unit financial statements presents a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our transmittal letter of the City of Mountain View (City).

FINANCIAL HIGHLIGHTS

The Authority's principal revenue source is incremental property taxes, which increased in Fiscal Year 2003. Fiscal Year 2003 financial highlights include the following:

- The assets of the Authority exceeded its liabilities at the close of the fiscal year ended June 30, 2003 by $9.4 million (net assets). Of this amount, the Authority's unrestricted net assets are a negative $28,000 which will be eliminated with future tax increment revenue.

- The Authority's total net assets increased by $7.0 million, including the retroactive addition of infrastructure assets, during the fiscal year.

- Authority-wide revenues included general revenues and transfers of a negative $254,000 as a result of transferring $3.0 million to the City for the construction of a new parking structure.

- Authority-wide expenses included $836,000 for community development and $414,000 for interest on long-term debt.

- Governmental fund balances decreased to $4.3 million in Fiscal Year 2003, down from $5.8 million in Fiscal Year 2002.

- Governmental fund revenues are $2.8 million in Fiscal Year 2003, approximately the same as prior year.

- Governmental Fund expenditures are $1.2 million in Fiscal Year 2003, up $188,000 from the prior year's $1.0 million.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic component unit financial statements. The Authority's basic component unit financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Authority'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 Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority'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, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Authority's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the Revitalization Authority Fund, the Housing Set-Aside Fund and the Police/Fire Building 1995 COP Fund, all of which are reported as major funds.

The Authority adopts an annual appropriated budget for its Revitalization Authority and Housing Set-Aside Funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with budgets.

Notes to the 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

This is the second year the Authority has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments. Because this reporting model changed significantly both the recording and presentation of financial data, the Authority's financial statements for Fiscal Year 2002 did not provide comparative information in its MD&A. This year, two years of financial information is available in the GASB Statement No. 34 format and a comparative analysis of government-wide data is included in this report.

Analysis of Net Assets

A summary of net assets follows:

Statement of Net Assets
(Dollars in thousands)

	2003	2002
Assets:		
Current and other assets	$ 8,334	7,925
Capital assets	12,307	4,175
Total assets	20,641	12,100
Liabilities:		
Current and other liabilities	4,106	2,269
Noncurrent liabilities	7,145	7,485
Total liabilities	11,251	9,754
Net Assets:		
Invested in capital assets, net of related debt	5,162	(3,310)
Restricted	4,256	3,761
Unrestricted	(28)	1,895
Total net assets	$ 9,390	2,346

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Authority, assets exceeded liabilities by $9.4 million at the end of the fiscal year. The following is a summary of the Authority's net assets for governmental activities:

- The largest portion of the Authority's net assets of $5.2 million is invested in capital assets, net of related debt.

- The Authority has net assets of $4.3 million restricted for the purpose of providing low- and moderate-income housing in the City and for debt service.

- The Authority's unrestricted net assets is a negative $28,000 which will be eliminated by future tax increment revenues of the Authority.

The Authority's net assets increased $7.0 million for the fiscal year. This is primarily from the retroactive addition of infrastructure assets, as allowed under GASB Statement No. 34.

Statement of Activities

A summary of the changes in net assets follows:

Statement of Activities
(Dollars in thousands)

	2003	2002
Revenues		
General revenues:		
Taxes	$2,552	2,453
Interest earnings	205	367
Total revenues	2,757	2,820
Expenses		
Community development	836	368
Interest on long-term debt	414	539
Total expenses	1,250	907
Increase in net assets before transfers	1,507	1,913
Transfers (net)	(3,011)	159
Change in net assets	(1,504)	2,072
Beginning net assets	2,346	274
Retroactive adjustment	8,548	-0-
Ending net assets	$9,390	2,346

The major component of the Authority's Fiscal Year 2003 revenue is $2.6 million from incremental property taxes. This amount compares with $2.5 million in Fiscal Year 2002 and increased as the result of successful redevelopment efforts by the Authority. Investment earnings accounted for $205,000 of Authority revenues, down from Fiscal Year 2002's $367,000 as interest yields continued to decline during the year. Net transfers to the City of $3.0 million were primarily to fund capital projects of the Authority.

Total expenses were $1.3 million, of which $836,000 was for community development and $414,000 was for interest on long-term debt.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the Authority's funds reported combined fund balances of $4.3 million, a decrease of $1.4 million from Fiscal Year 2002's fund balances of $5.8 million. A negative $178,000 of this total amount represents unreserved fund balance, which will be eliminated by future tax increment to the Authority. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for restricted purposes.

Revenues for the fiscal year ending June 30, 2003 totaled $2.8 million, a decrease of $63,000 or 2.2 percent over the prior fiscal year. Expenditures totaled $1.2 million, an increase of $188,000 over the prior fiscal year.

The Revitalization Authority Fund is the general fund for the Authority and accounts for the activities of the Authority, which was created to prepare and carry out redevelopment plans for a designated area of the City. At the end of the fiscal year, unreserved fund balance is a deficit $2.8 million while total fund balance is a deficit $28,000. The deficit fund balance is a result of the transfer to the City of $3.0 million to fund capital projects of the Authority. This deficit fund balance will be eliminated by future property tax increment revenues.

The fund balance of the Authority's fund decreased by $2.0 million during the current fiscal year. Key factors in this decline are as follows:

- Total revenues are $2.6 million in Fiscal Year 2003, a decrease of $51,000. Property tax increment revenues are $2.6 million in Fiscal Year 2003, an increase of $99,000 from Fiscal Year 2002. Investment earnings for Fiscal Year 2003 at $85,000 is $150,000 lower than the prior year as interest rates continued to decline.

- Expenditures are $420,000 in Fiscal Year 2003, an increase of $188,000 from the prior year, $74,000 of this is related to the State-mandated payment to the Educational Revenue Augmentation Fund (ERAF).

- Included in other financing sources in Fiscal Year 2003 are net transfers out of $3.0 million, representing a transfer to the City's capital projects by the Revitalization Fund for the construction of a new parking facility downtown.

The Housing Set-Aside Fund accounts for the portion of property tax increment required under California law to be set aside to fund low- and moderate-income housing expenditures. The Authority's loans to nonprofit corporations developing low- and moderate-income housing are accounted for in this fund. These loans are described in detail in Note 4 to the financial statements.

The fund balance of the Housing Set-Aside Fund increased by $613,000 during the current fiscal year as a result of investment earnings and the transfer of 20 percent of property tax increment from the Revitalization Authority Fund. There were no expenditures made during the year.

The Police/Fire Building 1995 COP Fund accounts for resources used for the purpose of paying the principal, interest and related costs on the Authority's pledge of tax increment for the repayment of the 1995 Refunding Certificates of Participation (COPs), which are more fully described in Note 7 to the financial statements.

The fund balance of this fund decreased $16,000 as a result of utilizing funds for the payment of debt service. Debt service expenditures included $340,000 in principal retirement and $418,000 in interest payments and fiscal charges in Fiscal Year 2003. Subsequent to June 30, 2003, the 2003 COPs were issued, and a portion of the proceeds were used to defease the 1995 COPs.

CAPITAL ASSETS

A summary of capital assets follows:

Capital Assets
(Dollars in thousands)

	2003	2002*
Buildings	$ 5,394	5,394
Improvements other than buildings	10	10
Parking facility	4,140	4,140
Streetlights	781	781
Sidewalks, curbs and gutters	3,839	3,839
Streets and roads	3,009	3,009
Less accumulated depreciation	(4,866)	(4,450)
Total	$12,307	12,723

*Restated to include retroactive additions.

At the end of Fiscal Year 2003, capital assets recorded on the Authority's financial statements amounted to $12.3 million (net of accumulated depreciation). This includes retroactive additions

of net capital assets of $8.5 million for the parking facility and other infrastructure assets as required by GASB Statement No. 34. There were no additions during Fiscal Year 2003, and depreciation of $416,000 is provided for in Fiscal Year 2003. Further details on capital assets and depreciation charges may be found in Note 5.

DEBT ADMINISTRATION

The Authority's pledge of tax increment revenue related to the 1995 COPs debt issue is discussed in detail in Note 7 to the financial statements. At June 30, 2003, the Authority's indebtedness under this issue is $7.1 million. Subsequent to June 30, 2003, the 2003 COPs were issued with a portion of the proceeds used to defease the 1995 COPs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Overall property taxes for the Authority are expected to increase for the upcoming fiscal year as new development is completed and comes onto the tax roll.

- State actions require a shift of tax increment to ERAF estimated at $146,000 from the Authority for Fiscal Year 2004.

- The construction of a downtown parking structure, to be partially financed from the 2003 COPs issued subsequent to June 30, 2003. The parking structure will accommodate 468 vehicles and feature approximately 20,000 square feet of retail space on the ground floor and is expected to be completed in Fiscal Year 2005.

All of these factors were considered in preparing the Authority's budget for Fiscal Year 2004.

REQUEST FOR INFORMATION

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance and Administrative Services Department, 500 Castro Street, Mountain View, California, 94039-7540.

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MOUNTAIN VIEW REVITALIZATION AUTHORITY

Statement of Net Assets
June 30, 2003 (Dollars in Thousands)

Assets:		
Cash and investments (Note 3)	$	3,769
Restricted cash and investments (Note 3)		768
Receivables:		
Accounts		75
Interest		82
Loans (Note 4)		1,003
Land held for redevelopment (Note 1E)		2,637
Capital assets (net where applicable of accumulated depreciation) (Note 5)		12,307
Total assets		20,641
Liabilities:		
Accounts payable and accrued costs		8
Interest payable		102
Advances from the City of Mountain View (Note 6B)		3,996
Refunding Certificates of participation (Note 7)		
Due in one year		355
Due in more than one year		6,790
Total liabilities		11,251
Net assets (Note 9):		
Invested in capital assets, net of related debt		5,162
Restricted for:		
Debt service		666
Low and moderate income housing		3,590
Unrestricted		(28)
Total net assets	$	9,390

See accompanying notes to financial statements.

MOUNTAIN VIEW REVITALIZATION AUTHORITY

Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)

Functions/Programs	
Community development	$ 836
Interest on long term debt	414
Total program expenses	1,250
General revenues:	
Taxes	2,552
Interest earnings	205
Transfers from the City of Mountain View (Note 6A)	148
Transfers to the City of Mountain View (Note 6A)	(3,159)
Total general revenues and transfers	(254)
Change in net assets	(1,504)
Beginning net assets	2,346
Add: retroactive additions of infrastructure assets (Note 5)	8,548
Ending net assets	$ 9,390

See accompanying notes to financial statements.

MOUNTAIN VIEW REVITALIZATION AUTHORITY

Governmental Funds
Balance Sheet
June 30, 2003 (Dollars in Thousands)

	Revitalization Authority	Housing Set-Aside	Police/Fire Building 1995 C.O.P.	Total Governmental Funds
Assets:				
Cash and investments (Note 3)	$ 1,281	2,488	0	3,769
Restricted cash and investments (Note 3)	0	0	768	768
Receivables:				
Accounts	0	75	0	75
Interest	58	24	0	82
Loans (Note 4)	0	1,003	0	1,003
Land held for redevelopment (Note 1E)	2,637	0	0	2,637
Total assets	$ 3,976	3,590	768	8,334
Liabilities and fund balances:				
Accounts payable and accrued costs	$ 8	0	0	8
Advances from City of Mountain View (Note 6B)	3,996	0	0	3,996
Total liabilities	4,004	0	0	4,004
Fund balances (deficits) (Note 9):				
Reserved for:				
Restricted cash and investments	0	0	768	768
Loans receivable	0	1,003	0	1,003
Encumbrances	100	0	0	100
Land held for redevelopment	2,637	0	0	2,637
Unreserved:				
Undesignated	(2,765)	2,587	0	(178)
Total fund balances (deficits)	(28)	3,590	768	4,330
Total liabilities and fund balances	$ 3,976	3,590	768	

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.	12,307
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	(7,145)
Interest payable	(102)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 9,390

See accompanying notes to financial statements.

MOUNTAIN VIEW REVITALIZATION AUTHORITY

Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficits)
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Revitalization Authority	Housing Set-Aside	Police/Fire Building 1995 C.O.P.	Total Governmental Funds
Revenues:				
Taxes	$ 2,552	0	0	2,552
Use of money and property	85	102	18	205
Total revenues	2,637	102	18	2,757
Expenditures:				
Current:				
Community development	346	0	0	346
Educational Revenue Augmentation Fund (Note 11)	74	0	0	74
Debt service:				
Principal repayment	0	0	340	340
Interest and fiscal charges	0	0	418	418
Total expenditures	420	0	758	1,178
Excess (deficiency) of revenues over (under) expenditures	2,217	102	(740)	1,579
Other financing sources (uses):				
Transfers in (Note 6A)	0	511	724	1,235
Transfers (out) (Note 6A)	(1,235)	0	0	(1,235)
Transfers from the City of Mountain View (Note 6A)	148	0	0	148
Transfers to the City of Mountain View (Note 6A)	(3,159)	0	0	(3,159)
Total other financing sources (uses)	(4,246)	511	724	(3,011)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,029)	613	(16)	(1,432)
Beginning fund balances	2,001	2,977	784	5,762
Ending fund balances (deficits)	$ (28)	3,590	768	4,330

See accompanying notes to financial statements.

MOUNTAIN VIEW REVITALIZATION AUTHORITY

Reconciliation of the
Net Change in Fund Balances
Total Governmental Funds with the
Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, 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 (DEFICITS)- TOTAL GOVERNMENTAL FUNDS	$ (1,432)
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.	
Depreciation expense is deducted from the fund balance	(416)
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.	
Repayment of debt principal is added back to fund balance	340
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):	
Interest payable	4
CHANGE IN NET ASSETS (DEFICITS) OF GOVERNMENTAL ACTIVITIES	$ (1,504)

See accompanying notes to financial statements.

MOUNTAIN VIEW REVITALIZATION AUTHORITY

Revitalization Authority
Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficits)
Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Budgeted Amounts			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget
Revenues:				
Taxes	$ 2,666	2,666	2,552	(114)
Use of money and property	183	183	85	(98)
Amounts available for appropriation	2,849	2,849	2,637	(212)
Expenditures:				
Current:				
Community development	464	574	346	228
Educational Revenue Augmentation Fund	0	0	74	(74)
Total expenditures	464	574	420	154
Excess (deficiency) of revenues over (under) expenditures	2,385	2,275	2,217	(58)
Other financing sources (uses):				
Transfers (out)	(1,292)	(1,292)	(1,235)	57
Transfers from the City of Mountain View	0	0	148	148
Transfers to the City of Mountain View	(3,220)	(3,220)	(3,159)	61
Total other financing sources (uses)	(4,512)	(4,512)	(4,246)	266
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,127)	(2,237)	(2,029)	208
Beginning fund balances	2,001	2,001	2,001	0
Ending fund balances (deficits)	$ (126)	(236)	(28)	208

See accompanying notes to financial statements.

MOUNTAIN VIEW REVITALIZATION AUTHORITY

Housing Set-Aside
Statement of Revenues, Expenditures and
Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)

	Budgeted Amounts			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget
Revenues:				
Use of money and property	$ 63	63	102	39
Amounts available for appropriation	63	63	102	39
Other financing sources (uses):				
Transfers in	533	533	511	(22)
Total other financing sources	533	533	511	(22)
Excess of revenues and other financing sources over expenditures and other financing uses	596	596	613	17
Beginning fund balances	2,977	2,977	2,977	0
Ending fund balances	$ 3,573	3,573	3,590	17

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mountain View Revitalization Authority (Authority) was established in 1969 under the Provisions of the Redevelopment Law (California Health and Safety Code) to provide an improved physical, social and economic environment in the Plan Area.

The Authority is an integral part of the City of Mountain View (City). It primarily services the City and the City's City Council serves as the governing body of the Authority. Therefore, the financial data of the Authority has also been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2003.

The Authority's primary source of revenue is incremental property taxes, which are computed and allocated to the Authority in the following manner:

a. The assessed valuation of all property within the Authority project area is determined and "frozen" for allocation purposes on the date of adoption of that project area's Revitalization Plan by a designation of a fiscal year assessment roll.

b. Increments in property taxes resulting from any increase in assessed values after the adoption of a Revitalization Plan are allocated to the Authority; all property taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Authority has no power to levy or collect taxes. Any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay principal and interest on debt or loans from the City and any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues available for this purpose. The Authority is also authorized to finance the Revitalization Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuance of Authority debt.

A. Basis of Presentation

The Authority's basic component unit financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Authority government. Eliminations have been made to minimize the double counting of internal activities.

NOTE 1 – SUMMARY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's 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 charges paid by the recipients of goods or services offered by the programs. 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 Authority's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

B. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. All of the Authority's funds are major funds.

The Authority reports the following major governmental funds in the accompanying financial statements:

Revitalization Authority (Special Revenue) – This fund accounts for the activities to prepare and carry out redevelopment plans for the designated development project area.

Housing Set-Aside (Special Revenue) – This fund accounts for the required 20% revenue set-aside and related expenses for Housing activities.

The Police/Fire Building Refunding 1995 Certificates of Participation Fund (Debt Service) – This fund accounts for the resources used for the purpose of paying the principal, interest, and related costs on the 1995 Refunding Certificates of Participation as they become due.

C. Basis of Accounting

The government-wide 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.

NOTE 1 – SUMMARY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Authority 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. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Those revenues susceptible to accrual include taxes, intergovernmental revenues and interest.

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

D. Property Tax

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the Authority. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July1 for the fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Authority in the fiscal year they are assessed, provided they become available as defined above.

E. Land Held for Redevelopment

At June 30, 2003 the Authority had two parcels held for redevelopment; one parcel purchased in fiscal year 2000 and one purchased in fiscal year 2003, which are being held for future development projects. The parcels are accounted for at the lower of cost or net realizable value.

NOTE 1 – SUMMARY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The Members of the Authority adopt an annual budget on or before June 30 for the ensuing fiscal year for the Special Revenue Funds. The Debt Service is budgeted annually in the Special Revenue Fund, the fund obligated for such payments.

Budgeted appropriations become effective each July 1. The Members of the Authority may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund and department level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

The Special Revenue Funds' annual budgets are presented on a basis consistent with the governmental financial statements prepared in accordance with generally accepted accounting principles.

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year and reappropriated amounts for prior-year encumbrances. The Members of the Authority must approve appropriation increases to departmental budgets; however, management may transfer approved budgeted amounts within fund and departmental expenditure classifications. Supplemental appropriations were approved during the course of the year as needed.

B. Encumbrance Accounting

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. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are automatically reappropriated for inclusion in the following year's budget.

NOTE 3 – CASH AND INVESTMENTS

Investments are carried at fair value and are categorized as follows at June 30, 2003 (dollars in thousands):

	Cash and Investments		
	Available for Operations	Restricted	Total
Pooled Investments (non Categorized):			
Local Agency Investment Fund	$ 0	767	767
Mutual funds (government securities)	0	1	1
City of Mountain View's Pooled Investment Fund	3,769	0	3,769
Total cash and investments	$ 3,769	768	4,537

The Authority's cash, except cash with fiscal agents, is included in a City-wide cash and investments pool, the details of which are presented in the City's basic financial statements. The City's investment policy and the California Government Code permit investments in the following: Securities issued by the U.S. Government or an agency of the U.S. Government, mortgage-backed securities, commercial paper, banker's acceptances, medium term notes issued by U.S. corporations, mutual funds invested in U.S. Government securities, certificates of deposit, municipal bonds issued by the City or any of its component units and the State Treasurer's investment pool (Local Agency Investment Fund). As of June 30, 2003 the City's portfolio was composed primarily of investments in securities issued by the U.S. Government and its agencies and the State of California Local Agency Investment Fund.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, 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 4 – NOTES RECEIVABLE

At June 30, 2003 the Authority's notes and loans receivable totaled (dollars in thousands):

Latham Street Apartments	$ 866
Central Park Apartments	137
Total	$ 1,003

NOTE 4 – NOTES RECEIVABLE (Continued)

A. Latham Street Apartments

On August 30, 1995 the City and the Authority loaned $2.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 75 unit apartment complex at 2230 Latham Street to provide affordable housing for very low- to moderate-income families. The loan was funded by $992,000 of Authority Housing Set-Aside funds, $688,000 of Community Development Block Grants (CDBG) funds and $387,000 of Home Investment Partnership Act (HOME) grant funds. The various components of the loan are to be repaid over a 20 to 24 year period at three percent annual simple interest. The loan is collateralized by a first deed of trust.

B. Central Park Apartments

On July 1, 1998 the City and the Authority loaned $2.2 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 149 unit apartment complex known as Central Park Apartments at 90 Sierra Vista Avenue to be used to provide housing for seniors of very low to low income. The entire project was funded by three loans: $388,000 from Authority Housing Set-Aside funds to be repaid over 9 years, commencing in fiscal year 1999 and bearing three percent annual interest; $1.2 million of CDBG funds to be repaid over 36 years commencing in fiscal year 2013 and bearing three percent annual interest; and $612,000 from HOME grant funds to be repaid over 21 years commencing in fiscal year 2005 and bearing three percent annual interest.

NOTE 5 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets are assets with an initial individual cost of more than $3,000 and an estimated useful life in excess of two years.

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

Buildings	25 to 50 years
Improvements	5 to 50 years
Parking facilities	40 years
Street lights	50 years
Sidewalks, curbs, gutters, and driveways	40 years
Streets and roads	40 years

NOTE 5 – CAPITAL ASSETS (Continued)

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

Capital assets at June 30, 2003 comprise (dollars in thousands):

	Balance at June 30, 2002 (including retroactive additions)	Additions	Balance at June 30, 2003
Governmental activities			
Capital assets being depreciated:			
Buildings	$ 5,394	0	5,394
Improvements other than buildings	10	0	10
Parking facilities	4,140	0	4,140
Street lights	781	0	781
Sidewalks, curbs, gutters, and driveways	3,839	0	3,839
Streets	3,009	0	3,009
Total capital assets being depreciated	17,173	0	17,173
Less accumulated depreciation for:			
Buildings	(1,225)	(135)	(1,360)
Improvements other than buildings	(4)	(1)	(5)
Parking facilities	(1,133)	(98)	(1,231)
Street lights	(213)	(19)	(232)
Sidewalks, curbs, gutters, and driveways	(1,051)	(91)	(1,142)
Streets	(824)	(72)	(896)
Total accumulated depreciation	(4,450)	(416)	(4,866)
Governmental activity capital assets, net	$ 12,723	(416)	12,307

Under GASB Statement No. 34 the Authority is allowed four years to record its infrastructure. During fiscal year 2003 the Authority continued to inventory its infrastructure capital assets and determined that its parking facilities, streets, sidewalks, and street lights networks with a net book value of $8.5 million should be added to the Authority's capital assets.

NOTE 6 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With the approval of the Members of the Authority, resources may be transferred from one Authority 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. Less often, a transfer may be made to open or close a fund.

NOTE 6 – INTERFUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2003 were as follows (dollars in thousands):

	Transfers	
	In	Out
Revitalization Authority Special Revenue Fund	$ 0	1,235
Housing Set-Aside Special Revenue Fund	511	0
Police/Fire Building 1995 C. O.P. Fund	724	0
Total all Funds	$ 1,235	1,235

During the fiscal year ended June 30, 2003 the Authority made transfers to the City in the amount of $3.2 million to fund development activities. Transfers from the City to the Authority totaled $148,000 to return interest earnings on available capital projects balances.

B. Long-Term Advances from the City

Improvements to the Authority have been partially funded by advances from the City. The Authority's management believes that future property tax increment revenues will be sufficient to repay the advances. The advance of $1.7 million from the General Fund will be repaid at a reamortized interest rate of six percent over the sixteen-year remaining life of the Authority. A payment of $61,000 was made in fiscal year 2003. The remaining General Fund advance of $413,000 will be paid in full upon the sale of the property located at 253-255 Franklin Street.

The advance of $1.9 million from Shoreline Regional Park Community is for the purchase of property. The advance, plus interest at a rate of six percent, will be repaid from future revenues realized when the property is developed or sold.

NOTE 7 – LONG TERM OBLIGATIONS

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

NOTE 7 – LONG TERM OBLIGATIONS (Continued)

A. Composition and Changes

The Authority's long term debt as of June 30, 2003 follows (dollars in thousands):

	Original Issue Amount	Balance June 30, 2002	Retirements	Balance June 30, 2003	Due Within One Year
Pledge of Tax Increment for the Repayment of the 1995 Refunding Certificates of Participation					
4.0% to 6.0%, due 2016	$ 9,175	7,485	(340)	7,145	355

B. Description of Long-Term Obligations

Pledge of Tax Increment for the Repayment of the 1995 Refunding Bonds Revitalization Certificates of Participation – In fiscal 1996, the City transferred ownership of the Police/Fire Building to the Authority and then entered into a 20-year lease for such property with the Authority. Simultaneously, the Authority entered into an indebtedness agreement whereby the Authority pledges tax increment revenue in amounts equal to the lease payments. The City has assigned the indebtedness payments to a trustee for the benefit of the owners of the 1995 Certificates of Participation (COPs). The indebtedness payments are scheduled to be sufficient, in both time and amount, to pay the principal and interest on the 1995 COPs when due. To the extent the indebtedness payments are not sufficient to pay the principal and interest on the 1995 COPs, the City is obligated to make lease payments sufficient to satisfy the principal and interest payments on the 1995 COPs when due. When the 1995 COPs are repaid and the lease expires, ownership of the property will revert back to the City.

C. Tax Increment Pledge Requirements

The Authority's annual commitment to the City to maturity follows (dollars in thousands):

	Governmental Activities	
For the Year Ending June 30	Principal	Interest
2004	$ 355	398
2005	370	380
2006	390	360
2007	410	340
2008	430	318
2009-2013	2,550	1,182
2014-2018	2,640	329
Total	$ 7,145	3,307

NOTE 8 – RISK MANAGEMENT

The Authority is covered under the City's insurance program. The City is exposed to various risks of loss related to torts, errors and omissions, injuries to employees or others, unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of $500,000 for general liability claims, $500,000 for workers' compensation claims with statutory excess insurance and actual costs incurred for unemployment benefits.

For general liability claims, the City has excess liability coverage through the Authority for California Cities Excess Liabilities (ACCEL) to cover the risk of loss for claims in excess of $500,000 per incident. ACCEL is a joint powers authority of medium-sized California municipalities which pools catastrophic general liability, automobile liability and public officials errors and omissions losses. ACCEL coverage consists of an excess insurance policy purchased for a limit of $19.5 million per occurrence, with an aggregate limit of $19.5 million.

Additional information regarding the City's insurance programs can be found in the City's June 30, 2003 Comprehensive Annual Financial Report.

NOTE 9 – NET ASSETS AND FUND BALANCES

A. *Net Assets*

Net assets is the excess of all the Authority's assets over all its liabilities, regardless of fund. Net assets are divided into three captions on the Statement of Net Assets. 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 Authority'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 Authority cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of net assets which is not restricted as to use.

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances, Reserves and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less it's liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which are not available for appropriation or are legally segregated for a specific future use. The remaining portion is unreserved fund balance.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Authority may be a defendant in several lawsuits and other matters arising in the normal course of operations. The Authority's management and legal counsel are of the opinion that the potential claims against the Authority not covered by insurance resulting from such litigation would not materially affect the financial position of the Authority.

NOTE 11 – TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

In fiscal year 2003 the State of California directed that a portion of the incremental property taxes which had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During the fiscal year ended June 30, 2003, the Authority paid $74,000 as a result of the State directive.

NOTE 12 – SUBSEQUENT EVENT

In September 2003 the City caused to be issued the 2003 Certificates of Participation (Refunding and Capital Projects) in an aggregate principal amount of $16.9 million to refund the 1995 Refunding Certificates of Participation and to finance the construction of a new parking facility. Simultaneously, the Authority entered into an Indebtedness Agreement with the City, whereby in exchange for the bond proceeds to finance the construction of the new parking facility in the redevelopment area, the Authority pledged tax increment revenue in amounts equal to the debt service payments on the 2003 COPs.

MAZE & ASSOCIATES

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Mountain View Revitalization Authority
City of Mountain View, California

We have audited the financial statements of the Mountain View Revitalization Authority (Authority) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 4, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Those provisions include provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Members of the Authority, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Maze & Associates

September 4, 2003

A Professional Corporation