CITY OF MORGAN HILL

CITY COUNCIL & REDEVELOPMENT AGENCY STAFF REPORT

Agenda Item #
Prepared By:
Finance Director
Submitted By:
City Manager

MEETING DATE: *December 18, 2002*

FISCAL YEAR 2001/02 ANNUAL FINANCIAL REPORTS

RECOMMENDED ACTIONS:
Accept and File the following financial reports for the year ended June 30, 2002:
1) Comprehensive Annual Financial Report for the City
2) Annual Financial Statements for the Redevelopment Agency

EXECUTIVE SUMMARY:
Attached are the transmittal letter from the City's Comprehensive Annual Financial Report ("CAFR") and the Redevelopment Agency's General Purpose Financial Statements. The complete CAFR has been provided to you under separate cover. These annual reports are presented to you for your review. Audits of the City's and Agency's financial statements are required by State law. This year, the City did not undergo a Single Audit because the City did not receive significant federal dollars for grant programs. Copies of the CAFR are on file with the City Clerk and at the library.

Both reports include audit opinions from the City's and Agency's independent auditor Caporicci & Larson. This is the fourth year that Caporicci & Larson has been engaged as the City's financial auditor.

The auditors indicated in their opinions that the financial statements of both the City and Agency present fairly their position as of June 30, 2002, in conformity with generally accepted accounting principles. The auditor's reports are unqualified. The auditors also concluded in their report letter included with the Agency's financial statements, based upon their review, that the Agency complied with applicable laws, regulations, contracts, and grants.

FISCAL IMPACT:
The financial reports indicate that both the City and Agency are in solid financial condition. This is reflected by the significant reserves in the City's General Fund and by the significant tax increment revenue generated through the Redevelopment Agency. However, because the CAFR reflects a drop in 2001/02 sales taxes and transient occupancy taxes associated with weakness in the local, state, and national economy, it is appropriate for the City to carefully plan ahead to prudently manage the City's resources.

CITY OF MORGAN HILL, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2002

CITY OF MORGAN HILL

CITY OF MORGAN HILL

Prepared by

FINANCE DEPARTMENT

CITY OF MORGAN HILL, CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2002

CITY OF MORGAN HILL

CITY OF MORGAN HILL, CALIFORNIA
Comprehensive Annual Financial Report
Year Ended June 30, 2002
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Comprehensive Annual Financial Report
Year Ended June 30, 2002
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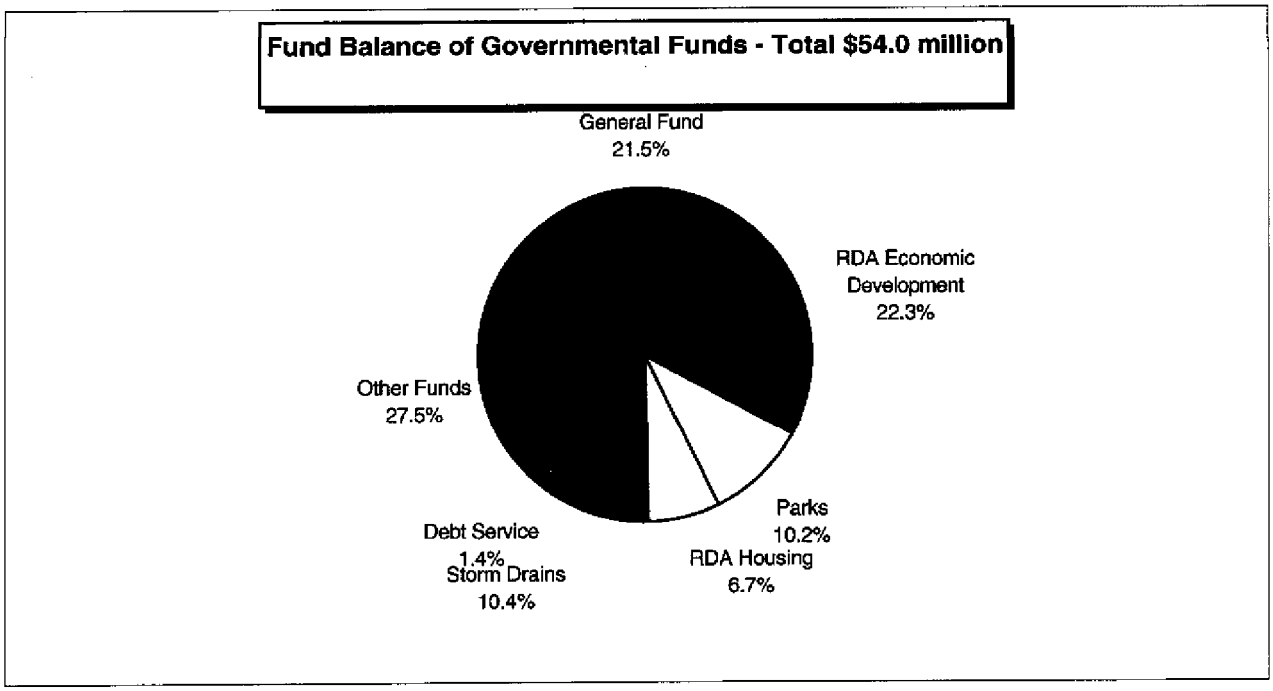
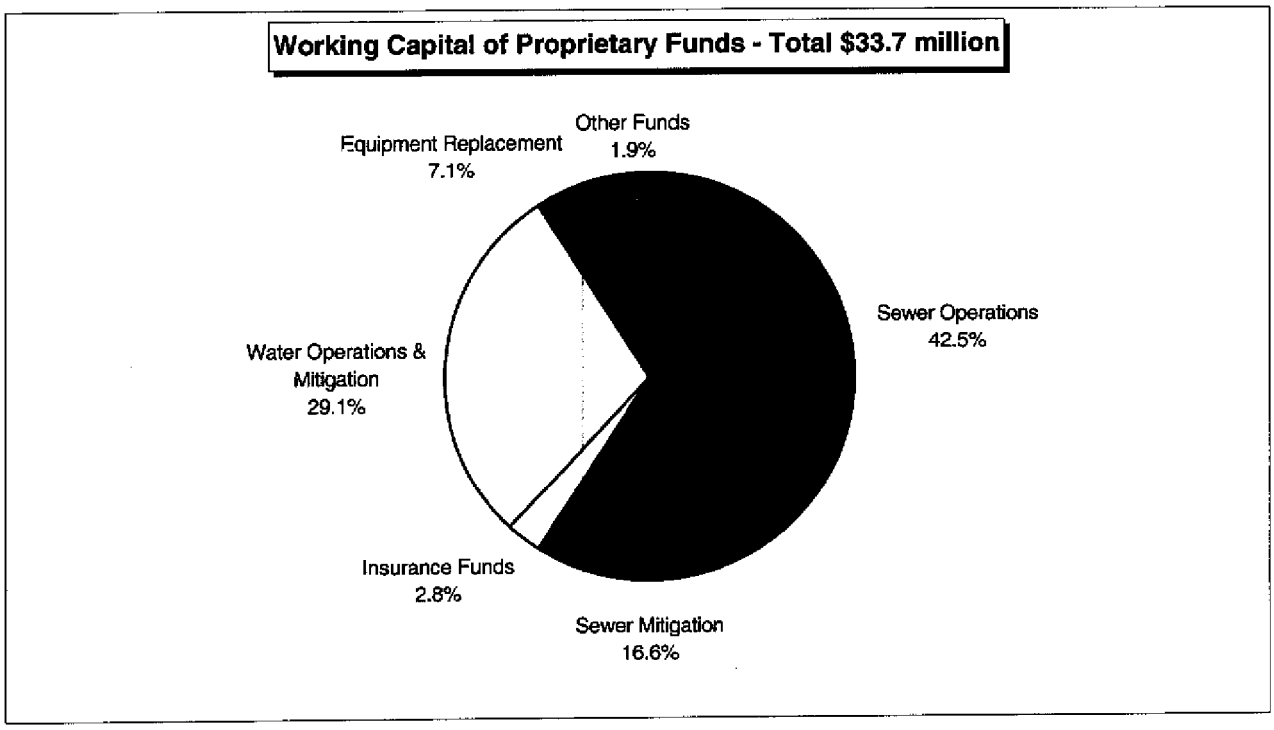
City of Morgan Hill

INTRODUCTORY SECTION

This section provides a description of the City and its economic conditions, achievements, and organization structure.





Note: The above fund balances include the undesignated portion of fund balance and the amounts reserved or designated for the following: Housing, Economic Development, Capital Expansion Projects and Debt Service. Working Capital represents current assets less current liabilities and is the best indicator of the financial status of a prorietary fund of a government.

CITY OF MORGAN HILL

CITY OF MORGAN HILL

FINANCE DEPARTMENT

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December 18, 2002

Honorable Mayor, Members of the City Council, City Manager, and Citizens of Morgan Hill:

The Comprehensive Annual Financial Report for the City of Morgan Hill, California for the fiscal year ended June 30, 2002, is submitted for your information and review. The responsibility for the accuracy of the information, and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. The financial statements within this report have been audited by the City's independent auditor, Caporicci & Larson, which has issued an unqualified opinion. The auditor's opinion letter is included in this report.

The City was not required to undergo a single audit for 2001/02 federal assistance to the City under the provisions of *The Single Audit Act,* as amended in 1996, and the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non Profit Organizations.*

The comprehensive annual financial report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section, which is unaudited, includes this letter of transmittal, a list of the City's elected officials and administrative personnel, an organization chart, an area map, and certificates of award for financial reporting. The Financial Section includes the independent auditor's report on the financial statements and schedules, general-purpose financial statements, and combining and account group financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The financial reporting entity includes all of the funds and account groups of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Wastewater Facilities Financing Corporation and the Redevelopment Agency of the City of Morgan Hill are governed by boards which are substantially the same as the City's governing body. These two component units have been blended into the City's general purpose financial statements because the City is able to impose its will on these component units, and the component units provide services primarily to the City. The Morgan Hill Corporation Yard Commission is a joint powers association between the City and the Morgan Hill Unified School District and it functions for the benefit of the City and the School District. Since the services of the Corporation Yard Commission are not provided primarily to the City, the financial information for the Commission is discretely presented in the combined financial statements so that this information may be separately accounted for.

This report includes all funds and account groups of the City. The City provides a broad range of services including police protection, business assistance and housing, water and sanitation services, streets and parks construction and maintenance, planning and engineering, code enforcement, recreation, and general city administration and support services. The City receives fire protection services from the Santa Clara County Fire Department under a contract. The City relies on franchised solid waste collection services.

ECONOMIC CONDITIONS AND OUTLOOK

The City Council has consistently faced the challenge of balancing policies that stimulate and support economic growth with maintenance and improvement of the quality of life in Morgan Hill. The City benefits from a diverse local economy which includes a variety of business activities and employers. The largest employers are: Anritsu, Morgan Hill Unified School District, Abbott Laboratories, EDO Reconnaissance & Surveillance Systems, Media Arts Group, Paramit Corporation, Fox Racing, Educational Data Systems, Custom Chrome, and the City of Morgan Hill.

Business attraction, economic development, affordable housing and capital improvements provide the foundation of the City's strategy for enhancing economic growth. Prudence in fiscal matters guides the City's management of its finances. Economic boom times are balanced with financial common sense to plan for future financial soundness.

Goal setting and establishment of priorities based on community input assure that issues important to the citizens of Morgan Hill are appropriately addressed. These issues include access to housing, enhanced recreation facilities, public safety, and emergency services. The City has been responsive to these issues, as shown by the progress toward these goals and the establishment of a solid foundation for the future. In particular, a substantial Capital Improvement Program includes a community and cultural center that is currently under construction, increased park and recreational opportunities and substantial infrastructure improvements. In addition, the City is committed to the redevelopment process through the actions of the Redevelopment Agency.

Currently, Morgan Hill is experiencing the effects of a continuing slowdown in the regional, state, and national economy, but the future economic picture for the City of Morgan Hill is bright. Beginning in the fourth quarter of 2000/01, the City began experiencing the effects of the recession. Employment for the City's top 40 employers dropped by 6.4% from July 2001 to July 2002 to a level of 5,637. Unemployment and commercial vacancy rates have risen throughout the Silicon Valley. Property tax collections have remained stable, reflecting higher residential property values offset somewhat by lower commercial property values.

The downturn in the economy reduced the City's General Fund tax revenue collections in 2001/02 and is continuing to affect tax revenue collections in 2002/03. As a result, the City's General Fund is expected to take in approximately $367,000, or 2.3%, less in total revenues during 2002/03 than originally anticipated in the 2002/03 Budget. A projected $530,000 shortfall in expected sales taxes, a $100,000 decrease in State mandated cost reimbursements, and an $87,000 drop in investment earnings are projected to be offset by an extra $235,000 in motor vehicle-in-lieu fees, an increase of $84,000 in transit occupancy tax revenue, and an additional $31,000 in other revenue. The sales taxes loss represents 9% less than the amount budgeted. The loss in mandated cost reimbursements from the State of California results from the State's Budget dilemma. Falling interest rates have caused the projected drop in investment earnings. When the $367,000 revenue shortfall is added to the $263,000 excess of 2002/03 appropriations over estimated revenues reflected in the current budget, the projected excess of expenditures over revenues for 2002/03 without any corrective actions would be $630,000. As a result of this projected shortfall, the City Council in November 2002 directed staff to reduce General Fund 2002/03 expenditures by a 4% target reduction for all departments as a whole except for Fire and Medical Services, while minimizing adverse service effects This action will save $446,000. The $184,000 balance of the shortfall is to be covered by using fund balance designated for economic uncertainty in the General Fund existing at June 30, 2002. In November 2002, the City Council also adopted a reserve and designations policy for key operating funds. For the General Fund, the City Council formally established a general reserve equal to 20% of budgeted revenues and increased the designations for economic uncertainty and for emergencies so that each equals 10% of budgeted revenues.

The General Fund had a very strong unreserved fund balance of approximately $11.7 million at June 30, 2002, which amounts to 71% of the 2002/03 General Fund Budget. This substantial fund balance, along with the City Council's history of taking necessary strategic budgetary steps, will allow the City to safely weather the recession, to withstand any State take-aways of local revenue, to pay anticipated increases

in retirement costs, and to provide for the operations of new City facilities that will be coming on-line during the next few years.

MAJOR INITIATIVES

Key accomplishments of the 2001/02 Fiscal Year

- Completed design of Community Playhouse and began construction
- Began construction on the new Community & Cultural Center
- Acquired land for Aquatics Center, Sports Center, Indoor Recreation Center, and County Courthouse
- Completed business plan for the Community & Cultural Center
- Began construction on Murphy Ranch Affordable Housing Development
- Recommended a comprehensive financial plan, including a 10 year financial forecast
- Analyzed funding levels and strategy for fleet management, information technology, & equipment
- Recommended an implementation strategy for the Fire & emergency Medical Services Master Plan
- Supported work of Morgan Hill Community Health Foundation to facilitate local medical services
- Updated the Housing Element of the General Plan
- Began the Update of the Downtown Design Plan
- Began development of a Gateway Plan
- Conducted an Audit of Development Processing Services
- Enhanced the City's Web Site
- Developed a new City logo
- Improved City's budget process and incorporated departmental performance measures
- Constructed plan to implement GASB 34, requiring significant changes to City's financial statements
- Completed Master Plans for Water, Wastewater, and Storm Drainage
- Acquired some land for the Butterfield Blvd. Extension (San Pedro to Tennant)
- Developed a preliminary design for a Community Indoor Recreation Center
-

Goals for the 2002/2003 Fiscal Year:

- Pursue State funding for a new Library
- Open new Community & Cultural Center and Playhouse
- Complete preliminary/final design for: Indoor Recreation Center, Library, Aquatics Center, & Sports Complex
- Work with Santa Clara County to develop Morgan Hill Courthouse
- Assist Morgan Hill Community Health Foundation to provide medical services
- Complete Murphy Avenue Corridor Study
- Implement an auto dealer marketing strategy
- Implement audit recommendations from development processing audit
- Expand curbside recycling program to include plastics 3-7, scrap metals, and other materials
- Implement expanded business license audit program by using new data bases
- Select and implement a new financial system software package
- Develop detailed Police Facility Master Plan
- Begin construction of 72 unit "Church Street" mixed-use housing and office project
- Add more E-government resources to website to increase community access to City services
- Compile core competencies for all City employees and recruit & select for those competencies
- Complete two new City water reservoirs
- Complete and implement City's Comprehensive Housing Strategy
- Complete drilling of new water well at Boys Ranch
- Implement GASB 34 financial statement reporting for fiscal year 2002/03

- Commence design of the Butterfield Detention Basin
- Complete construction of Butterfield Blvd. Extension from San Pedro to Tennant
- Make improvements to increase capacity of Wastewater Treatment Plant to 8.5 MGD
- Aggressively deliver 5 year Capital Improvement Plan (CIP) of $155 million

ACCOUNTING SYSTEMS AND BUDGETARY CONTROLS

When developing and evaluating the City's accounting system, consideration is given to the effectiveness of the internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding: safeguarding of assets against loss, accuracy and reliability of accounting data, and adherence to prescribed managerial policy. Reasonable assurance recognizes that the cost of a control should not exceed benefits to be derived. The evaluation of costs and benefits requires estimates and judgments by management. We believe the internal accounting controls of the City adequately safeguard assets and provide reasonable assurance of proper recording of the financial transactions.

State statutes and City policy require an approved budget before expenditures are made. Budgets are adopted for all governmental funds and proprietary funds.

Budget proposals are prepared by the City's Department Directors. The budget proposals, with justifications, are submitted to the Finance Department for compilation. The budget is compiled and the City's preliminary budget is presented to the City Manager for review. The City Council reviews the preliminary budget at study sessions open to the public. Changes made at these sessions are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

The City Council may amend the budget by resolution during the year. The City Manager may transfer appropriations within an activity to facilitate the functions of that activity in accordance with the directions, goals, and policies of the City Council. A transfer of appropriations between activities requires City Council approval and any additional appropriations also require approval by the City Council. The budgeted amounts presented in the report are as originally adopted or, if amended, then as amended by the City Council.

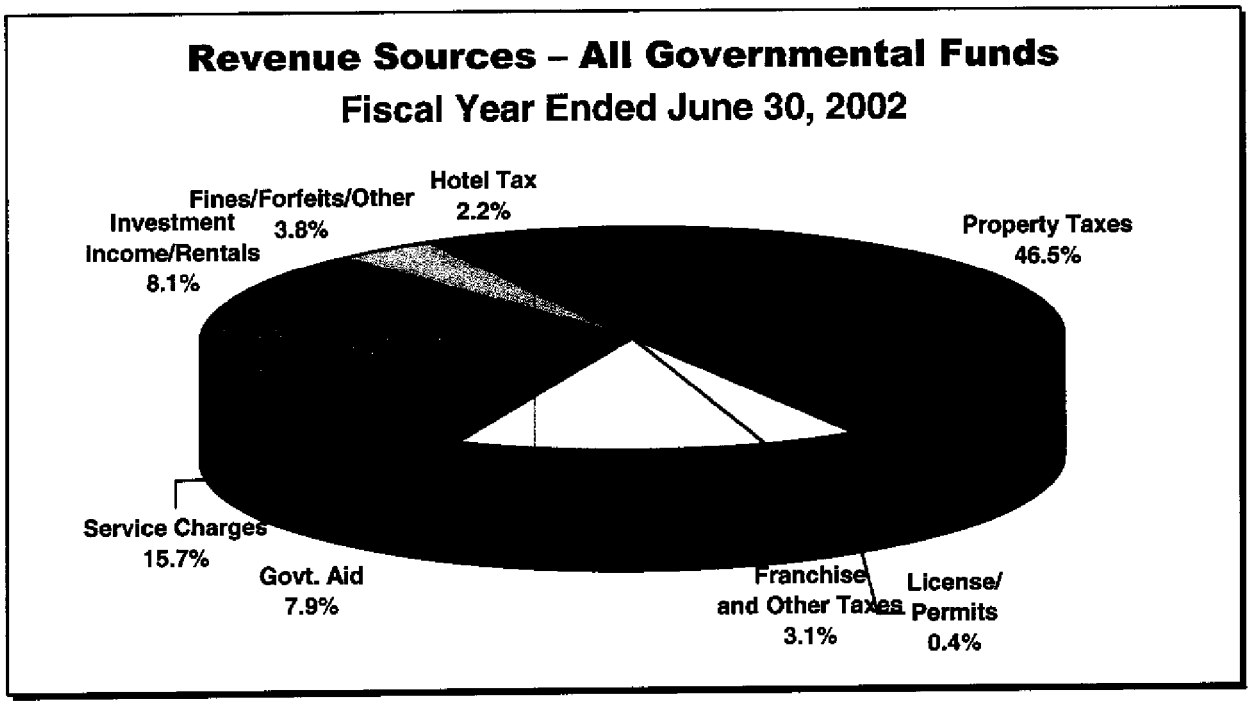
FINANCIAL HIGHLIGHTS - GENERAL GOVERNMENT FUNCTIONS

The fiscal operations of the City for all general governmental functions are accounted for in the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds together are referred to as Governmental Fund Types. This group of funds includes the Redevelopment Agency Funds.

Revenues for these funds totaled $41,801,073, a 12.8% decrease over the 2000/01 revenues. Revenues for 2001/02 by major source are summarized for all governmental funds as follows:

GOVERNMENTAL FUNDS

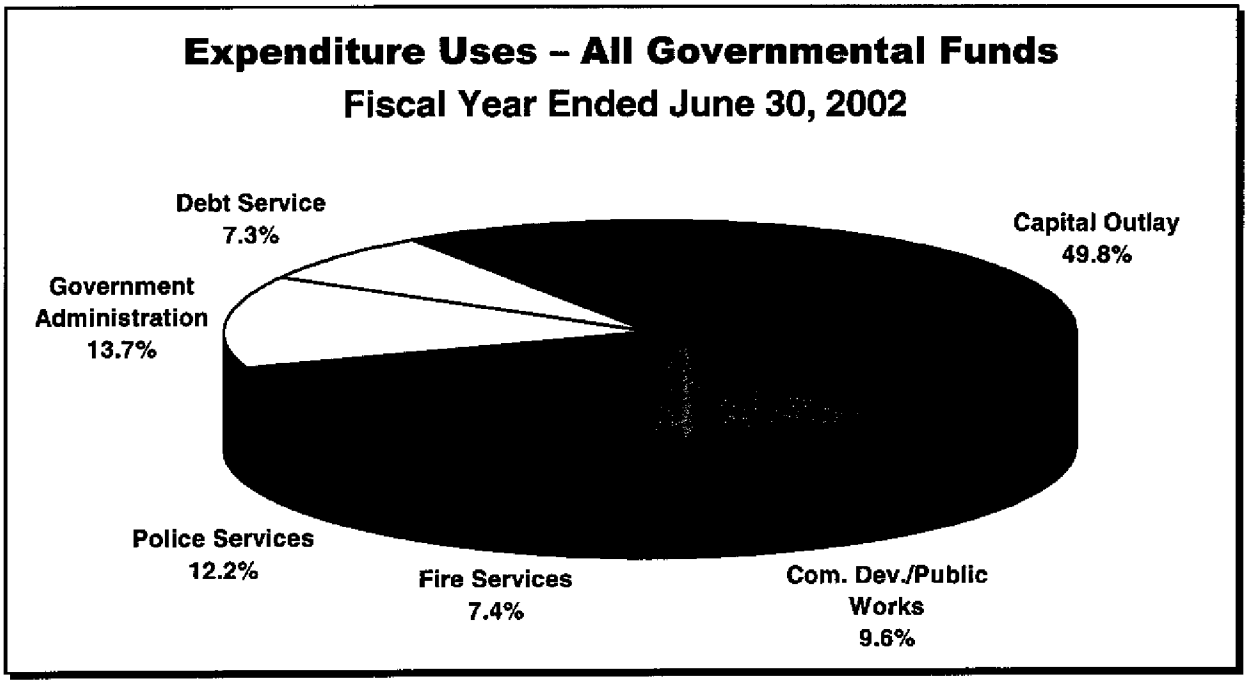
Revenues by Source	2001/02 Year Amount	% of Total	2000/01 Prior Year Amount	$ Change from Prior Year	% Change from Prior Year
Property Taxes and Special Assessments	$19,454,298	46.5%	$18,431,805	$1,022,493	5.5%
Sales Taxes	4,870,295	11.7%	5,532,132	(661,837)	(12.0)%
Hotel Tax	931,716	2.2%	1,369,168	(437,452)	(32.0)%
Franchise and Other Taxes	1,511,745	3.6%	1,434,093	77,652	5.4%
Licenses and Permits	205,594	0.5%	200,892	4,702	2.3%
Funding from Other Governmental Agencies	3,316,144	7.9%	6,628,611	(3,312,467)	(50.0)%
Charges for Current Services	6,563,464	15.7%	7,831,911	(1,268,447)	(16.2)%
Investment Income and Rentals	3,376,460	8.1%	4,779,827	(1,403,367)	(29.4)%
Fines, Forfeitures, and Other	9,221,357	3.8%	1,718,814	(147,457)	(8.6)%
Total Revenues	**$41,801,073**	**100.0%**	**47,927,253**	**(6,126,180)**	**(12.8)%**



The 12% drop in Sales Taxes was associated with the recession during 2001/02. Hotel Taxes decreased by 32% in 2001/02 due to decreased occupancy rates and decreased demand associated with business travel. Funding from Other Governmental Agencies decreased primarily because of one-time street project grant revenues that were received during 2000/01. The decrease in Charges for Current Services was associated with the timing of payments to the City for housing and commercial development. Investment Income and Rentals decreased primarily because of a lower average return on investments related to declining interest rates. Fines, Forfeitures, and Other decreased primarily because $909,815 in loan proceeds was received in the prior year by the Redevelopment Agency from the California Housing Finance Agency to assist in financing the Church Street Mixed Use Affordable Housing Project.

Expenditures for the governmental funds totaled $48,258,871, a 51.9% increase over the prior year related to increased capital spending. Expenditures by program categories are summarized in total for the governmental funds as follows:

Expenditures by Program	2001/02 Year Amount	% of Total	2000/01 Prior Year Amount	$ Change from Prior Year	% Change from Prior Year
Government Administration	$6,619,935	13.7%	$4,225,128	$2,394,807	56.7%
Police Services	5,877,411	12.2%	5,529,991	347,420	6.3%
Fire Services	3,559,610	7.4%	3,350,334	209,276	6.2%
Community Development and Public Works	4,635,063	9.6%	4,145,308	489,755	11.8%
Capital Outlay	24,015,057	49.8%	13,536,133	10,478,924	77.4%
Debt Service	3,551,795	7.3%	979,626	2,572,169	262.6%
Total Expenditures	**$48,258,871**	**100.0%**	**$31,766,520**	**16,492,351**	**51.9%**



The increase in Government Administration expenditures over the prior year was due to the inclusion of Finance, Human Resources, and City Attorney activity as expenditures within the General Fund for 2001/02; in the prior year, this activity was treated as expenses within the Finance, Human Resources, and City Attorney internal service funds and was not included in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance for All Governmental Fund Types. The increase in Community Development & Public Works was primarily associated with increased costs related to a higher level of internal service fund charges and General Fund administration overhead based upon a revised cost allocation process. The increase in Capital Outlay was related to a higher level of community development and public works projects. The increase in Debt Service related to the multi-year purchase of a property for a future Sports Complex by the Redevelopment Agency.

FINANCIAL HIGHLIGHTS - PROPRIETARY FUNDS

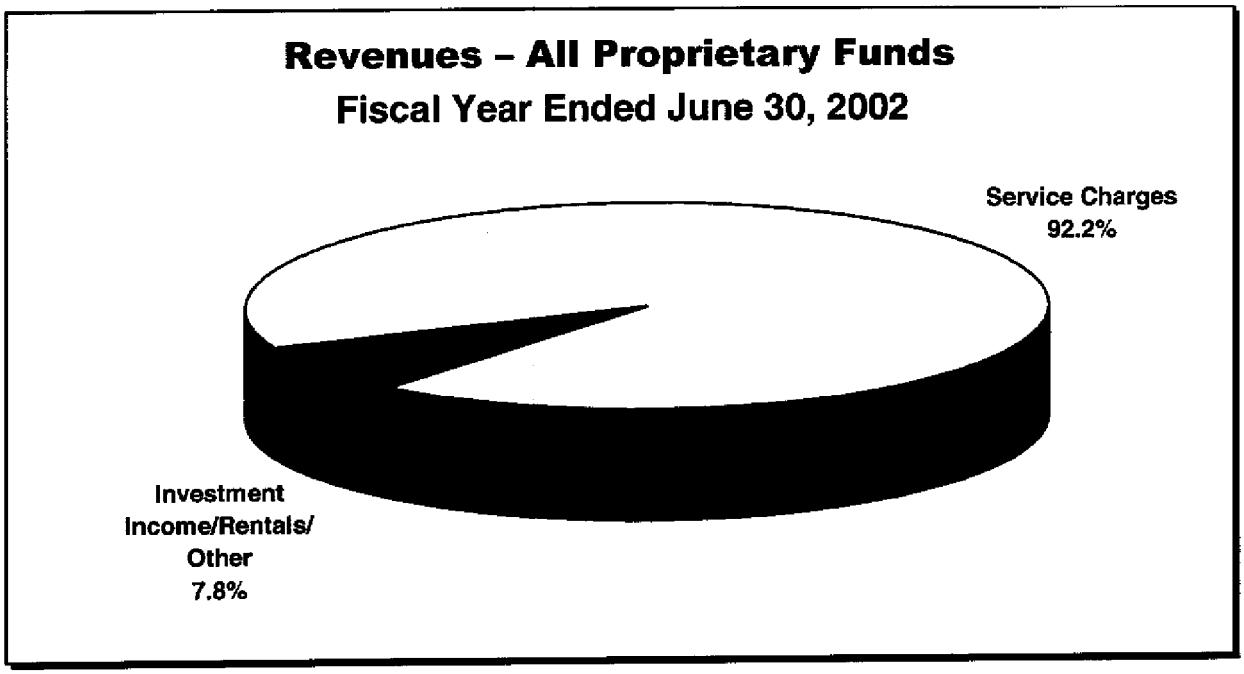
The Proprietary Fund Types fund group consists of Enterprise and Internal Service funds. The Enterprise Funds are the Water Fund, the Sewer Fund and the Wastewater Facilities Financing Corporation Fund. The Enterprise Funds were established to account for the financing of self-supporting activities which render services, such as water and wastewater treatment, to the public. The costs are primarily financed by user charges based on services rendered. This includes the payment of long-term debt related to these activities.

The Internal Service Funds are similar to Enterprise Funds in operating nature, except that they provide services to other City departments rather than to the public. The Internal Service Funds include Building Maintenance, CIP Administration, Equipment Replacement, and insurance funds for Unemployment, Workers' Compensation and General Liability.

Total revenues for all primary government Proprietary Funds decreased by 18.1% as shown below. Within these Proprietary Funds, Enterprise Fund revenue decreased by 12.1 % to $14,778,907, related to lower sewer and water impact and connection fee revenue and to less investment income, while Internal Service Fund revenue dropped by 46.6% to $3,134,168 primarily because of the removal of three internal service funds for 2001/02.

PROPRIETARY FUNDS

Revenues	2001/02 Year Amount	% of total	2000/2001 Prior Year Amount	$ Change from Prior Year	% Change from Prior Year
Charges for Current Services	$16,513,687	92.2%	$19,573,246	$(3,059,559)	(15.6)%
Investment Income, Rentals and Other	1,399,388	7.8%	2,309,773	(910,385)	(39.4)%
Total Revenues	**$17,913,075**	**100.0%**	**$21,883,019**	**$(3,969,944)**	**(18.1)%**



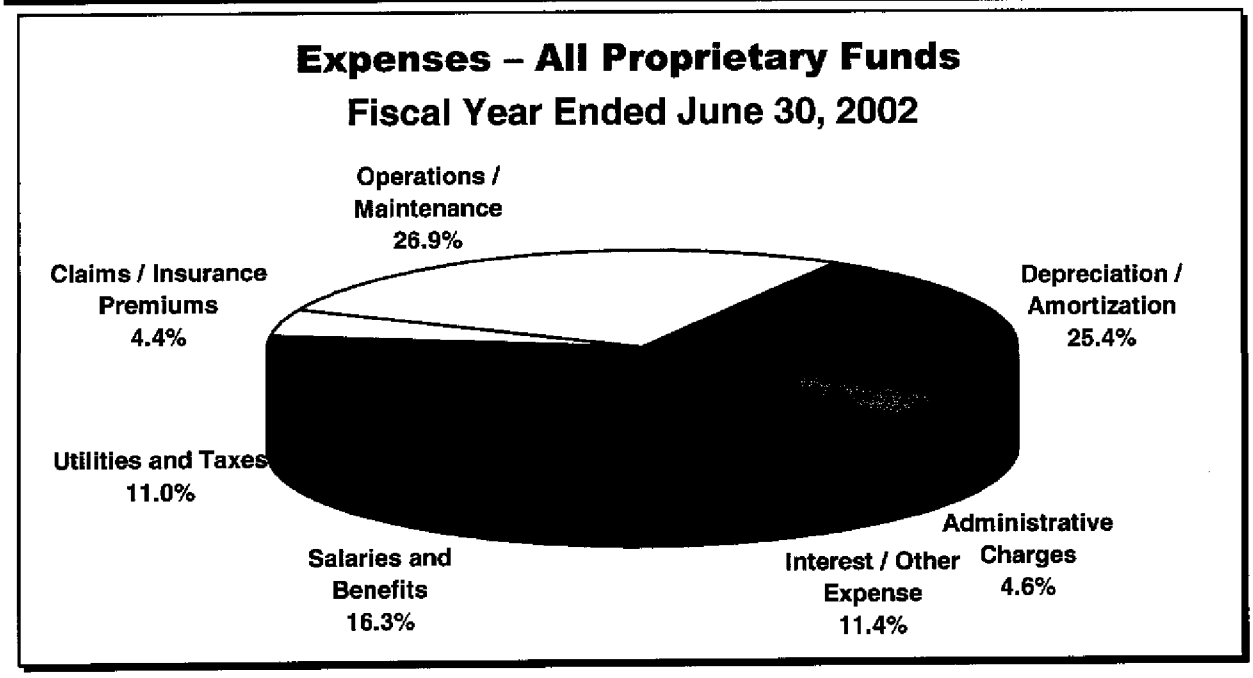
The decrease in Charges for Current Services over the prior year was primarily due to the removal of Finance, Human Resources, and City Attorney activity as revenue within the Finance, Human Resources, and City Attorney internal service funds; in 2001/02, this activity was instead accounted for in the General Fund and included in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance for All Governmental Fund Types. In addition, less revenue was collected in sewer and water impact fee and connection fee revenue. Sewer and water user fee revenues were stable.

Investment Income, Rentals and Other revenues decreased compared to the prior year primarily because of lower interest rates and because of the reclassification of activity previously accounted for in three internal service funds.

The Morgan Hill Corporation Yard Commission discrete component unit revenues decreased by 36.2% from $794,838 to $507,150 due to a drop in supplemental rent from operations related to a smaller amount of charges necessary to recover fuel contamination leak operating expenses.

Expenses for all primary government Proprietary Funds decreased by 2.7% as shown below:

Expenses	2001/02 Amount	% of Total	2000/01 Prior Year Amount	$ Change from Prior Year	% Change from Prior Year
Salaries and Benefits	$2,678,836	16.3%	$3,484,306	$(805,470)	(23.1)%
Utilities and Taxes	1,810,270	11.0%	1,365,095	445,175	32.6%
Claims / Insurance Premiums	727,681	4.4%	569,278	158,403	27.8%
Operations and Maintenance	4,424,484	26.9%	5,360,678	(936,194)	(17.5)%
Depreciation and Amortization	4,175,759	25.4%	3,206,884	968,875	30.2%
Administrative Charges	752,646	4.6%	971,077	(218,431)	(22.5)%
Interest and Other Expense	1,865,520	11.4%	1,936,156	(70,636)	(3.6)%
Total Expenses	**$16,435,196**	**100.0%**	**$16,893,474**	**$(458,278)**	**(2.7)%**



The decreases in Salaries & Benefits, in Operations & Maintenance, and in Administrative Charges over the prior year were due to the removal of Finance, Human Resources, and City Attorney activity as expenses within the Finance, Human resources, and City Attorney internal service funds; in 2001/02, this activity was instead accounted for in the General Fund and included in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance for All Governmental Fund Types.

The increase for Claims/Insurance Premiums was related to a higher level of general liability claims costs. The increase in Depreciation & Amortization was related to the completion of major projects that had been previously accounted for as construction in progress.

The Morgan Hill Corporation Yard Commission discrete component unit expenses decreased by 16.5% from $669,312 to $559,024 due to a drop in fuel contamination leak operating expenses.

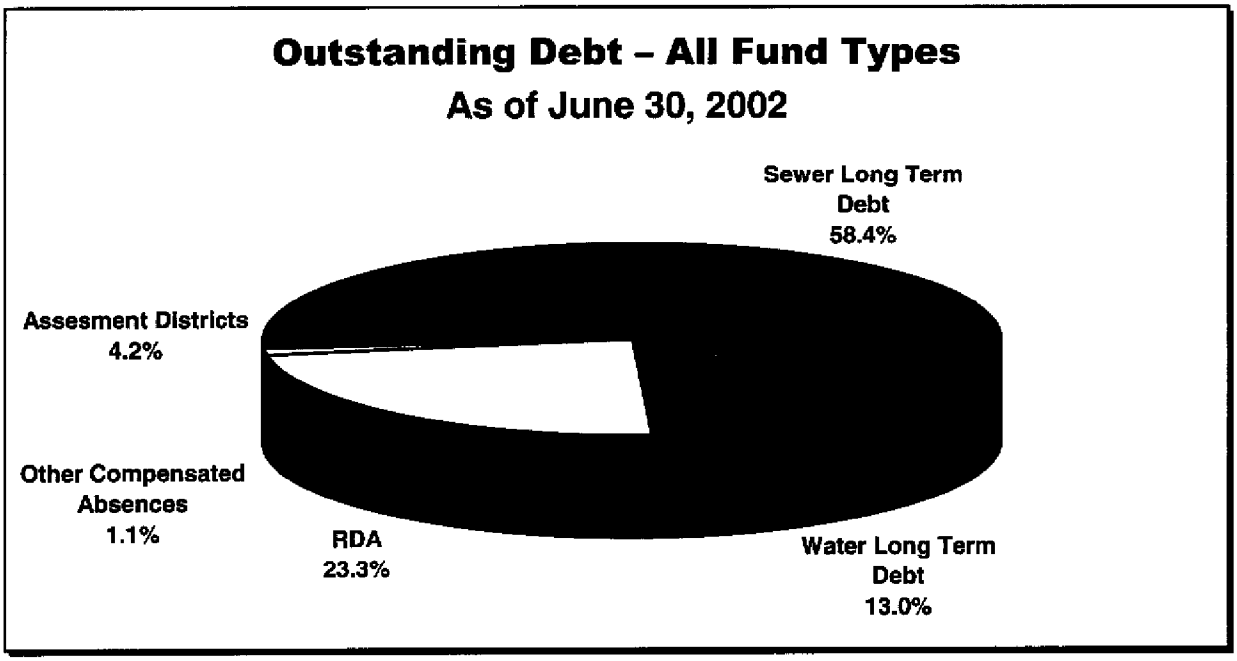
FINANCIAL HIGHLIGHTS - FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City as a trustee or agent for certain organizations and other governmental entities. These Agency Funds are created when the City becomes a custodian of and responsible for distribution of assets owned by others. These funds are used to account for deposits from developers, for assessments collected for Morgan Hill Ranch, Tennant Business Park, and Madrone Business Park Assessment Districts for which the City is not obligated in any manner, and for other deposits.

DEBT ADMINISTRATION

The City had the following long-term obligations outstanding as of June 30, 2002:

Debt & Other Long-Term Obligations	Funding Source	Debt Amount
Special Assessment Districts for which the City is Obligated in some manner: • Encino Hills AD • Morgan Hill Business Park AD • Sutter Business Park AD • Cochrane Business Park AD • Joleen Way AD	Future Special Assessments collected from District property owners	$1,680,000
Water Certificate of Participation	Future service fees collected by the Water Fund	4,036,396
Water Facilities Loan	Future service fees collected by the Water Fund	1,152,206
Sewer Capacity Rights	Future service fees collected by the Sewer Fund	23,297,557
RDA Housing Loan	Repayment from borrower	941,671
RDA Property Acquisition Loans	Future tax increment revenues collected by the Agency	8,350,000
General Compensated Absences	Unrestricted revenues of the City	442,834
Total Long Term Debt		**$39,900,664**



GOVERNMENTAL FUND BALANCES

The unreserved, undesignated fund balance for all governmental funds combined decreased by $615,061 to $21,279,63 at June 30, 2002, compared to the prior year. This included a $593,253 increase to a level of $8,201,647 for the General Fund unreserved, undesignated fund balance. However, when $3,382,000 in designations is included, the General fund's total unreserved fund balance increased by $975,253 to a level of $11,583,647, which represented 9.2% more than the previous year's balance.

CASH MANAGEMENT

Temporarily idle cash, not restricted for other uses, was invested in the California Local Agency Investment Fund (LAIF) and in U.S. Government Securities. Investments in LAIF are highly liquid, and generally may be converted to cash within twenty-four hours without loss of investment income. Of LAIF's total investments as of June 30, 2002, approximately 17% was invested in Government Bills and Notes, 22% in Federal Agency Coupons and Discount Notes, 12% in CD's, 31% in Commercial Paper and Corporate Bonds and 18% in other investments. The amount of investment income earned for all funds decreased from the prior year due to average lower interest rates on City investments.

RISK MANAGEMENT

The City is a member of the Association of Bay Area Governments (ABAG). The city participates in the ABAG-PLAN, a self-insured risk pool formed by certain cities in California to pool their insurance risk and help lower the overall cost of providing insurance coverage for general liability claims. The coverage amount is $10 million per occurrence, subject to a $50,000 deductible, which increased to $100,000 at July 1, 2002. The City Manager, the Finance Director as Risk Manager, and the City Attorney work with the ABAG-PLAN to coordinate the City's insurance policies, maintain insurance records and represent the City in handling claims.

In addition, the City is fully self-insured for unemployment insurance. The City is also self insured for workers' compensation up to a maximum of $250,000 for each claim. Purchased insurance covers the excess up to $5,000,000 per year for workers compensation claims.

AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morgan Hill for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

The GFOA certificate is valid for a period of one year only. The City has received this certificate for the last eight consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA again this year.

In addition, the City received the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO), for the seventh consecutive year, for its Comprehensive Annual Financial Report the fiscal year ended June 30, 2001. The criteria for this award are very similar to that of GFOA.

ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report represents many months of work by the City's entire Finance Department staff. Special thanks go to Assistant Finance Director Tina Reza and to Accountants Isabel Jones and Lourdes Reroma for their accomplishments in the preparation of this report. I also wish to express my appreciation to the City Council and City Manager for their leadership and support.

Sincerely,

Jack Dilles
Director of Finance

CITY OF MORGAN HILL

CITY OF MORGAN HILL, CALIFORNIA

ELECTED OFFICIALS AND CITY STAFF AS OF JUNE 30, 2002

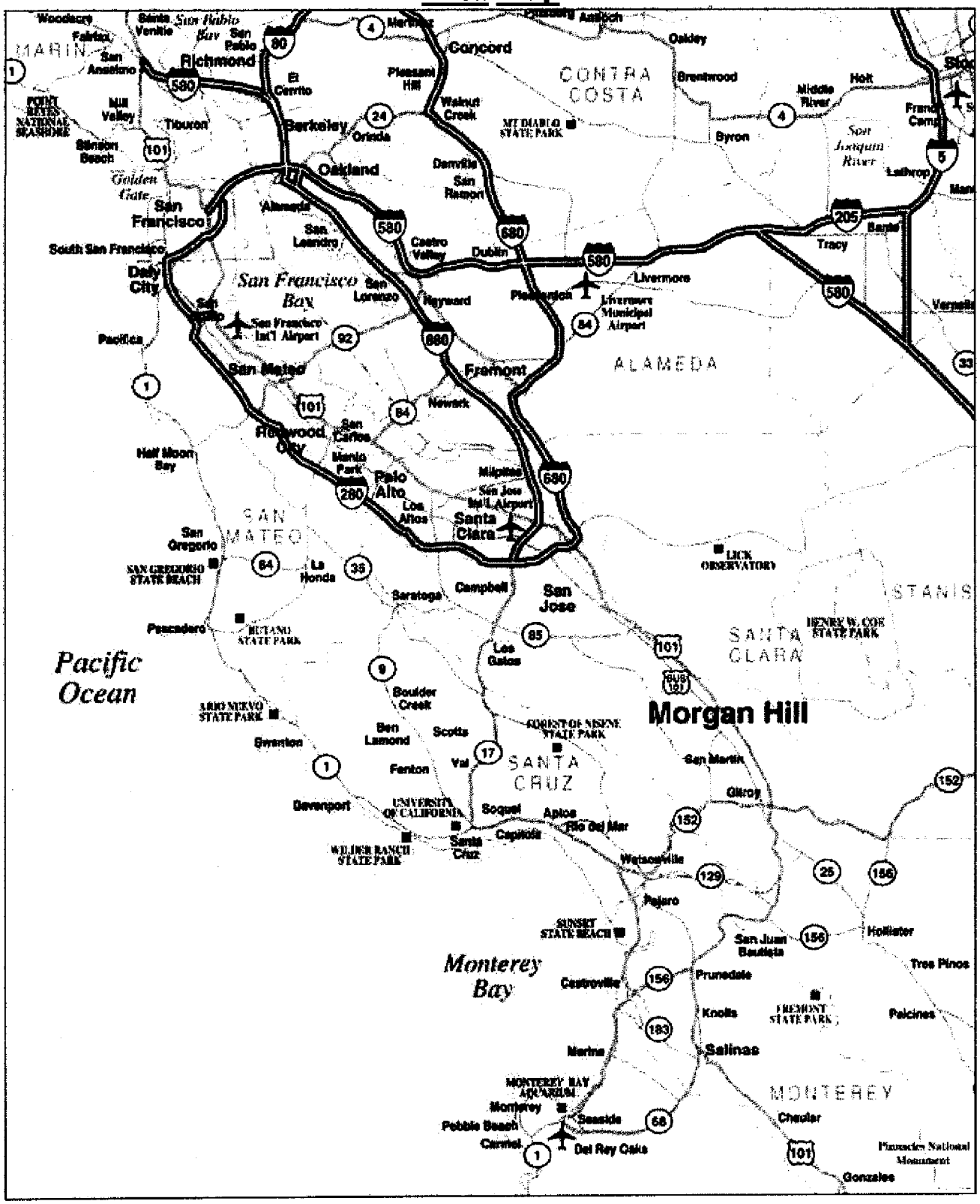
ELECTED OFFICIALS

Dennis Kennedy	Mayor
Larry Carr	Mayor Pro Tem
Hedy L. Chang	Council Member
Greg Sellers	Council Member
Steve Tate	Council Member
Michael J. Roorda	City Treasurer
Irma Torrez	City Clerk

CITY STAFF

J. Edward Tewes	City Manager
Helene Leichter	City Attorney
Jack Dilles	Director of Finance
David Bischoff	Director of Community Development
Garrett Toy	Director of Business Assistance & Housing Services
Jerry Galvin	Chief of Police
Jim Ashcraft	Director of Public Works
Mary Kaye Fisher	Director of Human Resources
Melissa Dile	Assistant to the City Manager
Tony Eulo	Assistant to the City Manager
Irma Torrez	Council Services and Records Manager
Julie Spier	Recreation Manager

Area Map



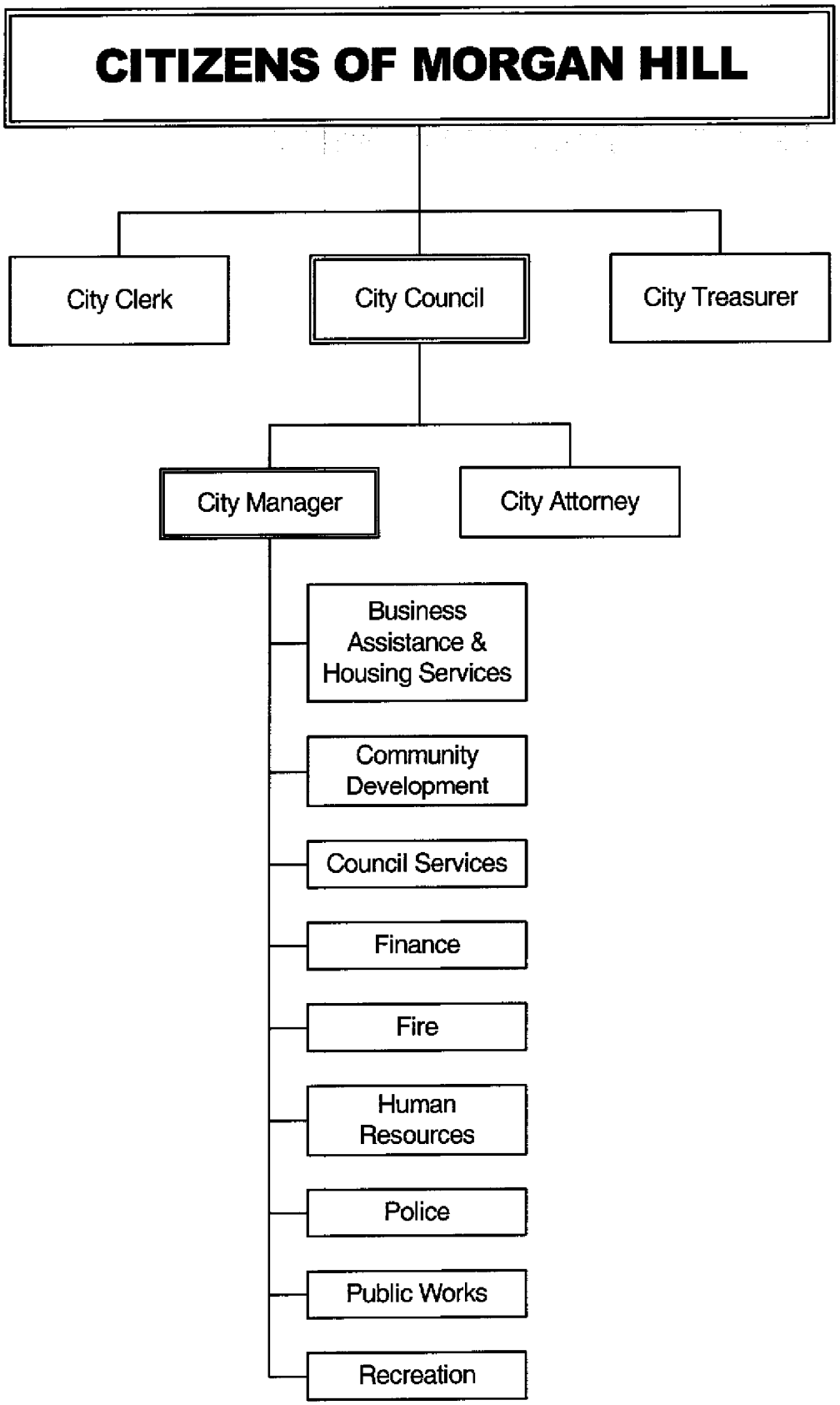
Quick Reference Points

25 minutes to San Jose Airport

65 minutes to San Francisco International Airport

30 minutes to the beautiful Monterey Peninsula

10 minutes to recreational lakes and Henry Coe State Park


CITIZENS OF MORGAN HILL
City Clerk
City Council
City Treasurer
City Manager
City Attorney
Business Assistance & Housing Services
Community Development
Council Services
Finance
Fire
Human Resources
Police
Public Works
Recreation

CITY OF MORGAN HILL

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Morgan Hill, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

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

President

Executive Director

CITY OF MORGAN HILL

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2000-2001

Presented to the

City of Morgan Hill

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

February 20, 2002

Gene Roberts

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

CITY OF MORGAN HILL

C&L
Caporicci & Larson
Certified Public Accountants

Offices located in:
Bay Area
Orange County
Sacramento

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Morgan Hill
Morgan Hill, California

We have audited the accompanying general purpose financial statements of the City of Morgan Hill, California (City), as of and for the year ended June 30, 2002, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles in the United States.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City, taken as a whole. The accompanying combining, individual fund and account group financial statements and schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. This additional information is the responsibility of the management of the City. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole. We did not audit the statistical information listed in the foregoing table of contents and, accordingly, we express no opinion on the statistical section.

Caporicci & Larson

Oakland, California
October 11, 2002

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

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

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

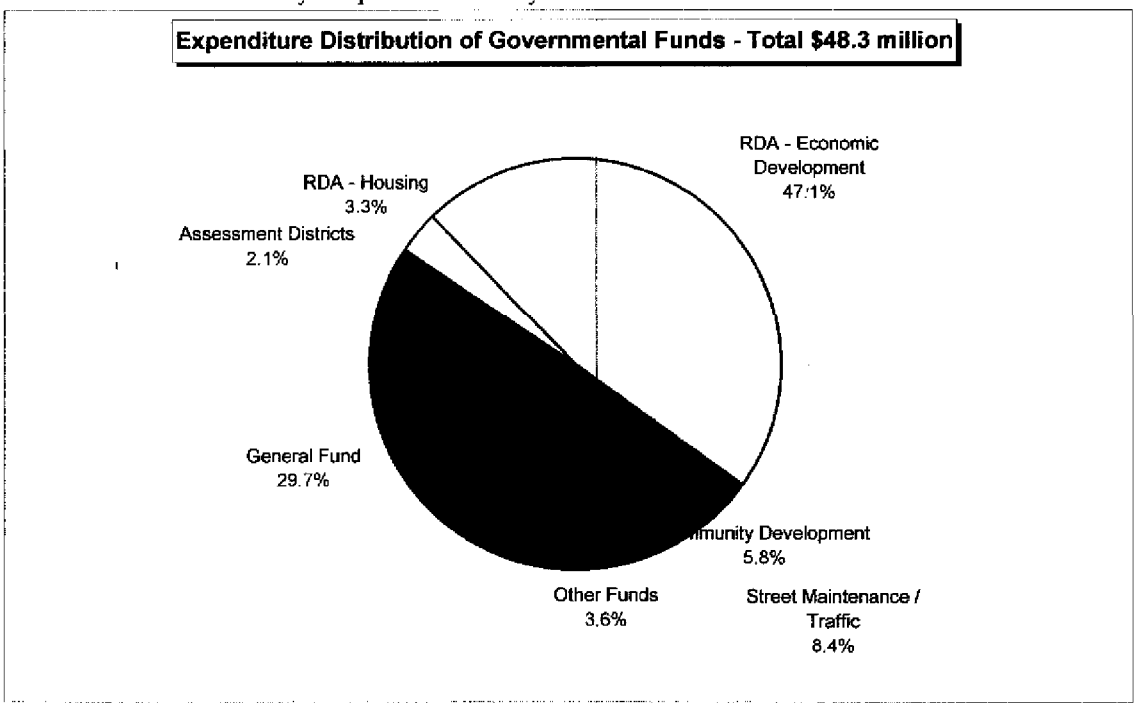
Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

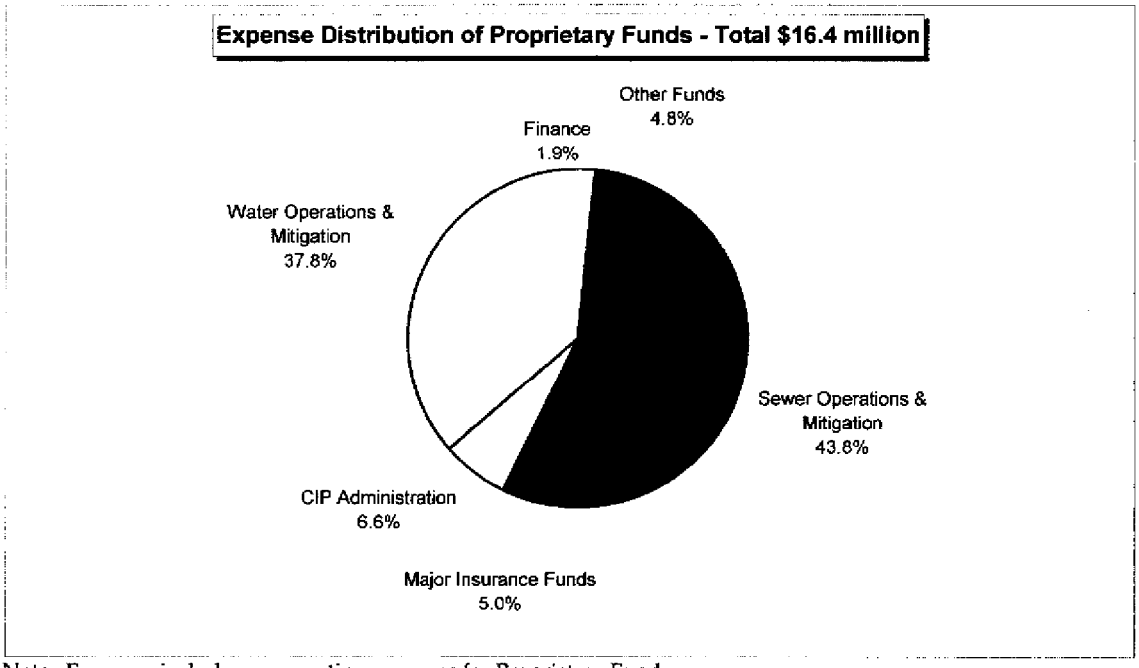
City of Morgan Hill

FINANCIAL SECTION

This section begins with the general-purpose financial statements (GPFS), including the notes providing additional explanation on the GPFS, and the Independent Auditor's Report by Caporicci, Cropper & Larson, LLP, expressing an unqualified opinion on the City's GPFS. The GPFS helps to provide an overview of the financial position and operations of the City for all funds and account groups.

This is followed by combining individual fund and account group financial statements and schedules, which show in more detail the financial activity and position of the City's various funds.





Note: Expenses include nonoperating expenses for Proprietary Funds.

City of Morgan Hill, California

Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Unit
June 30, 2002
(With comparative totals for June 30, 2001)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets:				
Pooled cash and investments (Note 4)	$ 11,875,907	$ 6,992,879		$ 34,254,014
Restricted pooled cash and investments (Note 4)		198,543	$ 736,560	13,315,237
Cash with fiscal agents (Note 4)				
Receivables:				
Taxes and special assessments	1,293,172		1,748,322	
Accrued interest	99,633	37,837	3,231	337,876
Other accounts receivable	61,099	148,830		457,196
Due from other funds (Note 13)				
Deposit in Escrow/Prepaid items		95,330		36,670
Investment in properties held for resale				71,049
Notes receivable (Note 7)				988
Loans receivable (Note 6)	523,911	655,417		26,024,066
Fixed assets, net (Note 5)				
Sewer capacity rights (Note 9)				
Other debits:				
Amount available in Debt Service Funds				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	$ 13,853,722	$ 8,128,836	$ 2,488,113	$ 74,497,096
Liabilities, Fund Equity, and Other Credits				
Liabilities:				
Accounts payable	$ 1,215,149	$ 367,636		$ 2,667,377
Accrued liabilities	169,416	47,826		21,365
Due to other funds (Note 13)				
Deferred revenue (Note 7)	633,262	197,414	$ 1,748,322	6,577,809
Customer and other deposits				
Other long-term debt (Note 8)				
Special assessment debt for which the City is obligated in some manner (Note 8)				
Compensated absence obligation (Note 8)	123,769	42,159		7,411
Capacity rights payable (Note 9)				
Total liabilities	$ 2,141,596	$ 655,035	$ 1,748,322	$ 9,273,962
Fund equity and other credits (Notes 5 & 12)				
Contributed capital				
Investment in general fixed assets				
Retained earnings:				
Reserved				
Unreserved				
Fund balances:				
Reserved	$ 128,479	$ 1,742,369	$ 739,791	$ 45,814,129
Unreserved:				
Designated	3,382,000			12,062,454
Undesignated	8,201,647	5,731,432		7,346,551
Total fund equity and other credits	$ 11,712,126	$ 7,473,801	$ 739,791	$ 65,223,134
Total liabilities, fund equity and other credits	$ 13,853,722	$ 8,128,836	$ 2,488,113	$ 74,497,096

Proprietary Fund Types		Fiduciary Fund Type	General Fixed Assets Account Group	General Long-Term Debt Account Group	TOTALS PRIMARY GOVERNMENT (Memorandum Only)		Component Unit
Enterprise	Internal Service	Agency			2002	2001	MH Corporation Yard Commission
$ 20,385,826	$ 5,166,688				$ 78,675,314	$ 78,533,660	$ 87,985
7,011,516	30,000	$ 4,291,972			25,583,828	24,771,827	
2,867,746		2,135,728			5,003,474	13,855,607	
							223
					3,041,494	3,116,009	105,686
144,066	18,225				640,868	1,404,872	
1,754,499	9,208	163,992			2,594,824	4,090,217	
						128,593	
					132,000	45,891	
					71,049	71,049	
107,954					108,942	112,757	
					27,203,394	20,309,972	
49,067,753	950,646		$ 44,846,090		94,864,489	75,782,431	231,478
21,345,859					21,345,859	22,290,776	
				$ 739,791	739,791	1,411,803	
				10,674,714	10,674,714	6,619,972	
$ 102,685,219	$ 6,174,767	$ 6,591,692	$ 44,846,090	$ 11,414,505	$ 270,680,040	$ 252,545,436	$ 425,372
$ 944,172	$ 150,706	$ 13,060			$ 5,358,100	$ 3,080,370	12,576
643,622	1,075,651				1,957,880	1,866,008	
						128,593	
					9,156,807	7,747,943	
44,119		6,578,632			6,622,751	15,934,496	
5,188,602				$ 9,291,671	14,480,273	10,552,774	
				1,680,000	1,680,000	2,480,000	
105,445	46,517			442,834	768,135	706,053	
23,297,557					23,297,557	23,818,840	
$ 30,223,517	$ 1,272,874	$ 6,591,692	$ -	$ 11,414,505	$ 63,321,503	$ 66,315,077	$ 12,576
$ 20,898,156					$ 20,898,156	$ 22,062,679	
			$ 44,846,090		44,846,090	25,792,703	
10,392,571					10,392,571	8,825,698	139
41,170,975	$ 4,901,893				46,072,868	46,288,226	412,657
					48,424,768	40,105,983	
					15,444,454	21,260,379	
					21,279,630	21,894,691	
$ 72,461,702	$ 4,901,893	$ -	$ 44,846,090	$ -	$ 207,358,537	$ 186,230,359	$ 412,796
$ 102,685,219	$ 6,174,767	$ 6,591,692	$ 44,846,090	$ 11,414,505	$ 270,680,040	$ 252,545,436	$ 425,372

See accompanying notes to the general-purpose financial statements

City of Morgan Hill, California

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
Year ended June 30, 2002
(With comparative totals for the year ended June 30, 2001)

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Project
Revenues:				
Property taxes and special assessments	$ 2,167,507	$ 445,631	$ 301,864	$ 16,539,296
Sales taxes	4,870,295			
Franchise, hotel and other taxes	2,443,461			
Licenses and permits	205,594			
Funding from other governmental agencies	2,159,403	1,156,741		
Charges for current services	1,929,602	1,946,404		2,681,958
Investment income and rentals	1,007,557	311,789	23,791	2,033,323
Fines, forfeitures, and other revenues	164,312	540,357		872,188
Total revenues	**$ 14,947,731**	**$ 4,400,922**	**$ 325,655**	**$ 22,126,765**
Expenditures:				
Current:				
General government	$ 4,085,435	$ 573,813		$ 1,960,687
Police services	5,875,516	1,895		
Fire services	3,559,610			
Public works / development services	640,691	3,994,372		
Capital outlay	162,049	2,502,086		20,350,922
Debt service:				
Principal (Note 8)			$ 800,000	3,550,000
Interest and fiscal charges	4,128		197,667	
Total expenditures	**$ 14,327,429**	**$ 7,072,166**	**$ 997,667**	**$ 25,861,609**
Excess (deficiency) of revenues over (under) expenditures	620,302	(2,671,244)	(672,012)	(3,734,844)
Other financing sources (uses):				
Operating transfers in	647,300	2,136,441		375,882
Operating transfers (out)	(526,119)	(1,638,718)		(478,580)
Proceeds from long-term debt				7,650,000
Total other financing sources (uses)	$ 121,181	$ 497,723	$ -	$ 7,547,302
Net increase	$ 741,483	$ (2,173,521)	$ (672,012)	$ 3,812,458
Fund balances - beginning of year	10,751,671	9,686,903	1,411,803	61,410,676
Residual equity transfer in (out) (Note 2)	218,972	(39,581)		
Fund balances - end of year	**$ 11,712,126**	**$ 7,473,801**	**$ 739,791**	**$ 65,223,134**

See accompanying notes to the general-purpose financial statements.

TOTALS (Memorandum Only)	
2002	**2001**
$ 19,454,298	$ 18,431,805
4,870,295	5,532,132
2,443,461	2,803,261
205,594	200,892
3,316,144	6,628,611
6,557,964	7,831,911
3,376,460	4,779,827
1,576,857	1,718,814
$ 41,801,073	**$ 47,927,253**
$ 6,619,935	$ 4,225,128
5,877,411	5,529,991
3,559,610	3,350,334
4,635,063	4,145,308
23,015,057	13,536,133
4,350,000	715,000
201,795	264,626
$ 48,258,871	**$ 31,766,520**
(6,457,798)	16,160,733
3,159,623	9,250,388
(2,643,417)	(9,058,431)
7,650,000	
$ 8,166,206	$ 191,957
$ 1,708,408	$ 16,352,690
83,261,053	66,953,961
179,391	(45,598)
$ 85,148,852	**$ 83,261,053**

City of Morgan Hill, California

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
All Governmental Fund Types
Year ended June 30, 2002

	GENERAL FUND		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	$ 1,726,000	$ 2,167,507	$ 441,507
Sales taxes	5,300,000	4,870,295	(429,705)
Franchise, hotel and other taxes	3,041,102	2,443,461	(597,641)
Licenses and permits	196,272	205,594	9,322
Funding from other governmental agencies	1,980,400	2,159,403	179,003
Charges for current services	1,808,618	1,929,602	120,984
Investment income and rentals	584,250	1,007,557	423,307
Fines, forfeits, and other revenues	141,876	164,312	22,436
Total revenues	**14,778,518**	**14,947,731**	**$ 169,213**
Expenditures:			
Current:			
General government	$ 4,630,231	$ 4,188,091	$ 442,140
Police services	6,239,916	5,882,378	357,538
Fire services	3,559,741	3,559,610	131
Public works / development services	746,710	658,438	88,272
Capital outlay	468,360	163,263	305,097
Debt service:			
Principal (Note 8)			
Interest and fiscal charges	5,770	4,128	1,642
Total expenditures	**$ 15,650,728**	**$ 14,455,908**	**$ 1,194,820**
Excess (deficiency) of revenues over (under) expenditures	$ (872,210)	$ 491,823	$ 1,364,033
Other financing sources (uses):			
Operating transfers in	$ 901,583	$ 647,300	$ (254,283)
Operating transfers (out)	(526,119)	(526,119)	
Proceeds from long-term debt			
Total other financing sources (uses)	$ 375,464	$ 121,181	$ (254,283)
Net increase (decrease)	**$ (496,746)**	**$ 613,004**	**$ 1,109,750**
Adjustments to budgetary basis (Note 3)		128,479	
Fund balances - beginning of year		10,751,671	
Residual equity transfers in (out) (Note 2)		218,972	
Fund balances - end of year		**$ 11,712,126**	

SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
$ 411,716	$ 445,631	$ 33,915	$ 268,396	$ 301,864	$ 33,468
2,069,662	1,156,741	(912,921)			
1,915,584	1,946,404	30,820			
316,970	311,789	(5,181)	53,200	23,791	(29,409)
70,000	540,357	470,357			
$ 4,783,932	**$ 4,400,922**	**$ (383,010)**	**$ 321,596**	**$ 325,655**	**$ 4,059**
$ 1,003,585	$ 642,747	$ 360,838			
5,798,517	4,412,731	1,385,786			
4,220,365	3,301,054	919,311			
			$ 800,000	$ 800,000	
			203,314	197,667	$ 5,647
$ 11,022,467	**$ 8,356,532**	**$ 2,665,935**	**$ 1,003,314**	**$ 997,667**	**$ 5,647**
$ (6,238,535)	$ (3,955,610)	$ 2,282,925	$ (681,718)	$ (672,012)	$ 9,706
$ 2,032,593	$ 2,136,441	$ 103,848			
(1,530,187)	(1,638,718)	(108,531)			
$ 502,406	$ 497,723	$ (4,683)	$ -	$ -	$ -
$ (5,736,129)	**$ (3,457,887)**	**$ 2,278,242**	**$ (681,718)**	**$ (672,012)**	**$ 9,706**
	1,284,366			-	
	9,686,903			1,411,803	
	(39,581)				
	$ 7,473,801			**$ 739,791**	

See accompanying notes to the general-purpose financial statements

(Continued)

City of Morgan Hill, California

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
All Governmental Fund Types
Year ended June 30, 2002

	CAPITAL PROJECT FUNDS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	$ 14,548,000	$ 16,539,296	$ 1,991,296
Sales taxes			
Franchise, hotel and other taxes			
Licenses and permits			
Funding from other governmental agencies			
Charges for current services	2,235,000	2,681,958	446,958
Investment income and rentals	2,142,473	2,033,323	(109,150)
Fines, forfeits, and other revenues	961,000	872,188	(88,812)
Total revenues	**$ 19,886,473**	**$ 22,126,765**	**$ 2,240,292**
Expenditures:			
Current:			
General government	$ 2,355,006	$ 2,071,352	$ 283,654
Police services			
Fire services			
Public works / development services			
Capital outlay	53,232,639	29,933,832	23,298,807
Debt service:			
Principal (Note 8)		3,550,000	(3,550,000)
Interest and fiscal charges			
Total expenditures	**$ 55,587,645**	**$ 35,555,184**	**$ 20,032,461**
Excess (deficiency) of revenues over (under) expenditures	$ (35,701,172)	$ (13,428,419)	$ 22,272,753
Other financing sources (uses):			
Operating transfers in	$ 17,754,437	$ 375,882	$ (17,378,555)
Operating transfers (out)	(503,703)	(478,580)	25,123
Proceeds from long-term debt		7,650,000	7,650,000
Total other financing sources (uses)	$ 17,250,734	$ 7,547,302	$ (9,703,432)
Net increase (decrease)	**$ (18,450,438)**	**$ (5,881,117)**	**$ 12,569,321**
Adjustments to budgetary basis (Note 3)		9,693,575	
Fund balances - beginning of year		61,410,676	
Residual equity transfers in (out) (Note 2)		-	
Fund balances - end of year		**$ 65,223,134**	

TOTALS (Memorandum Only)		
Revised Budget	Actual Plus Encumbrances	Variance
$ 16,954,112	$ 19,454,298	$ 2,500,186
5,300,000	4,870,295	(429,705)
3,041,102	2,443,461	(597,641)
196,272	205,594	9,322
4,050,062	3,316,144	(733,918)
5,959,202	6,557,964	598,762
3,096,893	3,376,460	279,567
1,172,876	1,576,857	403,981
$ 39,770,519	**$ 41,801,073**	**$ 2,030,554**
$ 7,988,822	$ 6,902,190	$ 1,086,632
6,239,916	5,882,378	357,538
3,559,741	3,559,610	131
6,545,227	5,071,169	1,474,058
57,921,364	33,398,149	24,523,215
800,000	4,350,000	(3,550,000)
209,084	201,795	7,289
$ 83,264,154	**$ 59,365,291**	**$ 23,898,863**
$ (43,493,635)	$ (17,564,218)	$ 25,929,417
$ 20,688,613	$ 3,159,623	$ (17,528,990)
(2,560,009)	(2,643,417)	(83,408)
	7,650,000	7,650,000
$ 18,128,604	$ 8,166,206	$ (9,962,398)
$ (25,365,031)	**$ (9,398,012)**	**$ 15,967,019**
	11,106,420	
	83,261,053	
	179,391	
	$ 85,148,852	

See accompanying notes to the general-purpose financial statements

(Concluded)

City of Morgan Hill, California

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
All Proprietary Fund Types and Discretely Presented Component Unit
Year ended June 30, 2002
(With comparative totals for the year ended June 30, 2001)

	PROPRIETARY FUND TYPES		TOTALS PRIMARY GOVERNMENT (Memorandum Only)		COMPONENT UNIT
	Enterprise	Internal Service	2002	2001	MH Corporation Yard Commission
Operating revenues:					
Charges for current services	$ 13,514,488	$ 2,999,199	$ 16,513,687	$ 19,573,246	
Supplemental rent from operations					$ 506,327
Other operating income		9,445	9,445	45,085	
Total operating revenues	**$ 13,514,488**	**$ 3,008,644**	**$ 16,523,132**	**$ 19,618,331**	**$ 506,327**
Operating expenses:					
Salaries and benefits	2,064,231	614,605	2,678,836	3,484,306	
Utilities and taxes	1,810,270		1,810,270	1,365,095	
Claims and insurance premiums		727,681	727,681	569,278	
Operations and maintenance	3,265,607	1,158,877	4,424,484	5,360,678	$ 552,307
Depreciation	2,888,814	342,028	3,230,842	2,261,967	6,717
Amortization of sewer capacity rights	944,917		944,917	944,917	
Administrative charges	578,051	174,595	752,646	971,077	
Total operating expenses	**$ 11,551,890**	**$ 3,017,786**	**$ 14,569,676**	**$ 14,957,318**	**$ 559,024**
Operating income	$ 1,962,598	$ (9,142)	$ 1,953,456	$ 4,661,013	$ (52,697)
Nonoperating revenue (expense):					
Investment income	1,264,419	125,524	1,389,943	2,264,688	$ 823
Interest (expense)	(1,865,520)		(1,865,520)	(1,936,156)	
Total nonoperating revenue (expense)	$ (601,101)	$ 125,524	$ (475,577)	$ 328,532	$ 823
Income before operating transfers	$ 1,361,497	$ 116,382	$ 1,477,879	$ 4,989,545	$ (51,874)
Operating transfers in	3,090,541	316,869	3,407,410	6,111,549	
Operating transfers (out)	(3,680,542)	(243,074)	(3,923,616)	(6,303,506)	
	$ (590,001)	$ 73,795	$ (516,206)	$ (191,957)	$ -
Net income	**$ 771,496**	**$ 190,177**	**$ 961,673**	**$ 4,797,588**	**$ (51,874)**
Charge to contributed capital for depreciation on fixed assets acquired with contributions	$ 1,164,523		$ 1,164,523	$ 1,164,523	
Retained earnings - beginning of year	49,627,527	5,021,727	54,649,254	48,687,143	464,670
Equity tranfer to General Fund		(310,011)	(310,011)		
Retained earnings - end of year	**$ 51,563,546**	**$ 4,901,893**	**$ 56,465,439**	**$ 54,649,254**	**$ 412,796**

See accompanying notes to the general-purpose financial statements

City of Morgan Hill, California

Combined Statement of Cash Flows

All Proprietary Fund Types and Discretely Presented Component Unit

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	PROPRIETARY FUND TYPES		TOTALS (Memorandum Only)		COMPONENT UNIT
	Enterprise	Internal Service	2002	2001	MH Corporation Yard Commission
Cash flows from operating activities:					
Operating income	$ 1,962,598	$ (9,142)	$ 1,953,456	$ 4,661,013	$ (52,697)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	2,888,814	342,028	3,230,842	2,261,967	6,717
Amortization of sewer capacity rights	944,917		944,917	944,917	
Effect of changes in assets and liabilities:					
Receivables	(27,691)	2,590	(25,101)	(200,894)	54,632
Prepaid expenses		4,722	4,722	5,667	
Notes receivable	1,259		1,259	(91,062)	
Accounts payable and accrued liabilities	602,051	(168,162)	433,889	478,548	(107,509)
Customer and other deposits	(2,820)		(2,820)	(6,632)	
Other liabilities	14,400	(41,116)	(26,716)	42,378	
Due to other funds					
Net cash provided by operating activities	**$ 6,383,528**	**$ 130,920**	**$ 6,514,448**	**$ 8,095,902**	**$ (98,857)**
Cash flows from capital and related financing activities:					
Acquisition and construction of fixed assets	$ (3,394,194)	$ (103,516)	$ (3,497,710)	$ (4,084,565)	
Payments of debt principal	(204,357)		(204,357)	(195,617)	
Interest paid	(1,865,520)		(1,865,520)	(1,936,156)	
Payments for sewer capacity	(521,283)		(521,283)	(491,284)	
Net cash used in capital and related financing activities	**$ (5,985,354)**	**$ (103,516)**	**$ (6,088,870)**	**$ (6,707,622)**	**$ -**
Cash flows from noncapital financing activities:					
Transfers in	$ 3,090,541	316,869	$ 3,407,410	$ 6,111,549	
Transfers out	(3,680,542)	(553,085)	(4,233,627)	(6,303,506)	
Net cash provided by (used in) noncapital financing activities	**$ (590,001)**	**$ (236,216)**	**$ (826,217)**	**$ (191,957)**	**$ -**
Cash flows from investing activities:					
Interest received on investments	$ 1,524,411	$ 154,927	$ 1,679,338	$ 2,221,030	$ 2,988
Net cash provided by investing activities	**$ 1,524,411**	**$ 154,927**	**$ 1,679,338**	**$ 2,221,030**	**$ 2,988**
Net increase in cash and investments	$ 1,332,584	$ (53,885)	$ 1,278,699	$ 3,417,353	$ (95,869)
Cash and investments - beginning of year	28,932,504	5,250,573	34,183,077	30,765,724	183,854
Cash and investments - end of year	**$ 30,265,088**	**$ 5,196,688**	**$ 35,461,776**	**$ 34,183,077**	**$ 87,985**
Reconciliation of cash and investments:					
Pooled cash and investments	$ 20,385,826	$ 5,166,688	$ 25,552,514	$ 24,873,519	$ 87,985
Restricted cash	9,879,262	30,000	9,909,262	9,309,558	
Total	**$ 30,265,088**	**$ 5,196,688**	**$ 35,461,776**	**$ 34,183,077**	**$ 87,985**

See accompanying notes to the general-purpose financial statements

CITY OF MORGAN HILL

1. DEFINITION OF THE REPORTING ENTITY

The City of Morgan Hill, California, (the City) was incorporated in November 1906 as a general law city and operates under a Council-Manager form of government.

As required by Statement No. 14 of the Governmental Accounting Standards Board (GASB), these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 fiscal year end.

Blended Component Units. The Morgan Hill Wastewater Facilities Financing Corporation (the Financing Corporation) and the Redevelopment Agency of the City of Morgan Hill (the Agency) are governed by boards which are substantially the same as the City's governing body and serve the City exclusively. The Morgan Hill Wastewater Facilities Financing Corporation was established in 1988 to facilitate the issuance of debt for capital improvements. The Redevelopment Agency operates under California Redevelopment Law and provides business and housing activities. Both component units have been blended into the City's general purpose financial statements. The activities of the Financing Corporation are reported as an Enterprise Fund and the Redevelopment Agency's activities are reported as a Capital Project Fund on the City's general purpose financial statements.

The Financing Corporation does not issue separate general purpose financial statements.

Discretely Presented Component Unit. The Morgan Hill Corporation Yard Commission functions for the benefit of the City and the Morgan Hill Unified School District. The Commission is equally comprised of members from each governing body and one member at large. The Commission was formed in 1975 to facilitate the operation of a joint tenancy between the school district and the City. The activities of the Commission are included in the City's general purpose financial statements as a discretely presented component unit because the board is not substantially the same as the primary government's, nor does it operate exclusively, nor almost exclusively, for the benefit of the City.

(Continued)

1. DEFINITION OF THE REPORTING ENTITY

Complete financial statements for the Agency and the Commission may be obtained from the City at the following address:

City of Morgan Hill
Attention: Finance Department
17555 Peak Avenue
Morgan Hill, CA 95037

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general-purpose financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The more significant accounting policies of the City are described in the following sections.

(a) *Basis of Presentation*

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance or retained earnings, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be expended and the means by which spending activities are controlled. The City's funds are grouped in the general-purpose financial statements as follows:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds and agency funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The following are the City's Governmental Fund Types:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund and Proprietary Fund Types).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The measurement focus is based upon determination of net income. Proprietary Fund Types include Enterprise Funds and Internal Service Funds:

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to other departments or agencies on a cost-reimbursement basis.

Fiduciary Fund Types

Agency Funds

Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Assets equal liabilities and the measurement of operations is not a focus.

Account Groups

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's Account Groups:

General Fixed Asset Account Group

Fixed assets of the City other than those accounted for in the Proprietary Fund Types are accounted for in the General Fixed Assets Account Group.

General Long-Term Debt Account Group

Long-term liabilities, including the long-term portion of vested compensated absence obligations expected to be financed by governmental funds, are accounted for in the General Long-Term Debt Account Group.

(b) ***Basis of Accounting***

Governmental Fund Types

Governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

"Measurable" means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes and special assessments to be available and subject to accrual if they are levied for and due within the fiscal year and collected within 60 days after year-end. In accordance with GASB Statement No. 33, the City reports revenues from non-exchange transactions, such as sales tax, transient occupancy tax and motor vehicle tax, in the period the underlying transaction occurred or when the use of the resources is required or first permitted.

Recognition of assets, liabilities, expenses and expenditures follow this same requirement, except for principal and interest on long-term debt, which is recognized when due and the long term portion of compensated absences, which is recognized in the period in which it is expected to be paid.

Proprietary Fund Types

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred. Unbilled service receivables in the Enterprise Funds are accrued at year-end.

For its proprietary type activities, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Activities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB) and the Accounting Principles Board (APB), as well as Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Agency Fund Types

These funds are purely custodial in nature (assets equal liabilities) and thus do not involve the measurement of results of operations. These funds are accounted for on the modified accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(c) *Budgetary Information*

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all Governmental and Proprietary Fund Types. Budgetary comparisons are reflected in the City's financial report for all governmental funds.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. Activities are defined as departments, such as Finance, Parks Maintenance or Police Patrol. Council approval is required for additional appropriations or transfers between departments (activities). Unencumbered appropriations lapse at the end of each fiscal year.

Budget proposals are prepared by each of the City's department directors. The budget proposals and justifications are submitted to the Finance Department, which compiles the information and prepares the City's preliminary budget. The City Council reviews the preliminary budget at a meeting open to the public. Changes approved at this meeting are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

Any revisions that increase the total budgeted expenditures of any activity (department) must be approved by the City Council. Expenditures and encumbrances may not legally exceed budgeted appropriations at the department level. Budgeted amounts presented in the general-purpose financial statements are as originally adopted and include amendments approved by City Council during the fiscal year.

(d) *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all Governmental Fund Types. Encumbrances outstanding at year-end are reappropriated in the next year and reported as reservations of fund balances since they do not constitute expenditures or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(e) *Cash and Investments*

Cash and investments of individual funds are combined for investment purposes in a commingled pool except for the investments held by fiscal agents, which are maintained and invested separately.

The City's cash and cash equivalents are considered to be cash on hand or demand deposits. Cash equivalents are stated at fair value. The fair value of investments is determined annually and is based on current market prices. Investment income earned on the commingled pool is allocated quarterly among the funds based upon the average daily balance of cash maintained by each fund.

Gains or losses on securities included in the investment portfolio are recognized at the earlier of the end of the fiscal year or when the related security is sold. Investments in securities purchased with the intent to trade for a profit are prohibited by City policy.

Resolutions authorizing certain bonds require that certain amounts be held by a fiscal agent to secure principal and interest payments. Such amounts are classified as restricted cash and investments held by fiscal agents. Each fund type's portion of this pool is displayed on the combined balance sheet as "pooled cash and investments" and "restricted pooled cash and investments" held by the City.

(f) *Fixed Assets*

General fixed assets have been acquired for general governmental purposes and for long-term, future redevelopment. Assets purchased are recorded as expenditures in the governmental funds and are capitalized in the General Fixed Assets Account Group. Purchased fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are recorded at estimated fair market value at the time received. Assets in the general fixed assets accounting group are not depreciated.

Public domain general fixed assets, consisting of certain improvements other than buildings, and including assets such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems, are not capitalized and are not included in the General Fixed Assets Account Group. Such assets are normally immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures is satisfied without recording such assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fixed assets associated with the activities of the proprietary funds are recorded as assets of those funds. If purchased, the assets are stated at cost or estimated historical cost if actual historical cost is not available; if donated, they are stated at estimated fair market value at the date of the gift. The City's policy is to capitalize net interest incurred in relation to construction-in-progress on projects accounted for in the proprietary funds.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Depreciation recognized on assets acquired through intergovernmental grants, entitlements, or shared revenues externally restricted to capital acquisitions is included as an operating expense. The portion of the expense related to the contributed portion of the asset cost is transferred as a charge to the contributed capital account. The estimated useful lives used for computing depreciation on fixed assets in the City's proprietary funds are as follows:

Land improvements	30-50 years
Buildings	30 years
Machinery, equipment and vehicles	5-20 years

(g) *Sewer Capacity Rights*

Capacity rights are capitalized in the Sewer Enterprise Fund. Such rights are being amortized over 30 years, the estimated life of the sewer treatment facility. Sewer capacity rights will be fully amortized in 2023.

(h) *Special Assessment Districts for which the City is Obligated in Some Manner*

Recognition of revenue related to noncurrent receivables of the special assessment districts is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes full value will ultimately be received by the City. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(i) *Accrual for Vacation, Sick Leave, Compensatory Time, and Post-Employment Benefits*

Vested vacation, sick leave, and compensatory time are accrued, as appropriate, for all fund types. For Governmental Fund Types, this liability is recorded in the General Long-Term Debt Account Group.

The City's employees may accrue vacation and compensatory time for which they will be compensated upon termination at current hourly rates. The accrual rates vary depending on employee classification and years of service. Sick leave is accrued at a rate of one day a month.

Sick leave accruals are carried forward to the next year; however, at the end of the calendar year, unless otherwise requested, 25% of each employee's sick leave accrual for that year which has not been used is paid to the employee.

Upon retirement or leave from the City, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employees' Retirement System (CalPERS) (see Note 10).

The City participates in the CalPERS Health Program. This program provides medical insurance coverage for both current employees and retirees. Participating employers must contribute toward the cost of the health premiums for both employee groups. The City has chosen to contribute under the unequal contribution option. The unequal contribution option requires an initial City contribution for each retiree of $1 per month, with annual increases of at least 5 percent of the City's monthly contribution of $16 toward the premium for each active employee, until such time as the contribution for employees and retirees are equal.

(j) *Restricted Assets*

Assets which are restricted for specified uses by bond debt requirements, grant provisions, or other requirements are classified as restricted assets held by the City as fiscal agent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(k) *Interfund Transactions*

Nonrecurring transfers of equity between funds are approved by the City Council and reported as residual equity transfers. Other interfund transfers are treated as operating transfers.

(l) *Property Tax and Special Assessment Levy, Collection, and Maximum Rates*

The State of California's (the State) Constitution Article XIII A (commonly referred to as Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is further improved, sold or transferred. The State legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties and bills, collects, and distributes property taxes and special assessments as follows:

Date Category	Secured	Unsecured
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (For November) April 10 (For February)	August 31

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. Taxes on real estate, land, and buildings are secured by liens on the property being taxed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(m) *Unbilled Service Receivables*

The city bills for water and sewer services on a monthly basis. All amounts not billed at year end are accrued and reflected as accounts receivable in the appropriate funds.

(n) *Income Taxes*

The City and its related entities fall under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, they are not subject to federal or state income taxes.

(o) *Investment in Properties Held for Resale*

The Agency purchases housing units and other properties for redevelopment within the Agency's project area. The costs of agency properties held for resale are capitalized in the Redevelopment Agency Capital Project Fund as "investment in properties held for resale," at the lower of acquisition cost or net realizable value.

(p) *Estimates*

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

(q) *New/Closed Funds*

Closed funds. During fiscal year 2001/02, the City closed three internal service funds, Human Resources, Finance and City Attorney, and one special revenue fund, Cable TV. The activities of these three functions previously reported as internal service funds are now accounted for as part of general city services in the general fund. Transfers of assets and retained earnings were recorded as residual equity transfers. A portion of the transfers represented fixed assets of the internal service funds. The net fixed assets were recorded in the general fixed asset account group as a current year addition. As a result, the residual equity transfers out reported on the closed internal service funds were more than the residual equity transfer in reported in the general fund. The difference is the recording of fixed assets in the general fixed assets account group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cable TV activities were previously reported as a special revenue fund. These activities are also currently accounted and reported as functions of the general fund. A residual equity transfer was recorded to close fund balance to the general fund.

Residual Equity Transfers In/Out Relating to Closure of Funds

Fund	Transfers In/(Out)
General Fund	218,972
Gen Fixed Assets	130,620
Human Resources	(57,514)
City Attorney	(44,179)
Finance	(208,318)
Cable TV	(39,581)
Total	0

New Fund. One fund was created during the fiscal year ending June 30, 2002. The Capital Project fund for Parks was split into two funds, one for Parks and the new fund for Open Space. ' Open Space' was created to more directly manage and control revenues and expenditures related to acquisition of open space.

(r) *Total Columns*

The total columns in the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate additional analysis. The data in these columns is not comparable to a consolidation and does not present financial position or results of operations in conformity with generally accepted accounting principles. Eliminations of interfund activity have been made within fund types but not between fund types.

(Continued)

3. BUDGETARY INFORMATION

Budgetary Results Reconciled to Generally Accepted Accounting Principles

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). The results of operations are presented in the accompanying budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major difference between the budgetary basis actual and GAAP basis is that year-end encumbrances are recognized as the equivalent of expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until recorded as actual expenditures.

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a GAAP basis are listed below for each governmental fund type:

	General	Special Revenue	Debt Service	Capital Projects
Expenditures, GAAP basis	$ 14,327,429	$ 7,072,166	$ 997,667	$ 18,211,609
Encumbrances	128,479	1,284,366		9,693,575
Expenditures, budgetary basis	$ 14,455,908	$ 8,356,532	$ 997,667	$ 27,905,184

4. CASH AND INVESTMENTS

Description of amounts reported on City's Financial Statements

The City maintains a cash and investment pool in which all funds and component units participate. Certain bonds require that certain amounts be held by a fiscal agent and/or the City to secure principal and interest payments. Such amounts are classified as restricted cash and investments or as cash with fiscal agent. Each fund type's portion of this pool is displayed on the combined balance sheet as follows:

(Continued)

4. CASH AND INVESTMENTS, Continued

Cash and investments	$ 78,675,314
Restricted cash and investments	25,583,828
Cash with fiscal agents	5,003,474
Total cash and investments	$109,262,616

The Corporation Yard Commission has cash and investments totaling $87,985. There is no restricted cash or cash with fiscal agents.

A summary of cash and investments as described below follows:

Cash deposits	$ 1,973,695
Pooled investments	102,285,447
Cash with fiscal agents	5,003,474
Total cash and investments	$ 109,262,616

The Corporation Yard Commission has $37,696 in cash deposits and $50,289 invested in the Local Agency Investment Fund (LAIF).

The investments made by the City Treasurer are limited to those allowable under State statutes and the City's Investment Policy, approved on September 15,1999, and re-approved on June 19, 2002, which is more conservative than that allowed by State statute. Under provisions of this policy, the City is authorized to invest in the following types of investments:

Certificates of Deposits	Government Agency Securities
Treasury Bills and Notes	Passbook Savings Accounts
Dreyfuss Treasury Cash Mgmt	State of California Local Agency Investment Fund (LAIF)

A small portion of the City's funds held by LAIF are invested in structured notes and asset-backed securities. A description of these types of investments are:

- Structured Notes - debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or state maturity) depend upon one or more indices and/or have embedded forwards or options.

(Continued)

4. CASH AND INVESTMENTS, Continued

- Asset-backed Securities - generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

Cash Deposits

All pooled certificates of deposit and bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for deposits which are fully insured up to $100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2002, the carrying amount of the City's deposits was $1,977,338 and the bank balances were $2,072,433. The difference between the carrying amount and the bank balances is due to deposits in transit and outstanding checks in the general operating account.

The City's bank balances at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

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

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

Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.

As of June 30, 2002, the City's and Commission's bank balances are categorized as follows:

4. CASH AND INVESTMENTS, Continued

Category 1	$ 100,000
Category 2	1,972,433
Total cash deposits	$ 2,072,433

Investments

The City's investments at year-end are categorized below, according to the guidelines of GASB Statement No. 3 to give an indication of the level of custodial credit risk assumed by the City as of June 30, 2002.

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

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

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

Uncategorized - Certain investments are not subject to categorization under GASB Statement No. 3 and are identified as "Not Required to be Categorized."

Investments in LAIF and money market funds are not categorized as they are invested in investment pools and are thus exempt from categorization requirements. Investments in LAIF are highly liquid, and deposits may usually be converted to cash within twenty-four hours without loss of interest.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the City's pool share in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool. The total amount invested by all public agencies in LAIF at June 30, 2002 was $47,719,552,000.

At June 30, 2002, the City's pooled investments, including both restricted and unrestricted balances, classified by risk category consisted of the following:

(Continued)

4. CASH AND INVESTMENTS, Continued

	Category 3	Not Required to be Categorized	Fair Value
Money Market		$ 32,236	$ 32,236
Federal Securities	$ 39,200,000		39,573,081
Local Agency Investment Fund		62,506,353	62,680,130
Total pooled investments	$ 39,200,000	$ 62,538,589	$ 102,285,447

The Corporation Yard Commission only had investments in the Local Agency Investment Fund and is therefore not required to be categorized. The balance of $50,150 had a fair market of $50,289 at June 30, 2002.

The maturities of investments at June 30, 2002, are as follows:

Maturity	Fair Value
Current to one year	$ 62,712,366
One to two years	10,070,860
Two to three years	9,323,721
Three to five years	20,178,500
Total Investments	$ 102,285,447

The Corporation Yard Commission's balance in LAIF has a fair market value of $50,289 and a current maturity classification.

At June 30, 2002, the City's cash with fiscal agents classified by risk category consisted of the following:

	Category 3	Not Required to be categorized	Fair Value
Cash with fiscal agents:			
Bank of New York:			
Cash management acct		$ 73,985	$ 73,985
U.S. Treasury Bonds	$ 2,006,565		2,402,875
U.S. Bank:			
First American Treasury Obligation	2,526,514		2,526,514
Total Cash with Fiscal Agents	$ 4,533,079	$ 73,985	$ 5,003,374

(Continued)

4. CASH AND INVESTMENTS, Continued

Fair Value of Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Pools, investments were stated at fair value using the aggregate method as follows:

Fair Value of investments at June 30, 2002	$102,210,858
Less: Net cost of investments purchased/sold	(1,404,275)
Less: Fair Value of investments at July 1, 2001	(100,379,087)
Change in Fair Value of investments	$ 427,496

Investment income is comprised of the following:

Interest including realized gains on sale of investments	$ 4,339,083
Net change in fair value of investments	427,496
Total investment income	$ 4,766,579

External Investment Pool

The City invests in LAIF a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

The City valued its investments in LAIF as of June 30, 2002, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total aggregate amortized cost by total aggregate fair value.

Accordingly, as of June 30, 2002, the City's investments in LAIF at fair value amounted to $62,680,130 using a LAIF fair value factor of 01.002780144.

(Continued)

4. CASH AND INVESTMENTS, Continued

The Corporation Yard Commission's investment in LAIF, as of June 30, 2002, had a fair market value of $50,289 using the same fair value factor.

5. FIXED ASSETS AND CONTRIBUTED CAPITAL

The following is a summary of the City's general fixed assets as of June 30, 2002:

Fixed Asset Category	Carrying Value
Land	$ 22,697,581
Buildings and improvements	10,460,114
Machinery, equipment and vehicles	2,223,308
Construction in progress	9,465,087
Total General Fixed Assets	$ 44,846,090

Changes in the General Fixed Asset Account Group were as follows:

Fixed Asset Category	Beginning Balance July 1, 2001	Additions	Retirements & transfers	Ending Balance June 30, 2002
Land	$ 15,332,103	$ 7,365,478		$ 22,697,581
Buildings and improvements	6,982,828	3,477,286		10,460,114
Machinery, equipment and vehicles	1,826,650	413,785	$ (17,127)	2,223,308
Construction in Progress	1,651,122	7,813,965		9,465,087
Total General Fixed Assets	$ 25,792,703	$ 19,070,514	$ (17,127)	$ 44,846,090

(Continued)

5. FIXED ASSETS AND CONTRIBUTED CAPITAL, Continued

As of June 30, 2002, fixed assets of the Proprietary Fund Types consisted of:

	Primary Government		Component Unit
Fixed Asset Category	Enterprise Funds	Internal Service Funds	MH Corporation Yard Commission
Land, buildings and improvements	$114,088,986		$ 480,348
Machinery, equipment and vehicles	19,210,425	$ 2,538,797	40,581
Construction in Progress	1,124,717		
Total	$134,424,128	$ 2,538,797	$ 520,929
Less accumulated depreciation	(64,010,516)	(1,588,151)	(289,451)
Fixed assets, net	$ 70,413,612	$ 950,646	$ 231,478

A reconciliation of fixed assets for the Enterprise Fund type is listed below:

	Enterprise Funds
Fixed Assets, Net	$ 49,067,753
Sewer Capacity Rights	21,345,859
Totals	$ 70,413,612

A reconciliation of contributed capital for the year is listed below:

	Enterprise Funds
Contributed capital, July 1, 2001	$ 22,062,679
Less depreciation charged against contributed capital	(1,164,523)
Contributed capital, June 30, 2002	$ 20,898,156

(Continued)

6. LOANS RECEIVABLE

The City's and Agency's loans receivable as of June 30, 2002 total $27,203,394, consisting of the following types:

Description	Amount
CDBG Loans	$ 555,417
Housing Rehabilitation Loans	1,479,819
Jasmine Way	648,477
Sunrise Meadows	2,918,210
San Pedro Gardens	1,242,580
Abbott Critical Care Systems	813,132
Morgan Hill Ranch Family Housing	3,289,625
Village Avante Apartments	1,665,437
Village Avante Apartments 2	672,173
Villa Ciolino	2,596,727
Church Street	3,163,259
Murphy Ranch	4,634,415
Other Loans	3,524,123
Total	$ 27,203,394

(a) *CDBG Loans/Housing Rehabilitation Loans*

The City administers two home improvement revolving loan funds using Federal Community Development Block Grant funds (CDBG) and Redevelopment Agency Housing monies. The program provides below market rate loans, secured by deeds of trust, to eligible participants for housing rehabilitation. Although payments for most loans are amortized over an established payment schedule, some loans allow for deferred payment of accrued interest and principal until the homeowner's property is sold or transferred, primarily for seniors and very low income families. Repayments received from the outstanding loans are used to make additional housing rehabilitation loans. As of June 30, 2002, the City had $555,417 of outstanding CDBG loans and the Agency had $1,479,819 in outstanding home improvement loans.

(Continued)

6. LOANS RECEIVABLE, Continued

(b) *Jasmine Way*

The Agency also issued "sweat equity" loans in 1989, secured by deeds of trust, to 15 low and moderate income families to purchase homes. Interest accrues at the rate of 7% annually for 10 years after the execution of the loan. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 10 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven.

As of June 30, 2002, the City had $648,477 of these loans outstanding in its Redevelopment Agency Capital Project Fund.

(c) *Sunrise Meadows*

The Sunrise Meadows project consisted of 24 self-help homes reserved for low income households, and 36 contractor-built units reserved for those at median income. The Agency purchased the project (including land and all entitlements) for $1,670,000. The entire project was then sold to South County Housing for this same amount. The Agency attached a third trust deed on each of the 24 self-help units for loan amounts varying from $50,000 to $100,000 each. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 20 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2002, the Agency had $2,918,210 of loans outstanding in its Capital Project Fund.

(d) *San Pedro Gardens*

The San Pedro Gardens project consisted of 20 rental apartments and 16 self-help owner built units. The Agency issued a loan for $825,000 in June 1991, secured by a third trust deed, with the following repayment terms:

(Continued)

6. LOANS RECEIVABLE, Continued

- Of the total loan, $400,000 has been split into 16 individual loans, secured by deeds of trust on the individual properties. The loan agreements allow the Agency to repurchase units during the first 4 years of ownership at a restricted sales price, and at market rates thereafter. If the borrower has occupied the unit for 20 years, 10% of the principal and interest will be forgiven each year and the loan will be totally canceled at year 30. These loans accrue interest at 10% compounded annually. As of June 30, 2002, the balance for these loans, including interest, was $805,804.

- The remaining $425,000 of the loan accrues simple interest at 1% per year. Interest payments only are due on May 1st of each year payable solely from the surplus funds in the borrower's ground lease rent fund. Portions not paid due to insufficient funds shall accrue interest and be due on May 1st of the following year until paid. All principal and interest remaining unpaid shall be due and payable on June 15, 2021. As of June 30, 2001, the Agency had $425,000 of these loans outstanding in its Capital Project Funds. At June 30, 2002, the loan has accrued interest of $11,776 bringing the loan balance to $436,776.

(e) *Abbott Critical Care Systems*

On September 20, 1995, the Agency approved an agreement with Abbott Critical Care Systems (Abbott), which offered Abbott $2.275 million in financial incentives, which included right-of-way purchase and traffic fee credits, to move their laboratories to the Morgan Hill Business Ranch within the City limits. In addition, the agency approved a loan, secured by a deed of trust, in the amount of $610,000 to Abbott with a 5% interest rate. If certain conditions are met, according to the loan agreement, up to 80% of the accrued interest will be forgiven. At June 30, 2002, the loan has accrued interest of $203,132 bringing the loan balance to $813,132.

(f) *Morgan Hill Ranch Family Housing*

The Morgan Hill Ranch Family Housing Project (Project) consists of residential rental units and a day care center in the Project area. The Agency made a principal predevelopment loan of $10,000 in fiscal year 1995/1996 and principal development loan of $610,579 in fiscal year 1996/1997. The Agency provided an additional loan for land acquisition and construction costs in the amount of $2,524,585 in fiscal year 1997/1998. Commencing on the date of the first disbursement of the loans, the loans accrue simple interest at 3% per annum. At June 30, 2002, the loans have accrued interest of $169,461, bringing the loan balance to $3,289,625. The Association began

6. LOANS RECEIVABLE, Continued

making payments on its loans on the first May 1 following the calendar year in which the Morgan Hill Ranch Family Housing units became occupied. All loans are secured by deeds of trust.

(g) *Village Avante Apartments*

On June 1, 1999, the Agency entered into an agreement with Don Avante Family Homes, Inc. to lend the lesser of $1,540,000 or so much as shall be disbursed under the loan agreement for the acquisition and rehabilitation of the existing Village Avante 112-unit housing project located in the identified Agency Project Area. The loan accrues simple interest at a rate of 4% per annum on the unpaid balance with annual payments until April 1, 2039 and is secured by a deed of trust. The current unpaid balance at June 30, 2002 was $1,665,437.

(h) *Village Avante Apartments* 2

On March 22, 2000, the Agency Board authorized a loan to Don Avante Associates II in the amount of $640,000. This loan is to provide more attractive and durable landscaping, new steel-post privacy fencing at each patio and new black vinyl-coated chain link fencing along the west property line. The loan also included provisions for site and street lighting to create a safer environment at night. The note is a residual receipts note with a 40-year term. It accrues simple interest at a rate of 4% per annum and is secured by deed of trust. The balance at June 30, 2002 was $672,173.

(i) *Villa Ciolino*

On November 23, 1999, the Morgan Hill Redevelopment Agency Board approved a loan of $1.9 million to South County Housing Corporation to acquire a blighted trailer park and housing project. Under the terms of the loan, South County Housing will remove and replace 21 occupied but dilapidated housing units, rehabilitate 8 more, and add 13 additional apartments to create a new 42-unit rental housing complex. The loan is a residual receipt note in second position, at 4% compounded annually, with a term of 55-years, and is secured by a deed of trust.

On December 15, 1999, the Redevelopment Agency Board modified the interest rate from compound to simple at the request of the Low Income Housing Tax Credit Limited Partner tax counsel

(Continued)

6. LOANS RECEIVABLE, Continued

On June 28, 2000, the loan was further modified by approving an increase of $475,000 to cover increased costs of material and labor incurred because of an increased scope of off-site work and the pressures of a very busy construction market place. The balance at June 30, 2002 was $2,596,727.

(j) *Church Street Apartments*

On August 31, 2000, the Redevelopment Agency Board entered into an agreement to loan $1.35 million to South County Housing to purchase two parcels and develop an affordable housing project. On December 6, 2000, the Agency Board approved additional funding to the Church Street Apartments housing project in the amount of $1.9 million for the acquisition of four vacant parcels. This housing project will combine up to 72 residential family apartments to lower income families including a minimum of 23 replacements units and approximately 10,000 square feet of commercial space. The apartment units will be located in 2 and 3 story buildings with up to 12 units located on the second floor of the commercial building. The loan is secured by a deed of trust. The balance of the Church loan at June 30, 2002 was $3,163,259.

The California Housing Finance Agency (CHFA) will be reimbursing the Agency for part of this disbursement through its HELP loan program. The Agency Board approved the CHFA loan in the amount of up to $1 million. This is an unsecured loan to the Agency for use as "holding" funds for housing projects in development.

(k) *Murphy Ranch*

On August 8, 2001 the Redevelopment Agency of the City entered into a loan agreement in the amount of $3,300,000 with Murphy Ranch, L.P. The purpose was to fund the acquisition of property and the pre-development, infrastructure and related costs of the development of the first 62 units of a 100 unit affordable residential complex. The term of the loan is 55 years and bears simple interest at 4%. Payments are received annually. On May 7, 2002 the agreement was amended to increase the principal amount of the promissary note by $1,990,000, increasing the total commitment to $5,290,000. At June 30, 2002 there was a balance due to the Agency in the amount of $4,634,415.

6. LOANS RECEIVABLE, Continued

(l) *Other Loans*

The City and Agency have issued loans for several other projects, all of which are secured by deeds of trust. Detailed information for these loans is as follows:

Project Name	Loan Balance Outstanding	Interest Rate	Maturity Date	Special Provisions of Loan
Morgan Hill Grange	$ 614,681	7.0%	2026	Loan will be forgiven at maturity unless property is transferred
Bridge Counseling Ctr	94,850	3.0%	2020	Interest and principal due at maturity
Methodist Church	25,566	None	2005	Balance due if sold or leased
Sycamore Glen	310,000	4.6%	2028	Interest and principal due at maturity
South County Housing - (Skeels Hotel)	227,585	3.0%	2005	Interest and principal due at maturity
GMP Metal Plating, Inc.	3,333	None	2002	None
Police Housing	46,816	various	various	Interest and principal deferred 5 yrs must be a police officer of the City
Community Solutions	100,000	5.0%	2017	Deferred principal and interest
Woodland Hills	69,654	various	various	various
Specialized Loan	464,048	6.0%	2039	After 10 yrs-interest free
MH School Relocation	1,019,393	6.0%	2025	Interest and principal deferred 10 yrs
Employee Housing Asst.	523,911	5.6%	2030	None
Gayle Richter	24,286	6.5%	2016	None
Total	$ 3,524,123			

Recognition of Valuation Allowance by Recording Deferred Revenue for Notes and Loans Receivable

A valuation allowance of these loans receivable has been recognized by recording deferred revenue for the portion of loans and notes where there is a significant possibility that they will become uncollectible or be forgiven by the City or agency at a future date if all of the terms of the loans have been met (see Note 7b).

(Continued)

7. NOTES RECEIVABLE

(a) *Public Works Fee Financing Agreements*

The City has established a public works fee financing program (Program) to assist businesses in specified industrial and commercial use categories in paying various public works and utility connection fees over a period of time rather than in a lump sum at the time otherwise specified in applicable City ordinances and regulations. The notes are secured by deeds of trust and include interest at prime rate in January of each year. The amount of these notes outstanding as of June 30, 2002 was $108,942.

(b) *Recognition of Deferred Revenue for Notes and Loans Receivable*

The City has recognized a valuation allowance by recording deferred revenue for the portion of loans and notes where there is a significant possibility that they will become uncollectible or forgiven by the City or Agency at a future date if all of the terms of the loans have been met. The remaining noncurrent balance is reflected as a reserve of fund balance.

	General Fund	Special Revenue Funds	Capital Project Funds	Enterprise Funds	Total
Loans Receivable	$ 523,911	$ 655,417	$ 26,024,066		$ 27,203,394
Notes Receivable			988	$ 107,954	108,942
June 30, 2002 Balance	$ 523,911	$ 655,417	$ 26,025,054	$ 107,954	$ 27,312,336
Less:					
Deferred Revenue for Loans	(523,911)	(197,414)	(6,577,809)		(7,299,134)
Enterprise Notes Receivable				(107,954)	(107,954)
Reserved Fund Balance	$ -	$ 458,003	$ 19,447,245	$ -	$ 19,905,248

Total deferred revenue for the General Fund is $633,262. This consists of $523,911 in deferred revenue for loans, $89,201 in deferred revenue for business licenses and $20,150 in deferred revenue for rent.

8. LONG-TERM DEBT

Summary of Changes in Long-Term Debt

	General Long-Term Debt Account Group			Proprietary Funds Long-Term Debt	
	Special Assessment	Redevelopment Agency	Comp. Absences	Enterprise Funds	Totals
Balances, July 1, 2001	$ 2,480,000	$ 5,159,815	$ 391,960	$ 5,392,959	13,424,734
Additions		7,681,856	169,865		7,851,721
Retirements	(800,000)	(3,550,000)	(118,991)	(204,357)	(4,673,348)
Balances, June 30, 2002	$ 1,680,000	$ 9,291,671	$ 442,834	$ 5,188,602	$ 16,603,107

(a) *Special Assessment District Debt for which the City is Obligated in Some Manner*

Certain special assessment districts within the City have issued debt repayable out of special assessments levied on property in each respective district. The City is under no legal obligation to repay the special assessment debt. However, the City is required to make advances or to be the purchaser of last resort for property on which delinquent assessments are unpaid and it has therefore included this debt in its general purpose financial statements. During fiscal year 2001/02, the final debt payments were made on Encino Hills, Morgan Hill Business Park and Sutter Business park assessment districts. The following is a schedule of debt outstanding for these districts as of June 30, 2002:

District/Debt Issue	Year Issued	Interest Rate	Principal Matures Annual Amount	Principal Matures Period	Outstanding June 30, 2002
Encino Hills	1986	9.00%	$75,000	2001-2002	
Morgan Hill Business Pk	1986	7.87-7.88%	355,000	2001-2002	
Sutter Business Park	1986	8.00%	255,000	2001-2002	
Cochrane Business Pk	1986	8.00-8.25%	95,000-210,000	2003-2012	$ 1,520,000
Joleen Way	1992	10.00%	20,000-30,000	2003-2009	160,000
Total Special Assessment Bonds Outstanding					$ 1,680,000

As of June 30, 2002, there were no delinquent assessments receivable for the above districts. Revenues collected were sufficient to make the required debt service payments, which amounted to $993,167 for fiscal year 2001-02.

(Continued)

8. LONG-TERM DEBT, Continued

(b) *Redevelopment Agency Long-Term Debt*

The Redevelopment Agency had $9,291,671 in long-term debt as of June 30, 2002, comprised of $941,671 for the California Housing Finance Agency (CHFA) loan, $3,250,000 for the Gunderson property and $5,100,000 for the Sports complex property as described below.

On October 5, 2000, the Agency entered into a loan agreement with CHFA. This HELP loan is to be used as a revolving source of funds for the purpose of making loans to property owners or operators for acquisition and predevelopment expenses associated with the aggregation of parcels for multifamily rehabilitation and/or new construction developments. This loan is for the South County Housing Church Street project. The loan payment has been deferred for 10 years. At June 30, 2002 the loan had a principal balance of $909,815 and deferred interest of $31,856 for a total outstanding balance of $941,671.

On April 26, 2001, the Agency entered into a loan agreement for property acquisition of the Gunderson property in the amount of $5,500,000. The Gunderson property is intended to be used for the future sight of the indoor recreation center. The balance due of $3,250,000 will be paid in April 2004.

On July 25, 2001 the Redevelopment Agency entered into a property purchase agreement for the proposed site of the future sports complex. The purchase price was $7,650,000. Installment payments of $2,550,000 are due annually. At June 30, 2002 the remaining balance due was $5,100,000.

(c) *Compensated Absences*

The timing of payments for accrued vested vacation, sick leave, and compensatory time benefits (compensated absences) is not certain and thus not included in the above schedule. This $442,834 obligation will be payable by governmental funds from resources to be received in future periods.

(d) *Other Long-Term Debt (Enterprise Funds)*

The following is a schedule of bonds payable and certificates of participation, net of unamortized discount, as of June 30, 2002 by individual issue.

8. LONG-TERM DEBT, Continued

Bond	Due Serially to	Interest Rates	Outstanding at June 30, 2002
Enterprise Funds:			
1993 Water Facilities Loan	2017	7.125%	1,152,206
1999 Certificates of Participation	2021	6.500%	4,036,396
Total Long-Term Debt			**$ 5,188,602**

1993 Water Facilities Loan

On July 1, 1993, the California Statewide Communities Development Authority (Development Authority) issued $14,195,000 Senior Series 1993A Bonds and $8,000,000 Subordinate Series 1993B Bonds. Proceeds from the bonds enabled the Development Authority to make loans to numerous California public entities (borrowers). The bonds are limited obligations of the Development Authority and are secured by a pledge of water revenues from the borrowers. The City borrowed $1,902,645 from the Development Authority. The City's outstanding balance at June 30, 2002 was $1,152,206. The 1993 Water Facilities Loan is due by July 2017 and bears interest at 7.125%. Proceeds from the loan were used to retire a $1,313,863 water facilities loan and pay costs of issuance.

In accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt, $515,183, was deferred and is being amortized as a component of interest expense over the life of the new loan, which is equal to the remaining life of the refunded debt. In addition, the debt is shown net of this deferred amount.

1999 Certificates of Participation

On May 1, 1999, the City issued $5,090,000 Refunding Certificates of Participation to provide funds to advance refund the outstanding $4,550,000 principal amount of the 1991 Certificates. The balance outstanding for the 1999 issue at June 30, 2002 was $4,036,396. A portion of the proceeds of the Certificates has been deposited in an escrow fund (the "1991 Certificates Escrow Fund") pursuant to an escrow agreement dated as of May 1, 1999, between the City and U. S. Bank Trust National Association,

8. LONG-TERM DEBT, Continued

as escrow bank. Such amounts, together with monies transferred to the 1991 Certificates Escrow Fund from certain funds held by the trustee for the 1991 Certificates, have been invested in direct obligations of the United States of America which will mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient to pay each installment of interest and principal with respect to the 1991 Certificates through June 1, 2002 and to provide for the redemption on June 1, 2002 of the 1991 Certificates maturing on or after June 1, 2003 at the redemption of 102% of the principal of the 1991 Certificates maturing on or after June 1, 2003.

Complete financial information for the Development Authority may be obtained from American Government Financial Services, the company handling the bond issuance, at the following address:

American Government Financial Services
901 Sunrise Avenue, Suite A-16
Roseville, CA 95661

(e) *Future Debt Service and Minimum Capital Lease Payment Requirements*

	General Long-Term Debt		Proprietary Fund Debt	
	(A)	(B)	(C)	
Year Ending June 30,	Special Assessment	Agency Debt	Enterprise Funds	Totals
2003	$ 262,840	$ 2,550,000	$ 546,839	$ 3,359,679
2004	257,133	3,250,000	545,439	4,052,572
2005	260,365	2,550,000	548,839	3,359,204
2006	257,268		551,839	809,107
2007	253,242		549,440	802,682
Thereafter	1,164,793	941,671	7,053,600	9,160,064
Subtotals	$ 2,455,641	$ 9,291,671	$ 9,795,997	$ 21,543,309
Less interest, discounts and deferred charges	(775,641)		(4,607,395)	(5,383,036)
Totals	$ 1,680,000	$ 9,291,671	$ 5,188,602	$ 16,160,273

(Continued)

8. LONG-TERM DEBT, Continued

Debt service payments for the above obligations are made from the following sources:

(A) Special tax assessments secured by the related real properties.
(B) Incremental property taxes authorized for the Agency and loan repayments.
(C) Operating revenues recorded in the Water and Sewer Enterprise Funds.

(f) *Bonds for which the Agency has No Obligation - La Crosse Village Project*

The Agency has outstanding as of June 30, 2002 approximately $4,600,075 of tax exempt multifamily mortgage revenue bonds due through December 1, 2027. These bonds were issued to provide funds for secured mortgage loans to builders of a multifamily housing project, the La Crosse Village Project. The purpose of the program is to provide needed rental housing for low to moderate income households. The Agency is required to set aside 20% of all units built in this project for low income households. The bonds are payable solely from payments made on the related secured mortgage loans. The unpaid balance is insured by mortgage guaranty insurance of the Federal Housing Authority (FHA).

In the opinion of the Agency officials, these bonds are not payable from any revenues or assets of the Agency or the City. Neither the faith and credit nor the taxing power of the Agency, the state, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying general-purpose financial statements.

(g) *Special Assessment Debt for which the City is Not Obligated in Any Manner*

Certain special assessment districts are established in various parts of the City to provide improvements to properties located in those districts. Properties in the assessment districts listed below are assessed for the cost of improvements and these assessments are payable solely by property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or to be the purchaser of last resort of foreclosed properties in these special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default. At June 30, 2002, the total balance of these districts' outstanding debt was $28,880,000, comprised of $5,745,000, $595,000, $10,985,000, $740,000, and $10,815,000 for the Morgan Hill Business Ranch I, Morgan Hill Business Ranch II, Morgan Hill Ranch 98, Tennant Avenue Business Park, and Madrone Business Park Series A and B assessment districts, respectively.

8. LONG-TERM DEBT, Continued

(h) *Legal Debt Limit and Debt Margin*

The City's legal debt limit and debt margin was $529,154,401 as of June 30, 2002.

9. SEWER CAPACITY RIGHTS

In May 1992, the City entered into a Joint Powers Agreement with the City of Gilroy to create the South County Regional Wastewater Authority (the Authority). The Authority was formed to purchase or acquire property and own and operate wastewater treatment facilities through cooperative action.

In September 1992, the Authority issued bonds totaling $66,480,000 of which the City's portion (42%) was $28,065,000. The bonds mature serially through August 2022 and bear interest at rates ranging from 4.5% to 5.75%. Under the Joint Powers Agreement, proceeds from the City's portion of the bonds were used to retire $5,000,000 outstanding 1988 Sewer Certificate of Participation (COPS) and to finance the City's share of the capacity expansion costs for the sewage treatment facility.

The City's portion of the capacity rights, totaling $21,345,859, is capitalized in the Enterprise Funds. However, the City is not considered to have an equity interest or rights to any of the assets of this joint venture other than possible residual claims upon dissolution. Thus, no provision for the City's share of the joint venture's net assets and income or loss has been made in the Enterprise Funds.

The bonds are limited obligations of the Authority and are secured by a pledge of net revenues of the City's sewer enterprise fund and those of the City of Gilroy. The City is obligated to make installment payments to the Authority in the amount of the debt service requirements applicable to its portion of the debt. The City maintained sufficient sewer rates to make the required payments. Complete financial statements for the Authority may be obtained from the City of Gilroy (which maintains the financial records for the Authority) at the following address:

City of Gilroy
Attention: Finance Department
7351 Rosanna Street
Gilroy, CA 95020.

(Continued)

9. SEWER CAPACITY RIGHTS, Continued

Future installment payments due by the City as of June 30, 2002 are as follows:

Year ending June 30	Installment Payment due
2003	$ 2,002,818
2004	2,005,800
2005	2,006,006
2006	2,003,744
2007	2,004,038
Thereafter	32,055,630
Total principal and interest payments	$ 42,078,036
Less amounts representing:	
Interest	(17,193,036)
Discounts	(1,587,443)
Total principal amount due	**$ 23,297,557**

10. EMPLOYEES' RETIREMENT PLAN

Plan Description

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the Fund's annual financial report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

10. EMPLOYEES' RETIREMENT PLAN, Continued

Funding Policy

Public safety employees and all other employees have an obligation to contribute 9% and 7% of their salary to the Fund, respectively. The City makes the contributions required of City employees on their behalf and for their account, with the exception of safety and certain management personnel who are contributing the obligation through their earnings. The City is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2001-02 were 0% for public safety personnel and 0% for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. For fiscal year ending June 30, 2002, CalPERS covered payroll totaled $9,630,837. Employee contributions to the fund were $732,564 paid by a combination of management employees, safety employees, and the City.

Annual Pension Cost

The City's annual pension cost for the Fund was equal to the City's required and actual contributions which was determined as part of the 1999 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses) and (b) projected salary increases that vary by duration of service. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. The unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of any unfunded actuarial liabilities (or excess assets) of the City has an average remaining period of 9 years, determined by the plan's date of entry. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period.

Three-Year Trend Information

The following table shows the City's required contributions and the percentage contributed, for the current year and each of the preceding two years.

10. EMPLOYEES' RETIREMENT PLAN, Continued

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2000	256,981	100%	0
6/30/2001	278,735	100%	0
6/30/2002	319,104	100%	0

11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise activities which provide water and sewer services and financing for those services. Segment information as of and for the year ended June 30, 2002 is as follows:

	Sewer Operations	Sewer Mitigation	Financing Corporation	Water Operations	Water Mitigation	Eliminations	Total
Operating revenues	$ 5,861,633	$1,533,029	$ 226,433	$ 5,915,530	$ 204,296	$ (226,433)	$ 13,514,488
Depreciation expense	1,104,615	107,782		1,424,193	252,224		2,888,814
Operating income	242,331	1,421,731	226,433	346,680	(48,144)	(226,433)	1,962,598
Operating Transfers (net)	(440,542)			(149,459)			(590,001)
Contributed capital	7,155,284			13,742,872			20,898,156
Net income (loss)	(557,241)	1,185,046		152,752	(9,061)		771,496
Property, plant and equipment, net	17,643,903	1,561,500		27,892,044	1,970,306		49,067,753
Net working capital	14,305,915	5,575,365		8,989,316	787,042		29,657,638
Total assets	54,416,678	7,830,052	4,036,396	37,576,245	2,862,244	(4,036,396)	102,685,219
Long-term liabilities	22,699,660		3,876,396	5,017,358		(3,876,396)	27,717,018
Total equity	30,596,017	7,244,335		31,864,002	2,757,348		72,461,702

12. FUND EQUITY

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

(Continued)

12. FUND EQUITY, Continued

Fund balance reserves of the Governmental Fund Types as of June 30, 2002, were as follows:

	General	Special Revenue	Debt Service	Capital Projects
Reserved for:				
Encumbrances	$ 128,479	$ 1,284,366		$ 9,693,575
Restricted Cash				67,159
Low and moderate income housing				3,640,281
Noncurrent loans and notes receivables		458,003		19,447,248
Properties held for resale				71,049
Capital improvements				12,894,817
Debt service			$ 739,791	
Total Reserved	$ 128,479	$ 1,742,369	$ 739,791	$ 45,814,129
Designated for:				
Economic development				12,062,454
Economic Uncertainty	1,182,000			
Fire Master Plan Implementation	1,200,000			
Emergencies	1,000,000			
Unreserved, undesignated	8,201,647	5,731,432		7,346,551
Total Fund Balance	$ 11,712,126	$ 7,473,801	$ 739,791	$ 65,223,134

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for capital projects. Such plans or intentions are subject to change, have not been legally authorized, and may not result in expenditures. The Redevelopment Agency designated, under the Capital Projects Fund Type, $12,062,454 in fund balance as of June 30, 2002 for future economic development. In addition, $3,382,000 was designated in the General Fund for economic uncertainty, fire master plan implementation, and emergencies, as reflected above.

Fund reserves for the Primary Government Proprietary Fund Types as of June 30, 2002 were as follows:

Reserved for:	
Capital improvements (Enterprise Funds)	$ 10,392,571

As of June 30, 2002, fund reserves for the Component Unit, Corporation Yard Commission, consisted of $139 for restricted cash.

(Continued)

13. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year, if not during the fiscal year. At June 30, 2002, there were no interfund balances due.

14. COMMITMENTS/CONTINGENCIES

(a) *Grant Programs*

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Audits of these programs for the year ended June 30, 2002, have not yet been conducted. Accordingly, the City's compliance with applicable program requirements will be determined at a future date. The amount of any expenditures which may be disallowed by the grantor agencies cannot be determined at this time. However, the City expects such amounts to be immaterial.

(b) *Low and Moderate Housing Requirements of the Agency*

The California Health and Safety Code, Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the Housing Capital Projects Fund to account for this commitment and has reserved $3,640,281 for such expenditures. The Agency has expended approximately $31,962,170 for low and moderate income housing since its inception.

(c) *Redevelopment Plan Requirements of the Agency*

Effective January 1, 1995, the State Legislature passed Assembly Bill 1290. This legislation imposes several new requirements on redevelopment agencies and permits the establishment of new time limits for the issuance of debt, plan termination, and the collection of tax increment. The Agency amended its redevelopment plan during the year ended June 30, 1995 to be in accordance with these requirements.

As part of AB 1290, the Agency is required to report any "excess surplus" to the Federal Department of Housing and Community Development. An excess surplus exists for a fiscal year if the unencumbered balance at year-end in the Agency's Low and Moderate Housing Capital Project Fund exceeds the greater of $1 million or the aggregate amount of tax increments deposited into this fund during the preceding

(Continued)

14. COMMITMENTS/CONTINGENCIES, Continued

four fiscal years. If any excess surplus is not spent or encumbered within three years it must be transferred to the County's housing authority. The Agency did not have any excess surplus housing funds for the fiscal year ended June 30, 2002, based on calculations by the Agency's management.

As detailed in the current redevelopment plan amended November 1999, the maximum amount of tax increment revenue that the Agency may collect over its lifetime is $247 million. The Agency had collected approximately $139 million of tax increment revenue from its inception through June 30, 2002, leaving approximately $108 million remaining to be collected in the future through the year 2031.

(d) *Risk Management*

The City Attorney and the City's Risk Manager have determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and judgements as of June 30, 2002, are approximately $1,056,381. This amount is based on the requirements of GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the reported liability since June 30, 2000 resulted in the following:

	Unemployment and Workers' Compensation	General Liability	Total
Liability as of 6/30/00	$ 361,222	$ 211,939	$ 573,161
Claims and changes in estimates during the year ended 6/30/01	452,984	172,095	625,079
Claims payments during the year ended 6/30/01	(142,865)	(62,946)	(205,811)
Liability as of 6/30/01	$ 671,341	$ 321,088	$ 992,429
Claims and changes in estimates during the year ended 6/30/02	300,102	135,775	435,877
Claims payments during the year ended 6/30/02	(261,479)	(110,446)	(371,925)
Liability as of 6/30/02	$ 709,964	$ 346,417	$ 1,056,381

(Continued)

14. COMMITMENTS/CONTINGENCIES, Continued

In addition, with respect to the general liability accrual, the City has several other unsettled lawsuits filed or claims asserted against it as of June 30, 2002.

The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City. As a result of such review, the City has categorized such claims and lawsuits as "remote" loss contingencies, as defined in FASB Statement No. 5.

The final outcome of claims and lawsuits which have been categorized as remote loss contingencies is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying general purpose financial statements relative to the potential outcome of such claims and lawsuits. The ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying general-purpose financial statements. The retained earnings balances in the City's General Liability, Workers' Compensation and Unemployment Insurance Internal Service Funds include a reasonable reserve for anticipated future catastrophic losses.

(e) *Gann Spending Limitation Initiative*

Under Article XIIIB of the California Constitution, the City is restricted as to the amount of annual appropriations from proceeds of taxes. If the proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2002, based on calculations by the City's management, proceeds of taxes did not exceed appropriations.

(f) *Construction and Other Significant Commitments*

Listed below are the projects for uncompleted contracts over $200,000 outstanding as of June 30, 2002 for all funds.

Project name	Contract Outstanding
San Pedro Well	216,760
Library	832,125
Dunne/101 Study	200,000
Community Playhouse	2,454,306
Community Cultural Center	5,324,282

(Continued)

14. COMMITMENTS/CONTINGENCIES, Continued

(g) *Contracting out of Fire and Emergency Medical Services*

On September 6, 1996, the City approved a fire and emergency service agreement with the Santa Clara County Central Fire Protection District, (the District), with an effective start date of October 2, 1996. The agreement consisted of the following terms:

- The expiration date of the agreement is July 1, 2005, at which time it will automatically renew for ten years unless the City or District provides written notice of non-renewal to the other party at least 180 days prior to the expiration date of the agreement.

- The City paid $3,559,610 in operating fees for services provided under this agreement for fiscal year 2002. Annual charges for services are adjusted each year for the change in the Consumer Price Index for the San Francisco Bay Area or the average annual cost of living increase in total compensation provided to all fire suppression non- management employees of the District, whichever is less.

- In the event an additional fire station is needed to provide adequate fire and emergency medical services to the City, an additional $1.3 million (adjusted for inflation or wage increases, whichever is less) shall be charged to the City by the District for these services annually.

- The District shall submit to the City by January 1st of each year a proposal for capital needs for fire services for the City to consider in its budget process for the following fiscal year. Fire impact fees will not be used to offset contract costs unless mutually agreed. All capital expenditures contemplated must meet the legal requirements for using impact fees.

15. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in Internal Service Funds which were established during fiscal 1992. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. The City's

15. RISK MANAGEMENT, Continued

general purpose financial statements also reflect as expenses the premiums assessed for insurance coverage, which are based on periodic actuarial studies by the firms providing coverage to the City.

The City is self-insured for workers' compensation up to a maximum of $250,000 per occurrence; purchased insurance covers the excess up to $5,000,000 per year. The City is also fully self-insured for unemployment insurance. In addition, The City participates in the Association of Bay Area Governments Pooled Liability Insurance Network (ABAG-PLAN), a self-funded pooled insurance corporation established by a joint powers authority in which the City is one of 30 members. ABAG-PLAN provides general liability insurance up to $10,000,000 per occurrence through a combination of $5,000,000 pool coverage and $5,000,000 of excess insurance, subject to a $50,000 deductible (increasing to $100,000 on July 1, 2002). The rights and responsibilities of the member agencies are governed by the bylaws of the ABAG-PLAN, the risk coverage agreement, and a related memorandum of coverage. Each member chooses its self-insured liability retention at a level between $25,000 and $250,000. Each member has a vote in approving the pool's self-insured retention level, in setting the coverage limit, in establishing the level of pool reserves, approving the premium allocation methodology for setting premiums for each member, and in approving the methodology for returning disbursable equity to members. ABAG-PLAN is responsible for administering the insurance program. ABAG-PLAN provides claims administration and risk management services to the members.

ABAG-PLAN also provides property insurance for the City, including a $5,000 deductible per occurrence, except for vehicles where there is a $10,000 deductible per occurrence. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the City's insurance coverage during the year ended June 30, 2002.

Complete financial statements for ABAG-PLAN may be obtained from their offices at the following address:

ABAG Plan Corporation
Finance Department
P.O. Box 2050
Oakland, CA 94604

(Continued)

16. JOINT POWERS AUTHORITY (*Discretely presented component unit*)

The City and the Morgan Hill Unified School District formed the Corporation Yard Commission, a joint powers authority, in 1975. The Commission issued bonds for real property improvements and leased the property to the City and the School District. The annual lease payments made to the Commission were approximately equal to debt service payments on the bonds and operating costs of the Commission. The lease expired in December 1999, coinciding with the final payment on the bond issue. Title to the property vested with the City at the end of the lease term.

The City and the School District entered into a new lease agreement, effective May 22, 2000, whereby the City has leased a portion of the Corporation Yard to the District. Premises are leased for use as a bus barn for fueling, maintenance, parking and washing. The current lease expires December 31, 2006.

In June of 1995, the property that is shared by the School District and the City was contaminated by a leaking fuel tank. Costs through June 30, 2002 for clean-up and legal fees has been $1,644,163 of which $1,290,575 has been reimbursed by the State Water Resources Control Board Underground Storage Tank Fund. It is expected the clean up will be completed in the year 2007 at an additional cost of $2,000,000..

17. SUBSEQUENT EVENTS

On October 17, 2002 the City issued Refunding Revenue Bonds in the amount of $25,390,000 for the purpose of providing funds to retire the Morgan Hill Series 1992B South County Regional Wastewater Authority Bonds (see note 9) which are currently outstanding in the aggregate principal amount of $24,250,000. The $23,297,557 Capacity Rights Payable shown in Note 9 equals the aggregate principal balance of $24,250,000 less bond discounts of $1,587,443. The interest rates on the refunding bonds range from 2.00% to 4.50% and the final maturity is on August 1, 2022. Debt service payments are scheduled annually at amounts that range from $1.6 million to $1.8 million per year.

The State of California's Public Retirement System (CalPERS) in which the City participates, as described in Note 10, has notified the City that the City will be required to contribute employer contributions to CalPERS beginning July 1, 2003. The actual 2003/04 employer contribution for miscellaneous employees will be 2.469% of payroll and the actual 2003/04 employer contribution for safety employees will be 6.805% of payroll. In addition, CalPERS has reported in their June 30, 2001, actuarial report that the normal employer contribution rates for fiscal 2003/04 will be 16.912% for the safety plan and 7.290% for the miscellaneous plan. Further, CalPERS staff has indicated that the normal safety plan employer rate will subsequently be higher than

(Continued)

17. SUBSEQUENT EVENTS, Continued

the 16.912% normal rate because the City recently amended its contract with CalPERS, effective July 1, 2002, to increase safety retiree benefits. Therefore, the City expects to pay increasing employer contribution rates for the next several years. The City has not made employer contributions since fiscal year 1997/98 because the City has had a negative actuarial liability, or surplus assets, during this time period.

(Continued)

18. REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PENSION PLAN

SCHEDULE OF FUNDING PROGRESS

Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/99	12,950,112	17,291,697	(4,341,585)	133.5%	5,185,188	(83.7%)
6/30/00	14,820,976	19,160,293	(4,339,317)	129.3%	5,607,484	(77.4%)
6/30/01	16,316,268	19,818,634	(3,502,366)	121.5%	6,245,280	(56.1%)

Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/99	18,061,778	22,899,905	(4,838,127)	126.8%	1,814,242	(266.7%)
6/30/00	20,116,509	25,408,998	(5,292,489)	126.3%	2,178,137	(243.0%)
6/30/01	23,994,711	26,361,563	(2,366,852)	109.9%	2,540,333	(93.2%)

(Concluded)

CITY OF MORGAN HILL

City of Morgan Hill

COMBINING AND INDIVIDUAL FUND AND ACCOUNT GROUP STATEMENTS AND SCHEDULES

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund balance or retained earnings, revenues and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be expended and the means by which spending activities are controlled. The City's funds are grouped as follows:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The measurement focus is upon the determination of changes in financial position, rather than upon net income. Governmental Fund Types include the General Fund, Special Revenue, Debt Service and Capital Project Fund Types.

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon the determination of net income. Proprietary Fund Types include Enterprise and Internal Service Funds.

Agency Funds

Agency funds are used to account for assets held by the City for others as a trustee or as an agent for individuals, private organizations, other governmental units and other funds.

Account Groups

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations.

CITY OF MORGAN HILL

City of Morgan Hill, California

GENERAL FUND

The General Fund accounts for all financial resources except those required to be accounted for in another fund. This is the fund used for the day-to-day operation of the City.

The General Fund receives its revenues from many sources, including the following:

a. Taxes - including property taxes, sales taxes, hotel taxes, franchise & business licenses.

b. Aid from other governmental agencies, including motor vehicle in lieu fees and grants.

c. Other income, including licenses, permits and charges for current services and interest.

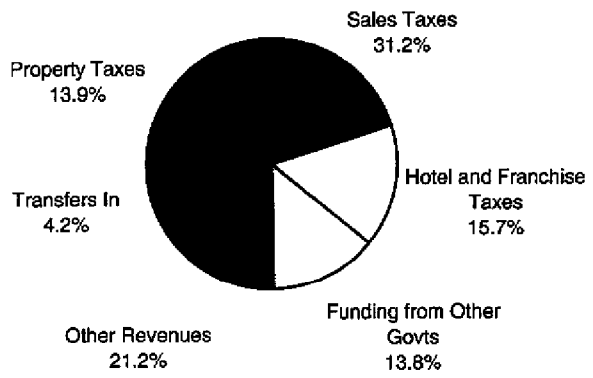
It uses this revenue to provide many different types of services to the public, including:

a. Police and Fire Protection, including weed abatement and emergency services.

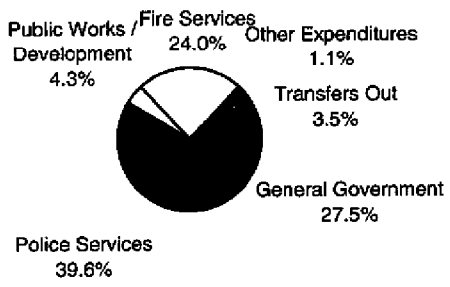
b. General administrative and support services, including the City Manager and City Clerk.

c. Other expenditures, including building, planning and engineering and park maintenance.

Revenue and Transfer In Distribution - Total $15.6 Million



Expenditure and Transfer Out Distribution Total $14.9 million



City of Morgan Hill, California

General Fund

Comparative Balance Sheets

June 30, 2002 and 2001

	2002	2001
Assets		
Pooled cash and investments	$ 11,875,907	$ 10,228,761
Receivables:		
Taxes and special assessments	1,293,172	1,230,315
Accrued interest	99,633	166,811
Other accounts receivable	61,099	269,019
Loans receivable	523,911	469,821
Total assets	**$13,853,722**	**$ 12,364,727**
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	$ 1,215,149	$ 935,698
Accrued liabilities	169,416	116,708
Deferred revenue	633,262	476,003
Vacation and compensated absence obligation	123,769	84,647
Total liabilities	**$ 2,141,596**	**$ 1,613,056**
Fund balances:		
Reserved for:		
Encumbrances	$ 128,479	$ 143,277
Unreserved:		
Designated	3,382,000	$ 3,000,000
Undesignated	8,201,647	7,608,394
Total fund balances	**$ 11,712,126**	**$ 10,751,671**
Total liabilities and fund balances	**$ 13,853,722**	**$ 12,364,727**

City of Morgan Hill, California

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non - GAAP Budgetary Basis)

Year Ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	2002			2001
	Revised Budget	Actual Plus Encumbrances	Variance	Actual Plus Encumbrances
Revenues:				
Property taxes and special assessments	$ 1,726,000	$ 2,167,507	$ 441,507	$ 1,848,188
Sales taxes	5,300,000	4,870,295	(429,705)	5,532,132
Franchise, hotel and other taxes	3,041,102	2,443,461	(597,641)	2,803,261
Licenses and permits	196,272	205,594	9,322	200,892
Funding from other governmental agencies	1,980,400	2,159,403	179,003	2,146,538
Charges for current services	1,808,618	1,929,602	120,984	348,446
Investment income and rentals	584,250	1,007,557	423,307	859,365
Fines, forfeits, and other revenues	141,876	164,312	22,436	226,112
Total revenues	**$ 14,778,518**	**$ 14,947,731**	**$ 169,213**	**$ 13,964,934**
Expenditures:				
Current:				
General government	$ 4,630,231	$ 4,188,091	$ 442,140	$ 1,841,720
Police services	6,239,916	5,882,378	357,538	5,535,470
Fire services	3,559,741	3,559,610	131	3,350,334
Public works / development services	746,710	658,438	88,272	743,476
Capital outlay	468,360	163,263	305,097	229,280
Debt service:				
Interest and fiscal charges	5,770	4,128	1,642	6,275
Total expenditures	**$ 15,650,728**	**$ 14,455,908**	**$ 1,194,820**	**$ 11,706,555**
Excess (deficiency) of revenues over (under) expenditures	$ (872,210)	$ 491,823	$ 1,364,033	$ 2,258,379
Other financing sources (uses):				
Operating transfers in	$ 901,583	$ 647,300	$ (254,283)	$ 1,083,356
Operating transfers (out)	(526,119)	(526,119)		(1,149,457)
Total other financing sources (uses)	$ 375,464	$ 121,181	$ (254,283)	$ (66,101)
Net increase (decrease)	**$ (496,746)**	**$ 613,004**	**$ 1,109,750**	**$ 2,192,278**
Adjustments to budgetary basis		128,479		143,277
Fund balances - beginning of year		10,751,671		8,416,116
Residual equity transfer in (out)		218,972		
Fund balances - end of year		**$ 11,712,126**		**$ 10,751,671**

City of Morgan Hill

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of special revenue sources, other than special assessments, and major capital projects, that are legally restricted to expenditures for specified purposes.

Supplemental Law Enforcement Services

This fund accounts for the receipt of one time General Fund revenues, AB3229 and grant monies to be used to fund additional police officers and one time capital expenditures.

Community Development

This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

Street Maintenance

This fund receives monies from state gas taxes based on population, and the funds may be expended only for street and road repair, maintenance, design, construction and traffic signal design and installation. Proposition 111 monies from state gas taxes are received for the Congestion Management Program.

General Plan Update

This fund accounts for revenues and expenditures associated with the City's general plan update.

Housing Block Grant

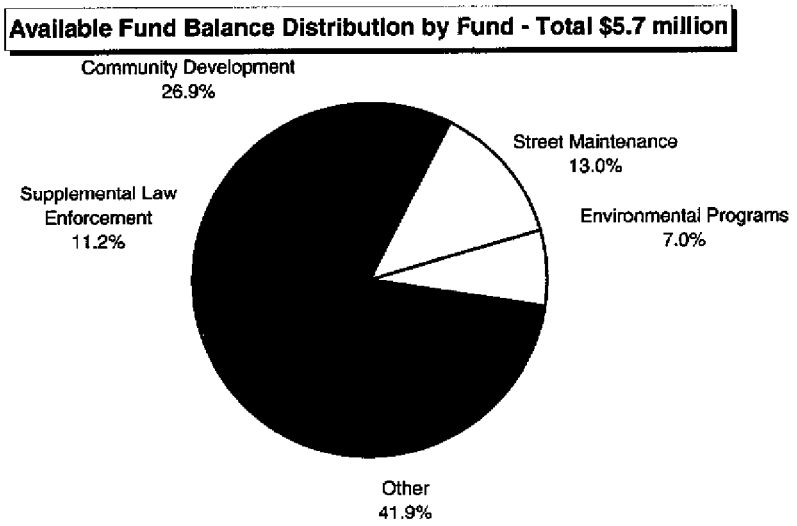
This fund receives revenues from Santa Clara County on a reimbursement basis, as a part of the federal government's program for low and moderate housing. Expenditures are restricted as to types of activities and nature of expenses, and must benefit low and moderate income individuals seeking housing.

Museum Rental

This fund receives fees from the City owned museum, which are used to offset its operating costs.

OES/FEMA

This fund accounts for the receipt of one time disaster relief revenues to be used to reimburse for the 1998 storm damage.



City of Morgan Hill

SPECIAL REVENUE FUNDS (Continued)

Asset Seizure

This fund accumulates revenue from the seizure of assets obtained by the police department from drug enforcement activities. Expenditures may be made from these funds only for police related activities in accordance with guidelines established by the state and federal governments.

Lighting and Landscape Districts

This fund derives its revenues from an assessment based on expenditures by the City for maintenance services to park areas within small developments. These services benefit the properties against which assessments are levied by ensuring proper upkeep.

Environmental Programs

Sources of funding are limited to 6% of the franchise fee and revenues from the countywide AB939 fee, which are used to fund expenditures related to solid waste management.

Mobile Home Park Rent Stabilization

This fund was created to monitor the fees charged to the mobile home park owners and tenants, as regulated by the Rent Stabilization Ordinance, and to ensure that they cover the City's cost for arbitration and litigation.

Housing Development Fund

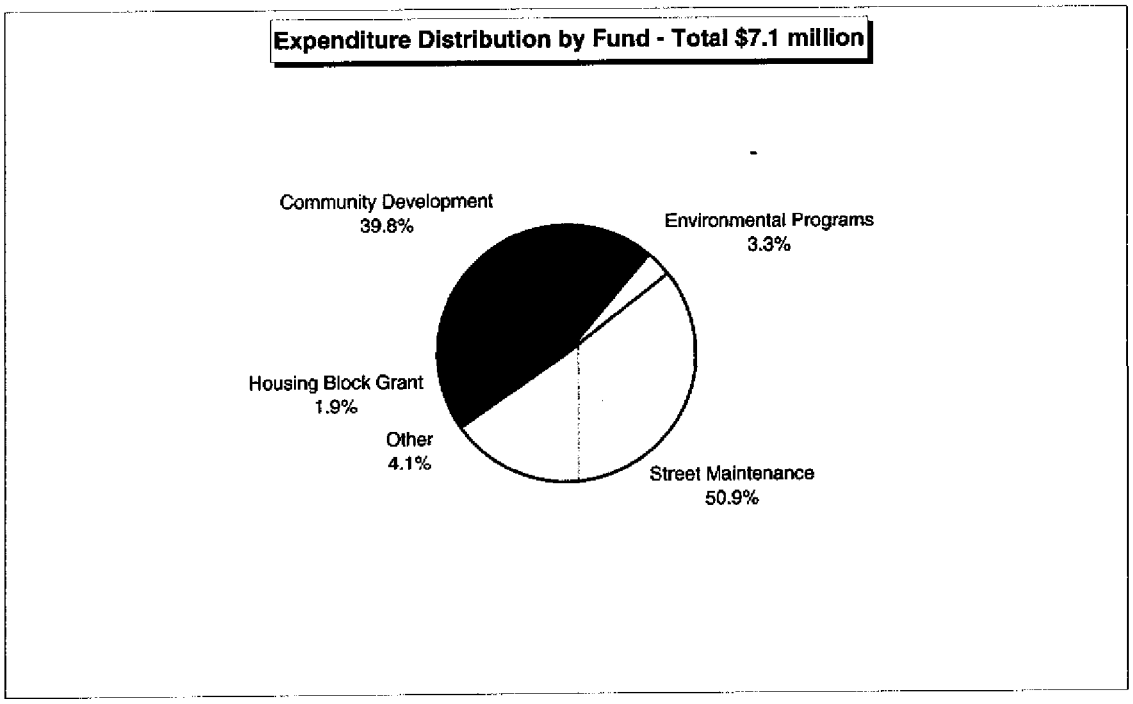
This fund was established to account for funds available for activities that benefit elderly persons.

Government/Public Access

This fund was created to account for the administering of the cable televison franchise and the public access contract.

Community Center Fund

This fund was created to account for the start-up costs of the new Community/Cultural Center.



City of Morgan Hill, California

Special Revenue Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Supplemental Law Enforcement	Community Development	Street Maintenance	General Plan Update
Assets				
Pooled cash and investments	$ 636,109	$ 2,011,445	$ 1,601,896	$ 110,594
Restricted pooled cash and investments			10,794	
Receivables:				
Accrued interest	4,999	10,548	7,179	588
Other accounts receivable		1,341	24,590	
Deposit in Escrow/Prepaid Item			95,330	
Loans receivable				
Total assets	**$ 641,108**	**$ 2,023,334**	**$ 1,739,789**	**$ 111,182**
Liabilities and Fund Balances				
Liabilities:				
Accounts payable		$ 78,406	$ 113,777	$ 194
Accrued liabilities		29,075	7,454	98
Due to other funds				
Deferred revenue				
Vacation and compensated absence obligation		38,325	3,162	62
Total liabilities	**$ -**	**$ 145,806**	**$ 124,393**	**$ 354**
Fund balances:				
Reserved for:				
Encumbrances		$ 331,812	$ 870,522	$ 13,493
Noncurrent loans and notes receivable				
Unreserved, undesignated	$ 641,108	1,545,716	744,874	97,335
Total fund balances	**$ 641,108**	**$ 1,877,528**	**$ 1,615,396**	**$ 110,828**
Total liabilities and fund balances	**$ 641,108**	**$ 2,023,334**	**$ 1,739,789**	**$ 111,182**

Housing Block Grant	Museum Rental	OES/ FEMA	Asset Seizure	Lighting and Landscape	Environmental Programs
	$ 3,965		$ 56,348	$ 96,378	$ 391,144
$ 187,749					
1,581	21		219	299	1,935
36,649					86,250
655,417					
$ 881,396	**$ 3,986**	**$ -**	**$ 56,567**	**$ 96,677**	**$ 479,329**
$ 108,246	$ 179		$ -	$ 32,178	$ 11,763
9,196				296	1,707
197,414					
					610
$ 314,856	**$ 179**	**$ -**	**$ -**	**$ 32,474**	**$ 14,080**
$ 1,500				$ 967	$ 66,072
458,003					
107,037	$ 3,807		$ 56,567	63,236	399,177
$ 566,540	**$ 3,807**	**$ -**	**$ 56,567**	**$ 64,203**	**$ 465,249**
$ 881,396	**$ 3,986**	**$ -**	**$ 56,567**	**$ 96,677**	**$ 479,329**

(Continued)

City of Morgan Hill, California

Special Revenue Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Mobile Home Park Rent Stabilization	Housing Development Fund	Government/ Public Access	Community Center Fund
Assets				
Pooled cash and investments	$ 75,834	$ 1,258,446		$ 750,720
Restricted pooled cash and investments				
Receivables:				
Accrued interest	373	6,187		3,908
Other accounts receivable				
Deposit in Escrow/Prepaid Item				
Loans receivable				
Total assets	**$ 76,207**	**$ 1,264,633**	**$ -**	**$ 754,628**
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 22,893			
Accrued liabilities				
Due to other funds				
Deferred revenue				
Vacation and compensated absence obligation				
Total liabilities	**$ 22,893**	**$ -**	**$ -**	**$ -**
Fund balances:				
Reserved for:				
Encumbrances				
Noncurrent loans and notes receivable				
Unreserved, undesignated	$ 53,314	$ 1,264,633		$ 754,628
Total fund balances	**$ 53,314**	**$ 1,264,633**	**$ -**	**$ 754,628**
Total liabilities and fund balances	**$ 76,207**	**$ 1,264,633**	**$ -**	**$ 754,628**

TOTALS	
2002	2001
$ 6,992,879	$ 8,637,683
198,543	240,439
37,837	124,100
148,830	1,269,400
95,330	
655,417	521,881
$ 8,128,836	**$ 10,793,503**
$ 367,636	$ 795,902
47,826	48,186
	128,593
197,414	88,625
42,159	45,294
$ 655,035	**$ 1,106,600**
$ 1,284,366	$ 2,073,250
458,003	433,256
5,731,432	7,180,397
$ 7,473,801	**$ 9,686,903**
$ 8,128,836	**$ 10,793,503**

(Concluded)

City of Morgan Hill, California

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Supplemental Law Enforcement	Community Development	Street Maintenance	General Plan Update
Revenues:				
Property taxes and special assessments				
Funding from other governmental agencies	$ 212,175		$ 816,467	
Charges for current services		$ 1,843,958	1,702	$ 31,244
Investment income and rentals	35,320	87,170	86,036	4,621
Fines, forfeitures, and other revenues		68,724	392,854	
Total revenues	**$ 247,495**	**$ 1,999,852**	**$ 1,297,059**	**$ 35,865**
Expenditures:				
Current:				
General government				
Police services	$ 1,895			
Public works / development services		$ 2,749,223	$ 1,162,587	$ 82,562
Capital outlay		62,256	2,439,830	
Total expenditures	**$ 1,895**	**$ 2,811,479**	**$ 3,602,417**	**$ 82,562**
Excess (deficiency) of revenues over (under) expenditures	$ 245,600	$ (811,627)	$ (2,305,358)	$ (46,697)
Other financing sources (uses):				
Operating transfers in	$ 1,119	$ 150,703	$ 780,000	
Operating transfers (out)	(505,037)		(176,800)	
Total other financing sources (uses)	$ (503,918)	$ 150,703	$ 603,200	$ -
Net increase (decrease)	**$ (258,318)**	**$ (660,924)**	**$ (1,702,158)**	**$ (46,697)**
Fund balances - beginning of year	899,426	2,538,452	3,317,554	157,525
Equity transfer to general fund				
Fund balances - end of year	**$ 641,108**	**$ 1,877,528**	**$ 1,615,396**	**$ 110,828**

Housing Block Grant	Museum Rental	OES/ FEMA	Asset Seizure	Lighting and Landscape	Environmental Programs
				$ 108,379	$ 337,252
$ 109,883		$ 8,402			9,814
4,515	$ 177	347	$ 1,434	3,308	12,895
100			25,000		49,679
$ 114,498	**$ 177**	**$ 8,749**	**$ 26,434**	**$ 111,687**	**$ 409,640**
$ 137,459	$ 2,799	$ 4,908	$ 7,596	$ 136,660	$ 232,344
$ 137,459	**$ 2,799**	**$ 4,908**	**$ 7,596**	**$ 136,660**	**$ 232,344**
$ (22,961)	$ (2,622)	$ 3,841	$ 18,838	$ (24,973)	$ 177,296
		$ (12,262)			
$ -	$ -	$ (12,262)	$ -	$ -	$ -
$ (22,961)	**$ (2,622)**	**$ (8,421)**	**$ 18,838**	**$ (24,973)**	**$ 177,296**
589,501	6,429	8,421	37,729	89,176	287,953
$ 566,540	**$ 3,807**	**$ -**	**$ 56,567**	**$ 64,203**	**$ 465,249**

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Mobile Home Park Rent Stabilization	Housing Development Fund	Government/ Public Access	Community Center Fund
Revenues:				
Property taxes and special assessments				
Funding from other governmental agencies				
Charges for current services		69,500		
Investment income and rentals	$ 2,642	$ 44,142		$ 29,182
Fines, forfeitures, and other revenues		4,000		
Total revenues	**$ 2,642**	**$ 117,642**	**$ -**	**$ 29,182**
Expenditures:				
Current:				
General government	$ 52,047			
Police services				
Public works / development services				
Capital outlay				
Total expenditures	**$ 52,047**	**$ -**	**$ -**	**$ -**
Excess (deficiency) of revenues over (under) expenditures	$ (49,405)	$ 117,642	$ -	$ 29,182
Other financing sources (uses):				
Operating transfers in	$ 60,000	$ 944,619		$ 200,000
Operating transfers (out)		(944,619)		
Total other financing sources (uses)	$ 60,000	$ -	$ -	$ 200,000
Net increase (decrease)	**$ 10,595**	**$ 117,642**	**$ -**	**$ 229,182**
Fund balances - beginning of year	42,719	1,146,991	39,581	525,446
Equity transfer to general fund			(39,581)	
Fund balances - end of year	**$ 53,314**	**$ 1,264,633**	**$ -**	**$ 754,628**

TOTALS	
2002	2001
$ 445,631	$ 969,477
1,156,741	4,482,073
1,946,404	2,802,007
311,789	485,650
540,357	90,793
$ 4,400,922	**$ 8,830,000**
$ 573,813	$ 588,523
1,895	
3,994,372	3,434,763
2,502,086	7,620,592
$ 7,072,166	**$ 11,643,878**
$ (2,671,244)	$ (2,813,878)
$ 2,136,441	$ 6,099,506
(1,638,718)	(503,243)
$ 497,723	$ 5,596,263
$ (2,173,521)	**$ 2,782,385**
9,686,903	6,904,518
(39,581)	
$ 7,473,801	**$ 9,686,903**

(Concluded)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	SUPPLEMENTAL LAW ENFORCEMENT		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Funding from other governmental agencies	$202,439	$ 212,175	$ 9,736
Charges for current services			
Investment income and rentals	32,000	35,320	3,320
Fines, forfeitures, and other revenues			
Total revenues	**$ 234,439**	**$ 247,495**	**$ 13,056**
Expenditures:			
Current:			
General government	$ 492	$ 1,895	$ 1,403
Police services			
Public works / development services			
Capital outlay			
Total expenditures	**$ 492**	**$ 1,895**	**$ (1,403)**
Excess (deficiency) of revenues over (under) expenditures	$ 233,947	$ 245,600	$ 11,653
Other financing sources (uses):			
Operating transfers in	$ 1,119	$ 1,119	
Operating transfers (out)	(505,037)	(505,037)	
Total other financing sources (uses)	$ (503,918)	$ (503,918)	$ -
Net increase (decrease)	**$ (269,971)**	**$ (258,318)**	**$ 11,653**
Adjustments to budgetary basis			
Fund balances - beginning of year		899,426	
Equity transfer in (out)			
Fund balances - end of year		**$ 641,108**	

COMMUNITY DEVELOPMENT			STREET MAINTENANCE		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			$ 1,676,849	$ 816,467	$ (860,382)
$ 1,804,384	$ 1,843,958	$ 39,574	200	1,702	1,502
83,000	87,170	4,170	80,000	86,036	6,036
	68,724	68,724	35,000	392,854	357,854
$ 1,887,384	**$ 1,999,852**	**$ 112,468**	**$ 1,792,049**	**$ 1,297,059**	**$ (494,990)**
$ 3,868,010	$ 3,081,035	$ 786,975	$ 1,761,170	$ 1,234,141	$ 527,029
175,948	62,256	113,692	4,040,367	3,238,798	801,569
$ 4,043,958	**$ 3,143,291**	**$ 900,667**	**$ 5,801,537**	**$ 4,472,939**	**$ 1,328,598**
$ (2,156,574)	$ (1,143,439)	$ 1,013,135	$ (4,009,488)	$ (3,175,880)	$ 833,608
$ 46,855	$ 150,703	$ 103,848	$ 780,000	$ 780,000	
			(23,000)	(176,800)	$ (153,800)
$ 46,855	$ 150,703	$ 103,848	$ 757,000	$ 603,200	$ (153,800)
$ (2,109,719)	**$ (992,736)**	**$ 1,116,983**	**$ (3,252,488)**	**$ (2,572,680)**	**$ 679,808**
	331,812			870,522	
	2,538,452			3,317,554	
	$ 1,877,528			**$ 1,615,396**	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	GENERAL PLAN UPDATE		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Funding from other governmental agencies			
Charges for current services	$ 35,000	$ 31,244	$ (3,756)
Investment income and rentals	2,800	4,621	1,821
Fines, forfeitures, and other revenues			
Total revenues	**$ 37,800**	**$ 35,865**	**$ (1,935)**
Expenditures:			
Current:			
General government			
Police services			
Public works / development services	$ 169,337	$ 96,055	$ 73,282
Capital outlay			
Total expenditures	**$ 169,337**	**$ 96,055**	**$ 73,282**
Excess (deficiency) of revenues over (under) expenditures	$ (131,537)	$ (60,190)	$ 71,347
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Total other financing sources (uses)	$ -	$ -	$ -
Net increase (decrease)	**$ (131,537)**	**$ (60,190)**	**$ 71,347**
Adjustments to budgetary basis		13,493	
Fund balances - beginning of year		157,525	
Equity transfer in (out)			
Fund balances - end of year		**$ 110,828**	

HOUSING BLOCK GRANT			MUSEUM RENTAL		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
$ 180,874	$ 109,883	$ (70,991)			
11,000	4,515	(6,485)	$ 270	$ 177	$ (93)
	100	100			
$ 191,874	**$ 114,498**	**$ (77,376)**	**$ 270**	**$ 177**	**$ (93)**
$ 438,614	$ 137,459	$ 301,155	$ 5,025	$ 2,799	$ 2,226
	1,500	(1,500)			
$ 438,614	**$ 138,959**	**$ 299,655**	**$ 5,025**	**$ 2,799**	**$ 2,226**
$ (246,740)	$ (24,461)	$ 222,279	$ (4,755)	$ (2,622)	$ 2,133
$ -	$ -	$ -	$ -	$ -	$ -
$ (246,740)	**$ (24,461)**	**$ 222,279**	**$ (4,755)**	**$ (2,622)**	**$ 2,133**
	1,500				
	589,501			6,429	
	$ 566,540			**$ 3,807**	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	OES/FEMA		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Funding from other governmental agencies		$ 8,402	$ 8,402
Charges for current services			
Investment income and rentals	$ 400	347	(53)
Fines, forfeitures, and other revenues			
Total revenues	**$ 400**	**$ 8,749**	**$ 8,349**
Expenditures:			
Current:			
General government		$ 4,908	$ (4,908)
Police services			
Public works / development services			
Capital outlay			
Total expenditures	**$ -**	**$ 4,908**	**$ (4,908)**
Excess (deficiency) of revenues over (under) expenditures	$ 400	$ 3,841	$ 3,441
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)	$ (17,500)	$ (12,262)	$ 5,238
Total other financing sources (uses)	$ (17,500)	$ (12,262)	$ 5,238
Net increase (decrease)	**$ (17,100)**	**$ (8,421)**	**$ 8,679**
Adjustments to budgetary basis			
Fund balances - beginning of year		8,421	
Equity transfer in (out)			
Fund balances - end of year		**$ -**	

ASSET SEIZURE			LIGHTING AND LANDSCAPE		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			$ 111,716	$ 108,379	$ (3,337)
$ 1,000		$ (1,000)			
1,500	$ 1,434	(66)	3,000	3,308	308
	25,000	25,000			
$ 2,500	**$ 26,434**	**$ 23,934**	**$ 114,716**	**$ 111,687**	**$ (3,029)**
$ 7,500	$ 7,596	$ (96)	$ 138,415	$ 137,627	$ 788
$ 7,500	**$ 7,596**	**$ (96)**	**$ 138,415**	**$ 137,627**	**$ 788**
$ (5,000)	$ 18,838	$ 23,838	$ (23,699)	$ (25,940)	$ (2,241)
$ -	$ -	$ -	$ -	$ -	$ -
$ (5,000)	**$ 18,838**	**$ 23,838**	**$ (23,699)**	**$ (25,940)**	**$ (2,241)**
				967	
	37,729			89,176	
	$ 56,567			**$ 64,203**	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	ENVIRONMENTAL PROGRAMS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	$ 300,000	$ 337,252	$ 37,252
Funding from other governmental agencies	9,500	9,814	314
Charges for current services			
Investment income and rentals	12,000	12,895	895
Fines, forfeitures, and other revenues	35,000	49,679	14,679
Total revenues	**$ 356,500**	**$ 409,640**	**$ 53,140**
Expenditures:			
Current:			
General government	$ 335,027	$ 298,416	$ 36,611
Police services			
Public works / development services			
Capital outlay	4,050		4,050
Total expenditures	**$ 339,077**	**$ 298,416**	**$ 40,661**
Excess (deficiency) of revenues over (under) expenditures	$ 17,423	$ 111,224	$ 93,801
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Total other financing sources (uses)	$ -	$ -	$ -
Net increase (decrease)	**$ 17,423**	**$ 111,224**	**$ 93,801**
Adjustments to budgetary basis		66,072	
Fund balances - beginning of year		287,953	
Equity transfer in (out)			
Fund balances - end of year		**$ 465,249**	

MOBILE HOME PARK STABILIZATION			HOUSING DEVELOPMENT FUND		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			$ 75,000	$ 69,500	$ (5,500)
$ 1,000	$ 2,642	$ 1,642	58,000	44,142	(13,858)
				4,000	4,000
$ 1,000	**$ 2,642**	**$ 1,642**	**$ 133,000**	**$ 117,642**	**$ (15,358)**
$ 78,512	$ 52,047	$ 26,465			
$ 78,512	**$ 52,047**	**$ 26,465**	**$ -**	**$ -**	**$ -**
$ (77,512)	$ (49,405)	$ 28,107	$ 133,000	$ 117,642	$ (15,358)
$ 60,000	$ 60,000		$ 944,619	$ 944,619	
(450)		$ 450	(944,619)	(944,619)	
$ 59,550	$ 60,000	$ 450	$ -	$ -	$ -
$ (17,962)	**$ 10,595**	**$ 28,557**	**$ 133,000**	**$ 117,642**	**$ (15,358)**
	42,719			1,146,991	
	$ 53,314			**$ 1,264,633**	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	GOVERNMENT/PUBLIC ACCESS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Funding from other governmental agencies			
Charges for current services			
Investment income and rentals			
Fines, forfeitures, and other revenues			
Total revenues	$ -	$ -	$ -
Expenditures:			
Current:			
General government			
Police services			
Public works / development services			
Capital outlay			
Total expenditures	$ -	$ -	$ -
Excess (deficiency) of revenues over (under) expenditures	$ -	$ -	$ -
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)	$ (39,581)		39,581
Total other financing sources (uses)	$ (39,581)	$ -	$ 39,581
Net increase (decrease)	**$ (39,581)**	$ -	**$ 39,581**
Adjustments to budgetary basis			
Fund balances - beginning of year		39,581	
Equity transfer in (out)		(39,581)	
Fund balances - end of year		$ -	

COMMUNITY CENTER			TOTALS		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			$ 411,716	$ 445,631	$ 33,915
			2,069,662	1,156,741	(912,921)
			1,915,584	1,946,404	30,820
$ 32,000	$ 29,182	$ (2,818)	316,970	311,789	(5,181)
			70,000	540,357	470,357
$ 32,000	**$ 29,182**	**$ (2,818)**	**$ 4,783,932**	**$ 4,400,922**	**$ (383,010)**
			$ 1,003,585	$ 642,747	$ 360,838
			5,798,517	4,412,731	1,385,786
			4,220,365	3,301,054	919,311
$ -	**$ -**	**$ -**	**$ 11,022,467**	**$ 8,356,532**	**$ 2,665,935**
$ 32,000	$ 29,182	$ (2,818)	$ (6,238,535)	$ (3,955,610)	$ 2,282,925
$ 200,000	$ 200,000		$ 2,032,593	$ 2,136,441	$ 103,848
			(1,530,187)	(1,638,718)	(108,531)
$ 200,000	$ 200,000	$ -	$ 502,406	$ 497,723	$ (4,683)
$ 232,000	**$ 229,182**	**$ (2,818)**	**$ (5,736,129)**	**$ (3,457,887)**	**$ 2,278,242**
				1,284,366	
	525,446			9,686,903	
				(39,581)	
	$ 754,628			**$ 7,473,801**	

(Concluded)

CITY OF MORGAN HILL

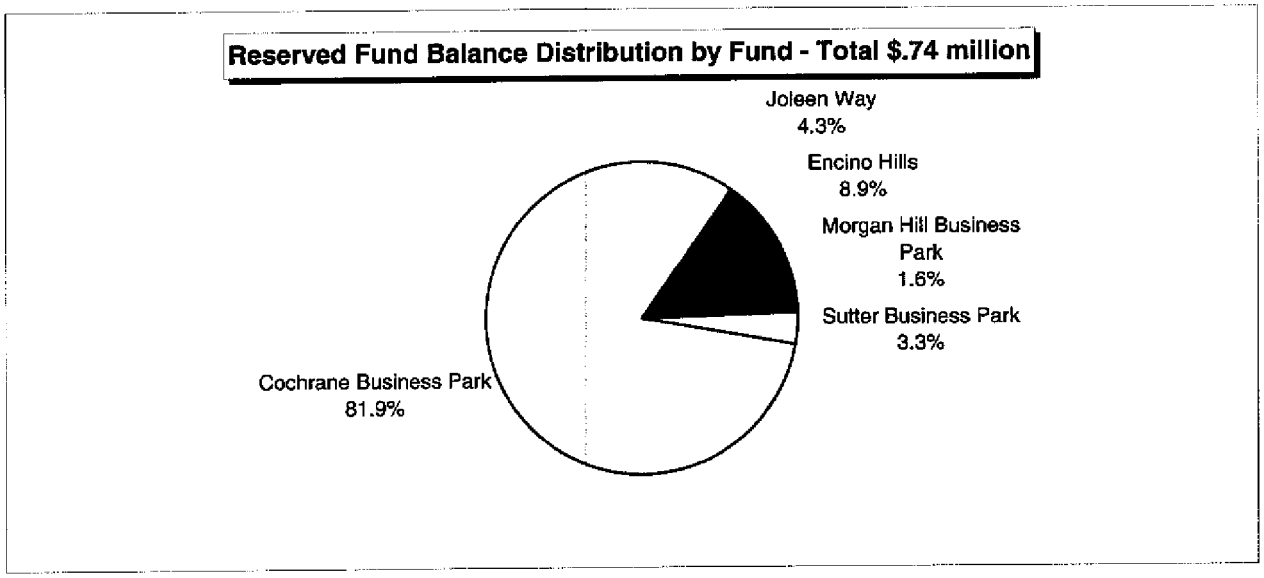
City of Morgan Hill

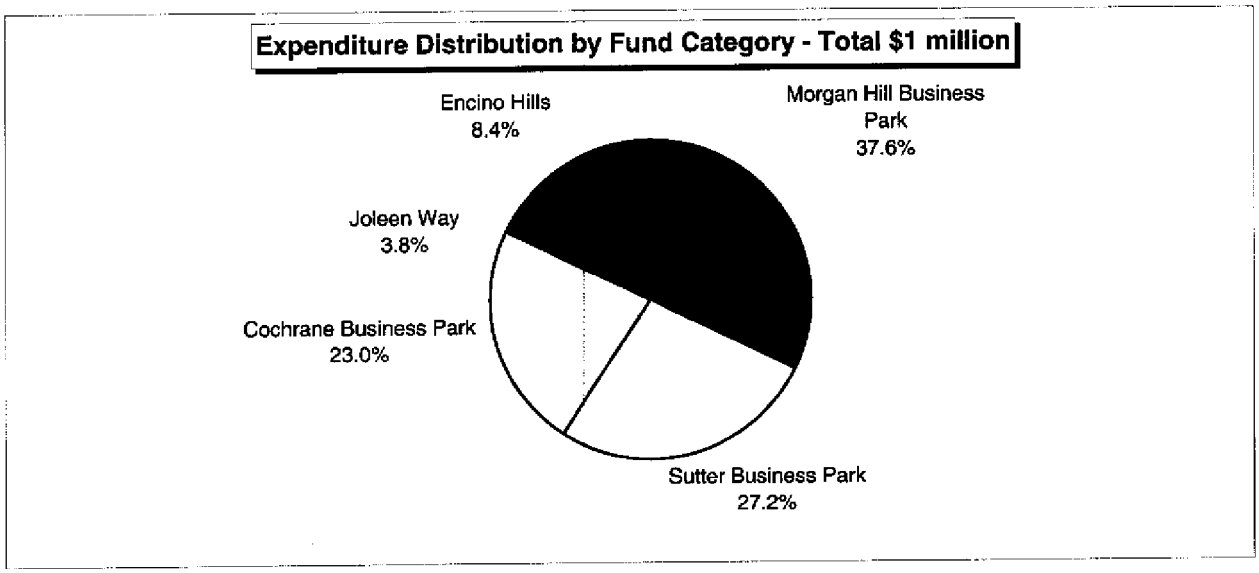
DEBT SERVICE FUNDS

Debt Service Funds account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

Special Assessment Districts Debt Service Funds

These funds are established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Typically, these improvements are streets, curbs, gutters, sidewalks, water and sewer lines, undergrounding of utilities, and storm drains. The individual lots are assessed a proportionate share of the improvements, the County levies this assessment as part of the annual property tax bill. The County remits the collections to the City, and which in turn pays the debt service on the bonds. The City has some legal obligation for repayment of these bonds.





Note: The above balances include the amounts designated for debt service.

City of Morgan Hill, California

Debt Service Funds

Combining Balance Sheet

June 30, 2002

(With comparative totals for June 30, 2001)

	SPECIAL ASSESSMENT DISTRICTS		
	Encino Hills	Morgan Hill Business Park	Sutter Business Park
Assets			
Restricted pooled cash and investments	$ 65,426	$ 11,420	$ 23,950
Receivables:			
Taxes and special assessments			
Accrued interest	344	66	129
Total assets	**$ 65,770**	**$ 11,486**	**$ 24,079**
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue			
Total liabilities	**$ -**	**$ -**	**$ -**
Fund balances:			
Reserved for:			
Debt Service	$ 65,770	$ 11,486	$ 24,079
Total fund balances	**$ 65,770**	**$ 11,486**	**$ 24,079**
Total liabilities and fund balances	**$ 65,770**	**$ 11,486**	**$ 24,079**

SPECIAL ASSESSMENT DISTRICTS			
Cochrane Business Park	Joleen Way	TOTALS 2002	TOTALS 2001
$ 604,223	$ 31,541	$ 736,560	$ 1,392,435
1,605,000	143,322	1,748,322	1,885,694
2,603	89	3,231	19,368
$ 2,211,826	**$ 174,952**	**$ 2,488,113**	**$ 3,297,497**
1,605,000	$ 143,322	$ 1,748,322	$ 1,885,694
$ 1,605,000	**$ 143,322**	**$ 1,748,322**	**$ 1,885,694**
$ 606,826	$ 31,630	$ 739,791	$ 1,411,803
$ 606,826	**$ 31,630**	**$ 739,791**	**$ 1,411,803**
$ 2,211,826	**$ 174,952**	**$ 2,488,113**	**$ 3,297,497**

City of Morgan Hill, California

Debt Service Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	SPECIAL ASSESSMENT DISTRICTS		
	Encino Hills	Morgan Hill Business Park	Sutter Business Park
Revenues:			
Property taxes and special assessments			
Investment income and rentals	$ 2,297		$ 243
Total revenues	**$ 2,297**	**$ -**	**$ 243**
Expenditures:			
Debt service:			
Principal	$ 75,000	$ 355,000	$ 255,000
Interest and fiscal charges	9,084	19,868	15,909
Total expenditures	**$ 84,084**	**$ 374,868**	**$ 270,909**
Excess (deficiency) of revenues over (under) expenditures	$ (81,787)	$ (374,868)	$ (270,666)
Other financing sources (uses):			
Total other financing sources (uses)	$ -	$ -	$ -
Net increase (decrease)	**$ (81,787)**	**$ (374,868)**	**$ (270,666)**
Fund balances - beginning of year	147,557	386,354	294,745
Equity transfer to special deposits fund			
Fund balances - end of year	**$ 65,770**	**$ 11,486**	**$ 24,079**

SPECIAL ASSESSMENT DISTRICTS			
Cochrane Business Park	Joleen Way	TOTALS 2002	TOTALS 2001
$ 267,081	$ 34,783	$ 301,864	$ 314,824
19,857	1,394	23,791	106,680
$ 286,938	**$ 36,177**	**$ 325,655**	**$ 421,504**
$ 95,000	$ 20,000	$ 800,000	$ 715,000
134,658	18,148	197,667	258,351
$ 229,658	**$ 38,148**	**$ 997,667**	**$ 973,351**
$ 57,280	$ (1,971)	$ (672,012)	$ (551,847)
$ -	$ -	$ -	$ -
$ 57,280	**$ (1,971)**	**$ (672,012)**	**$ (551,847)**
549,546	33,601	1,411,803	2,009,248
			(45,598)
$ 606,826	**$ 31,630**	**$ 739,791**	**$ 1,411,803**

City of Morgan Hill, California

Debt Service Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	SPECIAL ASSESSMENT DISTRICTS		
	ENCINO HILLS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Investment income and rentals	$ 3,500	$ 2,297	$ (1,203)
Total revenues	**$ 3,500**	**$ 2,297**	**$ (1,203)**
Expenditures:			
Debt service:			
Principal	$ 75,000	$ 75,000	
Interest and fiscal charges	8,209	9,084	$ (875)
Total expenditures	**$ 83,209**	**$ 84,084**	**$ (875)**
Excess (deficiency) of revenues over (under) expenditures	$ (79,709)	$ (81,787)	$ (2,078)
Net increase (decrease)	**$ (79,709)**	**$ (81,787)**	**$ (2,078)**
Fund balances - beginning of year		147,557	
Fund balances - end of year		**$ 65,770**	

SPECIAL ASSESSMENT DISTRICTS					
MORGAN HILL BUSINESS PARK			SUTTER BUSINESS PARK		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
$ 11,000		$ (11,000)	$ 9,000	$ 243	$ (8,757)
$ 11,000	**$ -**	**$ (11,000)**	**$ 9,000**	**$ 243**	**$ (8,757)**
$ 355,000	$ 355,000		$ 255,000	$ 255,000	
20,312	19,868	$ 444	17,009	15,909	$ 1,100
$ 375,312	**$ 374,868**	**$ 444**	**$ 272,009**	**$ 270,909**	**$ 1,100**
$ (364,312)	$ (374,868)	$ (10,556)	$ (263,009)	$ (270,666)	$ (7,657)
$ (364,312)	**$ (374,868)**	**$ (10,556)**	**$ (263,009)**	**$ (270,666)**	**$ (7,657)**
	386,354			294,745	
	$ 11,486			**$ 24,079**	

(Continued)

City of Morgan Hill, California

Debt Service Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	SPECIAL ASSESSMENT DISTRICTS		
	COCHRANE BUSINESS PARK		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	$ 229,801	$ 267,081	$ 37,280
Investment income and rentals	28,000	19,857	(8,143)
Total revenues	**$ 257,801**	**$ 286,938**	**$ 29,137**
Expenditures:			
Debt service:			
Principal	$ 95,000	$ 95,000	
Interest and fiscal charges	135,300	134,658	$ 642
Total expenditures	**$ 230,300**	**$ 229,658**	**$ 642**
Excess (deficiency) of revenues over (under) expenditures	$ 27,501	$ 57,280	$ 29,779
Net increase (decrease)	**$ 27,501**	**$ 57,280**	**$ 29,779**
Fund balances - beginning of year		549,546	
Fund balances - end of year		**$ 606,826**	

SPECIAL ASSESSMENT DISTRICTS					
JOLEEN WAY			TOTALS		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Budgetary Basis Actual	Variance
$ 38,595	$ 34,783	$ (3,812)	$ 268,396	$ 301,864	$ 33,468
1,700	1,394	(306)	53,200	23,791	(29,409)
$ 40,295	**$ 36,177**	**$ (4,118)**	**$ 321,596**	**$ 325,655**	**$ 4,059**
$ 20,000	$ 20,000		$ 800,000	$ 800,000	
22,484	18,148	$ 4,336	203,314	197,667	$ 5,647
$ 42,484	**$ 38,148**	**$ 4,336**	**$ 1,003,314**	**$ 997,667**	**$ 5,647**
$ (2,189)	$ (1,971)	$ 218	$ (681,718)	$ (672,012)	$ 9,706
$ (2,189)	**$ (1,971)**	**$ 218**	**$ (681,718)**	**$ (672,012)**	**$ 9,706**
	33,601			1,411,803	
	$ 31,630			739,791	

(Concluded)

City of Morgan Hill

CAPITAL PROJECT FUNDS

Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary and Special Revenue Funds.

Park Capital Improvement

This fund receives revenues from developers of properties and the funds may only be used for the design, development, maintenance and construction of new parks within the City.

Park Maintenance

This fund receives revenues from developers of properties and the funds may be used for the maintenance of the City's parks and for purchase of land for open space.

Storm Drains

This fund receives revenues from developers of properties, and the funds may only be used for the design and construction of new storm drains.

Off Street Parking

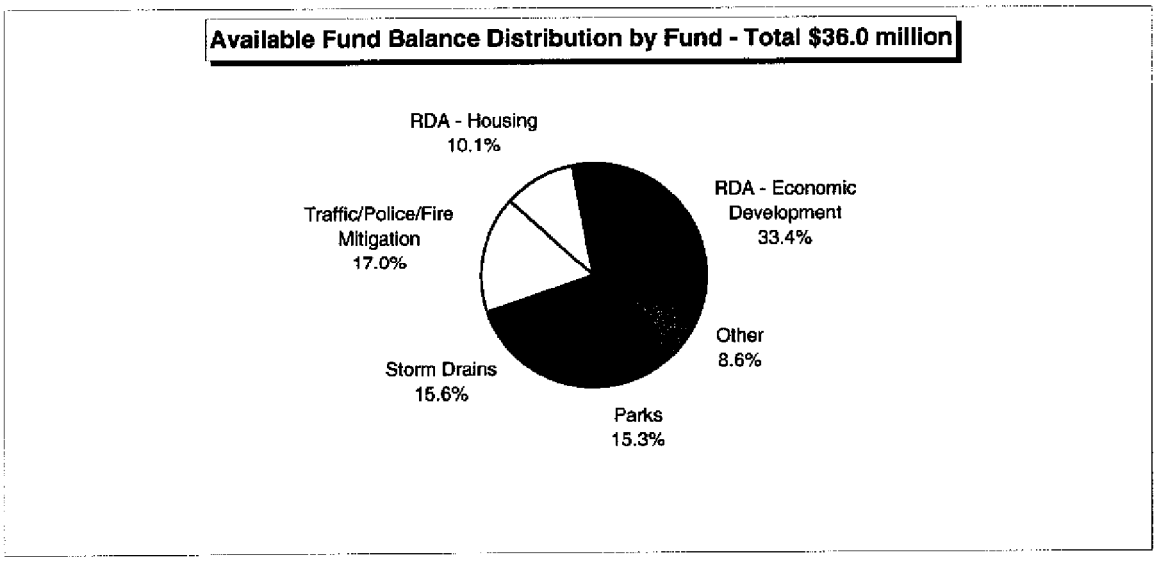
This fund accumulates revenue from charges to developers within the downtown core area to help meet future parking requirements.

Open Space

This fund receives revenues from developers of properties and the funds may be used for the purchase of land for open space.

Traffic Mitigation

This fund receives revenues from developers when their projects have an adverse impact on traffic flows, etc. The funds collected may be expended on new streets, traffic signals and improvements of existing streets where they are impacted by new development.



Note: The above balances include the undesignated portion of fund balance and the amounts reserved or designated for the following: Housing, Economic Development and Capital Expansion Projects.

City of Morgan Hill

CAPITAL PROJECT FUNDS (Continued)

Police, Fire and Library Mitigation

These funds' revenues are derived from a fee charged to developers to cover the costs required for police, fire and library capital expansion projects to assist in providing service to new developments.

Public Facilities

This fund has no established source of revenue. Funds are transferred into this fund from the General Fund or other funds as they become available for capital projects which may not be funded by the other capital funds. Typical projects are sidewalk repair and replacement.

Undergrounding

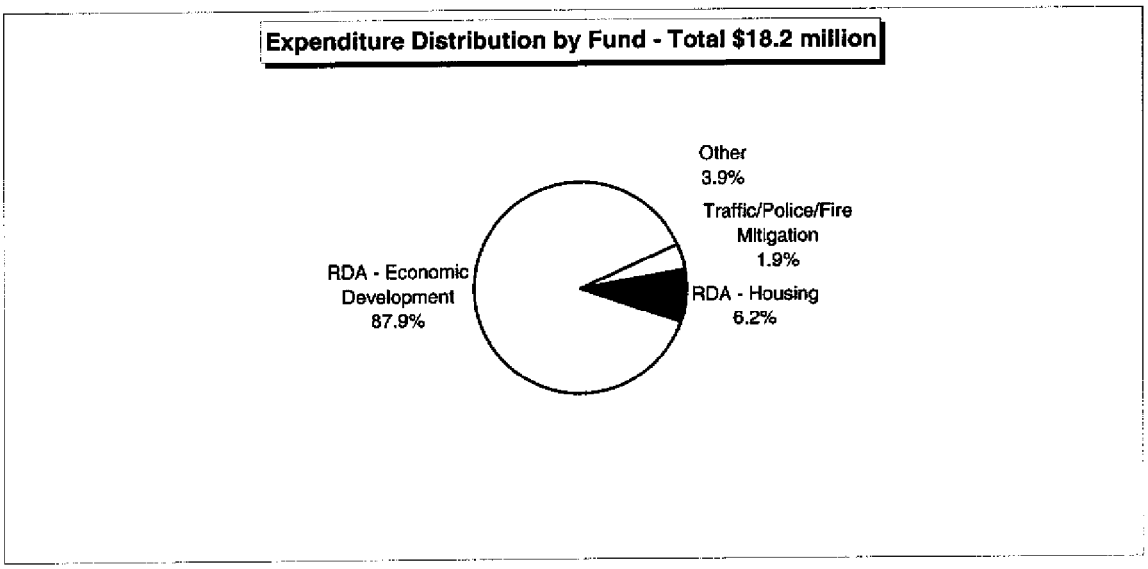
This fund receives revenues from developers for the undergrounding of utilities in areas of new development. Expenditures may be made only for the costs of design and construction associated with undergrounding.

Redevelopment Agency

This fund receives revenue from the increase in property taxes as a result of development within the area of the Agency. The Health and Safety Code requires that 20% of the increase in property taxes be set aside to be used exclusively for housing. Expenditures are to be used to pay for (a) the development of low and moderate income housing within the City as noted above, (b) the administration of the Agency, and (c) development projects within the project area and the debt service payments related to those projects.

Morgan Hill Business Ranch

This fund accounts for costs incurred in the design and construction of streets in this assessment district.



City of Morgan Hill, California

Capital Project Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Park Capital Improvement	Park Maintenance	Storm Drains	Off Street Parking
Assets				
Pooled cash and investments		$ 2,679,412	$ 2,893,531	$ 3,866
Restricted pooled cash and investments	$ 2,860,766		2,521,396	
Receivables:				
Accrued interest	14,872	13,337	26,975	20
Other accounts receivable			160,000	
Deposit in Escrow/Prepaid Expenses				
Advance to other funds				
Investment in properties held for resale				
Notes receivable				
Loans receivable				
Total assets	**$2,875,638**	**$ 2,692,749**	**$ 5,601,902**	**$ 3,886**
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 4,489			
Accrued liabilities				
Deferred revenue				
Vacation and compensated absence obligation				
Total liabilities	**$ 4,489**	**$ -**	**$ -**	**$ -**
Fund balances:				
Reserved for:				
Advance to other funds				
Encumbrances	$ 58,393			
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Restricted cash				
Capital expansion projects	2,812,756		$ 2,534,181	
Unreserved:				
Designated for economic development				
Undesignated		$ 2,692,749	3,067,721	$ 3,886
Total fund balances	**$ 2,871,149**	**$ 2,692,749**	**$ 5,601,902**	**$ 3,886**
Total liabilities and fund balances	**$ 2,875,638**	**$ 2,692,749**	**$ 5,601,902**	**$ 3,886**

Open Space	Traffic Mitigation	Police Mitigation	Fire Mitigation	Public Facilities	Library
$ 244,110				$ 1,028,733	
	$ 2,856,768	$ 1,162,715	$ 2,502,686	1,044,680	$ 366,226
693	14,650	6,046	12,950	10,610	1,886
	10,545				
				36,670	
	988				
$ 244,803	**$ 2,882,951**	**$ 1,168,761**	**$ 2,515,636**	**$ 2,120,693**	**$ 368,112**
	$ 11,236			$ 28,479	
	988				
$ -	**$ 12,224**	**$ -**	**$ -**	**$ 28,479**	**$ -**
	$ 433,703			$ 931,358	
	2,437,024	$ 1,168,761	$ 2,515,636	1,058,347	$ 368,112
$ 244,803				102,509	
$ 244,803	**$ 2,870,727**	**$ 1,168,761**	**$ 2,515,636**	**$ 2,092,214**	**$ 368,112**
$ 244,803	**$ 2,882,951**	**$ 1,168,761**	**$ 2,515,636**	**$ 2,120,693**	**$ 368,112**

(Continued)

City of Morgan Hill, California

Capital Project Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Under Grounding	Redevel-opment Agency	Morgan Hill Business Ranch
Assets			
Pooled cash and investments	$ 1,129,748	$ 26,176,025	$ 98,589
Restricted pooled cash and investments			
Receivables:			
Accrued interest	6,033	229,291	513
Other accounts receivable		286,651	
Deposit in Escrow/Prepaid Expenses			
Advance to other funds			
Investment in properties held for resale		71,049	
Notes receivable			
Loans receivable		26,024,066	
Total assets	**$ 1,135,781**	**$ 52,787,082**	**$ 99,102**
Liabilities and Fund Balances			
Liabilities:			
Accounts payable		$ 2,623,173	
Accrued liabilities		21,365	
Deferred revenue		6,576,821	
Vacation and compensated absence obligation		7,411	
Total liabilities	**$ -**	**$ 9,228,770**	**$ -**
Fund balances:			
Reserved for:			
Advance to other funds			
Encumbrances		$ 8,270,121	
Low and moderate income housing		3,640,281	
Noncurrent loans and notes receivable		19,447,248	
Properties held for resale		71,049	
Restricted cash		67,159	
Capital expansion projects			
Unreserved:			
Designated for economic development		12,062,454	
Undesignated	$ 1,135,781		$ 99,102
Total fund balances	**$ 1,135,781**	**$ 43,558,312**	**$ 99,102**
Total liabilities and fund balances	**$ 1,135,781**	**$ 52,787,082**	**$ 99,102**

TOTALS	
2002	2001
$ 34,254,014	$ 34,609,843
13,315,237	12,078,646
337,876	640,520
457,196	333,759
36,670	41,169
	128,593
71,049	71,049
988	3,544
26,024,066	19,318,270
$ 74,497,096	**$ 67,225,393**
$ 2,667,377	$ 492,807
21,365	18,815
6,577,809	5,297,621
7,411	5,474
$ 9,273,962	**$ 5,814,717**
	$ 128,593
$ 9,693,575	5,233,584
3,640,281	18,583,334
19,447,248	1,591,928
71,049	71,049
67,159	
12,894,817	10,435,909
12,062,454	18,260,379
7,346,551	7,105,900
$ 65,223,134	**$ 61,410,676**
$ 74,497,096	**$ 67,225,393**

(Concluded)

City of Morgan, California

Capital Project Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Park Capital Improvement	Park Maintenance	Storm Drains	Off Street Parking
Revenues:				
Property taxes and special assessments				
Charges for current services	$ 263,413	$ 234,594	$ 208,230	
Investment income and rentals	103,476	135,614	309,951	$ 144
Fines, forfeitures, and other revenues	32,859		156,990	
Total revenues	**$ 399,748**	**$ 370,208**	**$ 675,171**	**$ 144**
Expenditures:				
Current:				
General government				
Capital outlay	$ 66,115	$ 11,650	$ 70,002	
Debt service:				
Principal				
Total expenditures	**$ 66,115**	**$ 11,650**	**$ 70,002**	**$ -**
Excess (deficiency) of revenues over (under) expenditures	$ 333,633	$ 358,558	$ 605,169	$ 144
Other financing sources (uses):				
Operating transfers in				
Operating transfers (out)	$ (54,877)	$ (213,000)		
Proceeds from long-term debt				
Total other financing sources (uses)	$ (54,877)	$ (213,000)	$ -	$ -
Net increase	**$ 278,756**	**$ 145,558**	**$ 605,169**	**$ 144**
Fund balances - beginning of year	2,592,393	2,547,191	4,996,733	3,742
Fund balances - end of year	**$ 2,871,149**	**$ 2,692,749**	**$ 5,601,902**	**$ 3,886**

Open Space	Traffic Mitigation	Police Mitigation	Fire Mitigation	Public Facilities	Library Mitigation
$ 130,000	$ 1,287,012	$ 22,080	$ 89,457	$ 230,683	$ 23,694
1,803	90,028	43,216	92,289	89,230	13,238
	1,608			51,000	
$ 131,803	**$ 1,378,648**	**$ 65,296**	**$ 181,746**	**$ 370,913**	**$ 36,932**
		$ 10,967			$ 192
	$ 426,944	5,000	$ 50,296	$ 736,646	
$ -	**$ 426,944**	**$ 15,967**	**$ 50,296**	**$ 736,646**	**$ 192**
$ 131,803	$ 951,704	$ 49,329	$ 131,450	$ (365,733)	$ 36,740
$ 113,000				$ 50,000	
$ 113,000	$ -	$ -	$ -	$ 50,000	$ -
$ 244,803	**$ 951,704**	**$ 49,329**	**$ 131,450**	**$ (315,733)**	**$ 36,740**
	1,919,023	1,119,432	2,384,186	2,407,947	331,372
$ 244,803	**$ 2,870,727**	**$ 1,168,761**	**$ 2,515,636**	**$ 2,092,214**	**$ 368,112**

(Continued)

City of Morgan, California

Capital Project Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Under Grounding	Redevel-opment Agency	Morgan Hill Business Ranch
Revenues:			
Property taxes and special assessments		$ 16,539,296	
Charges for current services	$ 192,795		
Investment income and rentals	43,716	1,106,946	$ 3,672
Fines, forfeitures, and other revenues		629,681	50
Total revenues	**$ 236,511**	**$ 18,275,923**	**$ 3,722**
Expenditures:			
Current:			
General government		$ 1,949,528	
Capital outlay	$ 136,492	18,847,777	
Debt service:			
Principal		3,550,000	
Total expenditures	**$ 136,492**	**$ 24,347,305**	**$ -**
Excess (deficiency) of revenues over (under) expenditures	$ 100,019	$ (6,071,382)	$ 3,722
Other financing sources (uses):			
Operating transfers in		$ 212,882	
Operating transfers (out)		(210,703)	
Proceeds from long-term debt		7,650,000	
Total other financing sources (uses)	$ -	$ 7,652,179	$ -
Net increase	**$ 100,019**	**$ 1,580,797**	**$ 3,722**
Fund balances - beginning of year	1,035,762	41,977,515	95,380
Fund balances - end of year	**$ 1,135,781**	**$ 43,558,312**	**$ 99,102**

TOTALS	
2002	2001
$ 16,539,296	$ 15,299,316
2,681,958	4,681,458
2,033,323	3,328,132
872,188	1,401,909
$ 22,126,765	**$ 24,710,815**
$ 1,960,687	$ 1,825,869
20,350,922	5,760,144
3,550,000	
$ 25,861,609	**$ 7,586,013**
$ (3,734,844)	$ 17,124,802
$ 375,882	$ 2,067,526
(478,580)	(7,405,731)
7,650,000	
$ 7,547,302	$ (5,338,205)
$ 3,812,458	**$ 11,786,597**
61,410,676	49,624,079
$ 65,223,134	**$ 61,410,676**

(concluded)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	PARK CAPITAL IMPROVEMENT		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services	$ 400,000	$ 263,413	$ (136,587)
Investment income and rentals	114,000	103,476	(10,524)
Fines, forfeitures, and other revenues	806,000	32,859	(773,141)
Total revenues	**$ 1,320,000**	**$ 399,748**	**$ (920,252)**
Expenditures:			
General government	$ 2,760		$ 2,760
Capital outlay	1,233,681	$ 124,508	1,109,173
Debt service:			
Principal			
Total expenditures	**$ 1,236,441**	**$ 124,508**	**$ 1,111,933**
Excess (deficiency) of revenues over (under) expenditures	$ 83,559	$ 275,240	$ 191,681
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)		$ (54,877)	$ (54,877)
Proceeds from long-term debt			
Total other financing sources (uses)	$ -	$ (54,877)	$ (54,877)
Net increase (decrease)	**$ 83,559**	**$ 220,363**	**$ 136,804**
Adjustments to budgetary basis		58,393	
Fund balances - beginning of year		2,592,393	
Fund balances - end of year		**$ 2,871,149**	

PARK MAINTENANCE			STORM DRAINS		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
$ 50,000	$ 234,594	$ 184,594	$ 385,000	$ 208,230	$ (176,770)
143,000	135,614	(7,386)	262,000	309,951	47,951
			30,000	156,990	126,990
$ 193,000	**$ 370,208**	**$ 177,208**	**$ 677,000**	**$ 675,171**	**$ (1,829)**
			$ 3,012		$ 3,012
	$ 11,650	$ (11,650)	2,402,696	$ 70,002	2,332,694
$ -	**$ 11,650**	**$ (11,650)**	**$ 2,405,708**	**$ 70,002**	**$ 2,335,706**
$ 193,000	$ 358,558	$ 165,558	$ (1,728,708)	$ 605,169	$ 2,333,877
$ (293,000)	$ (213,000)	$ 80,000			
$ (293,000)	$ (213,000)	$ 80,000	$ -	$ -	$ -
$ (100,000)	**$ 145,558**	**$ 245,558**	**$ (1,728,708)**	**$ 605,169**	**$ 2,333,877**
	2,547,191			4,996,733	
	$ 2,692,749			**$ 5,601,902**	

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	OFF-STREET PARKING		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services			
Investment income and rentals		$ 144	$ 144
Fines, forfeitures, and other revenues			
Total revenues	$ -	$ 144	$ 144
Expenditures:			
General government			
Capital outlay			
Debt service:			
Principal			
Total expenditures	$ -	$ -	$ -
Excess (deficiency) of revenues over (under) expenditures	$ -	$ 144	$ 144
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Proceeds from long-term debt			
Total other financing sources (uses)	$ -	$ -	$ -
Net increase (decrease)	$ -	$ 144	$ 144
Adjustments to budgetary basis			
Fund balances - beginning of year		3,742	
Fund balances - end of year		$ 3,886	

OPEN SPACE			TRAFFIC MITIGATION		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
	$ 130,000	$ 130,000	$ 1,000,000	$ 1,287,012	$ 287,012
	1,803	1,803	40,000	90,028	50,028
				1,608	1,608
$ -	**$ 131,803**	**$ 131,803**	**$ 1,040,000**	**$ 1,378,648**	**$ 338,648**
			$ 56,300	$ 56,300	-
			1,727,834	804,347	923,487
$ -	**$ -**	**$ -**	**$ 1,784,134**	**$ 860,647**	**$ 923,487**
$ -	$ 131,803	$ 131,803	$ (744,134)	$ 518,001	$ 1,262,135
$ 193,000	$ 113,000	$ (80,000)			
$ 193,000	$ 113,000	$ (80,000)	$ -	$ -	$ -
$ 193,000	**$ 244,803**	**$ 51,803**	**$ (744,134)**	**$ 518,001**	**$ 1,262,135**
				433,703	
				1,919,023	
	$ 244,803			**$ 2,870,727**	

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	POLICE MITIGATION		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services	$ 200,000	$ 22,080	$ (177,920)
Investment income and rentals	117,500	43,216	(74,284)
Fines, forfeitures, and other revenues			
Total revenues	**$ 317,500**	**$ 65,296**	**$ (252,204)**
Expenditures:			
General government	$ 13,468	$ 10,967	$ 2,501
Capital outlay	1,050,000	5,000	1,045,000
Debt service:			
Principal			
Total expenditures	**$ 1,063,468**	**$ 15,967**	**$ 1,047,501**
Excess (deficiency) of revenues over (under) expenditures	$ (745,968)	$ 49,329	$ 795,297
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Proceeds from long-term debt			
Total other financing sources (uses)	$ -	$ -	$ -
Net increase (decrease)	**$ (745,968)**	**$ 49,329**	**$ 795,297**
Adjustments to budgetary basis			
Fund balances - beginning of year		1,119,432	
Fund balances - end of year		**$ 1,168,761**	

FIRE MITIGATION			PUBLIC FACILITIES		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
	$ 89,457	$ 89,457	$ 100,000	$ 230,683	$ 130,683
$ 89,273	92,289	3,016	77,000	89,230	12,230
			75,000	51,000	(24,000)
$ 89,273	**$ 181,746**	**$ 92,473**	**$ 252,000**	**$ 370,913**	**$ 118,913**
$ 1,296		$ 1,296	$ 1,284		$ 1,284
50,000	$ 50,296	(296)	2,044,172	$ 1,668,004	376,168
$ 51,296	**$ 50,296**	**$ 1,000**	**$ 2,045,456**	**$ 1,668,004**	**$ 377,452**
$ 37,977	$ 131,450	$ 93,473	$ (1,793,456)	$ (1,297,091)	$ 496,365
			$ 17,561,437	$ 50,000	$ (17,511,437)
$ -	$ -	$ -	$ 17,561,437	$ 50,000	$ (17,511,437)
$ 37,977	**$ 131,450**	**$ 93,473**	**$ 15,767,981**	**$ (1,247,091)**	**$ (17,015,072)**
				931,358	
	2,384,186			2,407,947	
	$ 2,515,636			**$ 2,092,214**	

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	LIBRARY MITIGATION		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services	$ 25,000	$ 23,694	$ (1,306)
Investment income and rentals	17,000	13,238	(3,762)
Fines, forfeitures, and other revenues			
Total revenues	**$ 42,000**	**$ 36,932**	**$ (5,068)**
Expenditures:			
General government	$ 192	$ 192	
Capital outlay			
Debt service:			
Principal			
Total expenditures	**$ 192**	**$ 192**	**$ -**
Excess (deficiency) of revenues over (under) expenditures	$ 41,808	$ 36,740	$ (5,068)
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Proceeds from long-term debt			
Total other financing sources (uses)	$ -	$ -	$ -
Net increase (decrease)	**$ 41,808**	**$ 36,740**	**$ (5,068)**
Adjustments to budgetary basis			
Fund balances - beginning of year		331,372	
Fund balances - end of year		**$ 368,112**	

UNDERGROUNDING			REDEVELOPMENT AGENCY		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			$ 14,548,000	$ 16,539,296	$ 1,991,296
$ 75,000	$ 192,795	$ 117,795			
33,000	43,716	10,716	1,245,000	1,106,946	(138,054)
			50,000	629,681	579,681
$ 108,000	**$ 236,511**	**$ 128,511**	**$ 15,843,000**	**$ 18,275,923**	**$ 2,432,923**
$ 372		$ 372	$ 2,276,322	$ 2,003,893	$ 272,429
783,679	$ 136,492	647,187	43,940,577	27,063,533	16,877,044
				3,550,000	
$ 784,051	**$ 136,492**	**$ 647,559**	**$ 46,216,899**	**$ 32,617,426**	**$ 13,599,473**
$ (676,051)	$ 100,019	$ 776,070	$ (30,373,899)	$ (14,341,503)	$ 16,032,396
				$ 212,882	$ 212,882
			$ (210,703)	(210,703)	$ -
				7,650,000	$ 7,650,000
$ -	$ -	$ -	$ (210,703)	$ 7,652,179	$ 7,862,882
$ (676,051)	**$ 100,019**	**$ 776,070**	**$ (30,584,602)**	**$ (6,689,324)**	**$ 23,895,278**
				8,270,121	
	1,035,762			41,977,515	
	$ 1,135,781			**$ 43,558,312**	

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	MORGAN HILL BUSINESS RANCH		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services			
Investment income and rentals	$ 4,700	$ 3,672	$ (1,028)
Fines, forfeitures, and other revenues		50	50
Total revenues	**$ 4,700**	**$ 3,722**	**$ (978)**
Expenditures:			
General government			
Capital outlay			
Debt service:			
Principal			
Total expenditures	$ -	$ -	$ -
Excess (deficiency) of revenues over (under) expenditures	$ 4,700	$ 3,722	$ (978)
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Proceeds from long-term debt			
Total other financing sources (uses)	$ -	$ -	$ -
Net increase (decrease)	**$ 4,700**	**$ 3,722**	**$ (978)**
Adjustments to budgetary basis			
Fund balances - beginning of year		95,380	
Fund balances - end of year		**$ 99,102**	

TOTALS		
Revised Budget	Actual Plus Encumbrances	Variance
$ 14,548,000	$ 16,539,296	$ 1,991,296
2,235,000	2,681,958	446,958
2,142,473	2,033,323	(109,150)
961,000	872,188	(88,812)
$ 19,886,473	**$ 22,126,765**	**$ 2,240,292**
$ 2,355,006	$ 2,071,352	$ 283,654
53,232,639	29,933,832	23,298,807
	3,550,000	(3,550,000)
$ 55,587,645	**$ 35,555,184**	**$ 20,032,461**
$ (35,701,172)	$ (13,428,419)	$ 22,272,753
$ 17,754,437	$ 375,882	$ (17,378,555)
(503,703)	(478,580)	25,123
	7,650,000	7,650,000
$ 17,250,734	$ 7,547,302	$ (9,703,432)
$ (18,450,438)	**$ (5,881,117)**	**$ 12,569,321**
	9,693,575	
	61,410,676	
	$ 65,223,134	

(Concluded)

CITY OF MORGAN HILL

City of Morgan Hill

ENTERPRISE FUNDS

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be recovered through user charges.

Sewer and Water Operations & Capital Projects

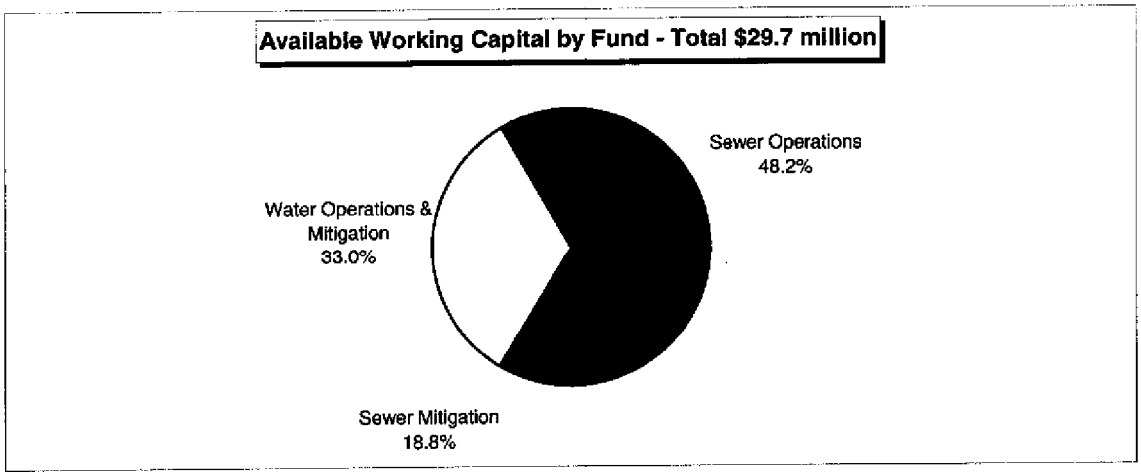
These funds receive revenue based on the sale of water and sewer usage. These revenues support the operation of the sewer and water systems including routine maintenance, depreciation, debt service and capital expenses associated with the two systems.

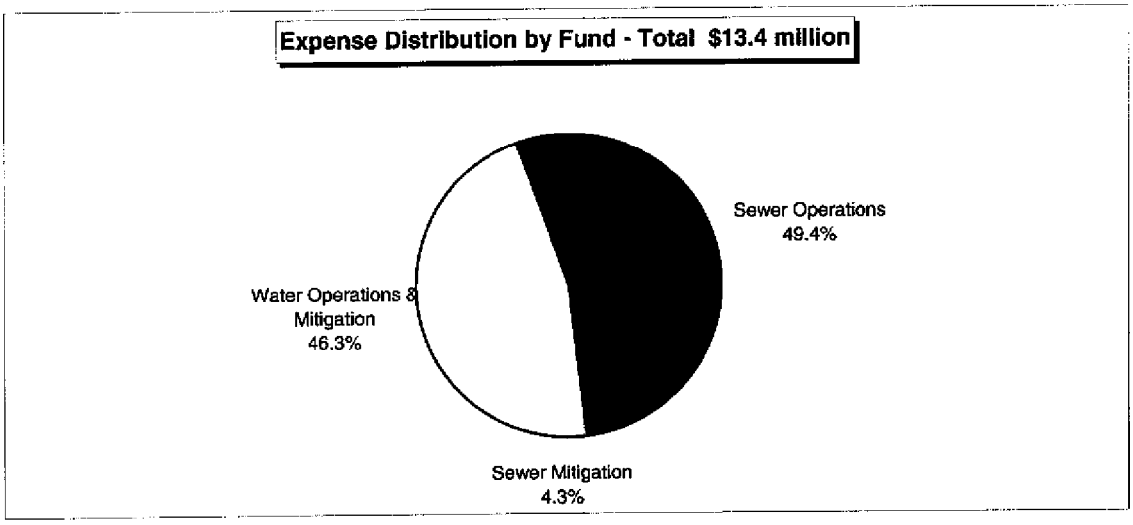
Sewer and Water Mitigation

These funds' revenues are derived from a fee charged to developers to cover the costs required for construction of sewer and water facilities or other related expansion projects to assist in providing service to new developments.

Financing Corporation

This fund represents the activities of the Morgan Hill Waste Water Facilities Financing Corporation, which accounts for the transactions related to repayment of the 1999 Water Certificates of Participation. The annual principal and interest payments are funded through charges made to the Water Fund.





City of Morgan Hill, California

Enterprise Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Sewer Operations	Sewer Mitigation	Financing Corporation
Assets			
Current assets:			
Pooled cash and investments	$ 12,123,031		
Restricted pooled cash and investments		$6,124,004	
Cash with fiscal agents	2,476,858		
Receivables:			
Accrued interest	62,466	31,342	
Other accounts receivable	764,561	5,252	
Current portion of notes receivable		484	
Current portion of investment in lease			$ 160,000
Total current assets	**$ 15,426,916**	**$ 6,161,082**	**$ 160,000**
Fixed assets, net	$ 17,643,903	$ 1,561,500	
Long term note receivable		107,470	
Sewer capacity rights	21,345,859		
Long term investment in lease			$ 3,876,396
Total assets	**$ 54,416,678**	**$ 7,830,052**	**$ 4,036,396**
Liabilities and Fund Equity			
Liabilities:			
Current liabilities:			
Accounts payable	$ 95,744	$ 380,764	
Accrued liabilities	386,800	204,953	
Customer and other deposits			
Current obligations for:			
Lease obligation			$ 160,000
Bonds payable			
Capacity rights payable	635,000		
Compensated absences	3,457		
Total current liabilities	**$ 1,121,001**	**$ 585,717**	**$ 160,000**
Long term obligations for:			
Lease obligation			$ 3,876,396
Bonds payable			
Compensated absences	$ 37,103		
Capacity rights payable	22,662,557		
Total liabilities	**$ 23,820,661**	**$ 585,717**	**$ 4,036,396**
Fund Equity:			
Contributed capital	$ 7,155,284		
Retained Earnings			
Reserved for Capital Expansion		$ 7,244,335	
Unreserved	23,440,733		
Total fund equity	**$ 30,596,017**	**$ 7,244,335**	**$ -**
Total liabilities and fund equity	**$ 54,416,678**	**$ 7,830,052**	**$ 4,036,396**

Water Operations	Water Mitigation	Eliminations	TOTALS 2002	TOTALS 2001
$ 8,262,795			$ 20,385,826	$ 19,642,946
	$887,512		7,011,516	6,484,278
390,888			2,867,746	2,805,280
45,832	4,426		144,066	404,058
984,686			1,754,499	1,726,808
			484	21,693
		$ (160,000)		
$ 9,684,201	**$ 891,938**	**$ (160,000)**	**$ 32,164,137**	**$ 31,085,063**
$ 27,892,044	$ 1,970,306		$ 49,067,753	$ 48,562,374
			107,470	87,520
			21,345,859	22,290,776
		$ (3,876,396)		
$ 37,576,245	**$ 2,862,244**	**$ (4,036,396)**	**$ 102,685,219**	**$ 102,025,733**
$ 362,768	$ 104,896		$ 944,172	$ 330,006
51,869			643,622	655,738
44,119			44,119	46,939
		$ (160,000)		
219,332			219,332	263,178
			635,000	600,000
16,797			20,254	12,938
$ 694,885	**$ 104,896**	**$ (160,000)**	**$ 2,506,499**	**$ 1,908,799**
		$ (3,876,396)		
$ 4,969,270			$ 4,969,270	$ 5,129,781
48,088			85,191	78,107
			22,662,557	23,218,840
$ 5,712,243	**$ 104,896**	**$ (4,036,396)**	**$ 30,223,517**	**$ 30,335,527**
$ 13,742,872			$ 20,898,156	$ 22,062,679
390,888	$ 2,757,348		10,392,571	8,825,698
17,730,242			41,170,975	40,801,829
$ 31,864,002	**$ 2,757,348**	**$ -**	**$ 72,461,702**	**$ 71,690,206**
$ 37,576,245	**$ 2,862,244**	**$ (4,036,396)**	**$ 102,685,219**	**$ 102,025,733**

City of Morgan Hill, California

Enterprise Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Sewer Operations	Sewer Mitigation	Financing Corporation
Operating revenues:			
Charges for current services	$ 5,861,633	$ 1,533,029	
Interest and rentals			$ 226,433
Total operating revenues	**$ 5,861,633**	**$ 1,533,029**	**$ 226,433**
Operating expenses:			
Salaries and benefits	$ 787,285		
Utilities and taxes	19,743		
Operations and maintenance	2,535,720		
Depreciation	1,104,615	$ 107,782	
Amortization of sewer capacity rights	944,917		
Administrative charges	227,022	3,516	
Total operating expenses	**$ 5,619,302**	**$ 111,298**	**$ -**
Operating income	$ 242,331	$ 1,421,731	$ 226,433
Nonoperating revenue (expense):			
Investment income	$ 650,108	$ 224,002	
Interest (expense)	(1,009,138)	(460,687)	$ (226,433)
Total nonoperating revenue (expense)	$ (359,030)	$ (236,685)	$ (226,433)
Income before operating transfers	$ (116,699)	$ 1,185,046	$ -
Operating transfers in	$ 500,000		
Operating transfers (out)	(940,542)		
Net income (loss)	**$ (557,241)**	**$ 1,185,046**	**$ -**
Charge to contributed capital for depreciation on fixed assets acquired with contributions	468,800		
Retained earnings - beginning of year	23,529,174	6,059,289	
Retained earnings - end of year	**$ 23,440,733**	**$ 7,244,335**	**$ -**

Water Operations	Water Mitigation	Eliminations	TOTALS 2002	TOTALS 2001
$ 5,915,530	$ 204,296		$ 13,514,488	$ 14,748,403
		$ (226,433)		
$ 5,915,530	**$ 204,296**	**$ (226,433)**	**$ 13,514,488**	**$ 14,748,403**
$ 1,276,946			$ 2,064,231	$ 1,858,414
1,790,527			1,810,270	1,365,095
729,887			3,265,607	3,378,026
1,424,193	$ 252,224		2,888,814	1,824,851
			944,917	944,917
347,297	216		578,051	508,630
$ 5,568,850	**$ 252,440**	**$ -**	**$ 11,551,890**	**$ 9,879,933**
$ 346,680	$ (48,144)	$ (226,433)	$ 1,962,598	$ 4,868,470
$ 351,226	$ 39,083		$ 1,264,419	$ 2,062,127
(395,695)		$ 226,433	(1,865,520)	(1,935,418)
$ (44,469)	$ 39,083	$ 226,433	$ (601,101)	$ 126,709
$ 302,211	$ (9,061)	$ -	$ 1,361,497	$ 4,995,179
$ 2,590,541			$ 3,090,541	$ 5,266,783
(2,740,000)			(3,680,542)	(6,093,211)
$ 152,752	**$ (9,061)**	**$ -**	**$ 771,496**	**$ 4,168,751**
695,723			1,164,523	1,164,523
17,272,655	2,766,409		49,627,527	44,294,253
$ 18,121,130	**$ 2,757,348**	**$ -**	**$ 51,563,546**	**$ 49,627,527**

City of Morgan Hill, California

Enterprise Funds

Combining Statement of Cash Flows

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Sewer Operations	Sewer Mitigation	Financing Corporation
Cash flows from operating activities:			
Operating income	$ 242,331	$ 1,421,731	$ 226,433
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,104,615	107,782	
Amortization of sewer capacity rights	944,917		
Effect of changes in assets and liabilities:			
Receivables	(141,256)	486	
Notes receivable		1,259	
Accounts payable and accrued liabilities	57,828	375,884	
Customer and other deposits			
Other liabilities	16,738		
Net cash provided by operating activities	**$ 2,225,173**	**$ 1,907,142**	**$ 226,433**
Cash flows from capital and related financing activities:			
Acquisition and construction of fixed assets	$ (725,843)	$ (555,825)	
Payments of debt principal	(52,858)		
Interest paid	(1,009,138)	(460,687)	$ (226,433)
Payments for sewer capacity	(521,283)		
Net cash used in capital and related financing activities	**$ (2,309,122)**	**$ (1,016,512)**	**$ (226,433)**
Cash flows from noncapital financing activities:			
Transfers in	$ 500,000		
Transfers out	(940,542)		
Net cash (used in) noncapital financing activities	$ (440,542)	$ -	$ -
Cash flows from investing activities:			
Interest received on investments	$ 753,847	$ 277,868	
Net cash provided by investing activities	$ 753,847	$ 277,868	$ -
Net increase in cash and investments	$ 229,356	$ 1,168,498	
Cash and investments - beginning of year	14,370,533	4,955,506	
Cash and investments - end of year	**$ 14,599,889**	**$ 6,124,004**	**$ -**

Water Operations	Water Mitigation	Eliminations	TOTALS 2002	TOTALS 2001
$ 346,680	$ (48,144)	$ (226,433)	$ 1,962,598	$ 4,868,470
1,424,193	252,224		2,888,814	1,824,851
			944,917	944,917
113,079			(27,691)	(241,748)
			1,259	(91,062)
63,443	104,896		602,051	(9,298)
(2,820)			(2,820)	(6,632)
(2,338)			14,400	23,553
$ 1,942,237	**$ 308,976**	**$ (226,433)**	**$ 6,383,528**	**$ 7,313,051**
$ (1,168,353)	$ (944,173)		$ (3,394,194)	$ (3,260,738)
(151,499)			(204,357)	(195,617)
(395,695)		$ 226,433	(1,865,520)	(1,935,418)
			(521,283)	(491,284)
$ (1,715,547)	**$ (944,173)**	**$ 226,433**	**$ (5,985,354)**	**$ (5,883,057)**
$ 2,590,541			$ 3,090,541	$ 5,266,783
(2,740,000)			(3,680,542)	(6,093,211)
$ (149,459)	$ -	$ -	$ (590,001)	$ (826,428)
$ 433,759	$ 58,937		$ 1,524,411	$ 2,023,034
$ 433,759	$ 58,937	$ -	$ 1,524,411	$ 2,023,034
$ 510,990	$ (576,260)		$ 1,332,584	$ 2,626,600
8,142,693	1,463,772		28,932,504	26,305,904
$ 8,653,683	**$ 887,512**	**$ -**	**$ 30,265,088**	**$ 28,932,504**

City of Morgan Hill

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods or services provided by a department for other departments on a cost-reimbursement basis.

Human Resources

This fund closed into the General Fund on July 1, 2002.

Finance/Information Systems

This fund consists of 2 sub-funds: finance and information systems. The finance division was closed into the General Fund on July 1, 2002. Based on the number of computers in each department, the information systems sub-fund levies a charge for the costs of operating the information systems fund.

Building Maintenance

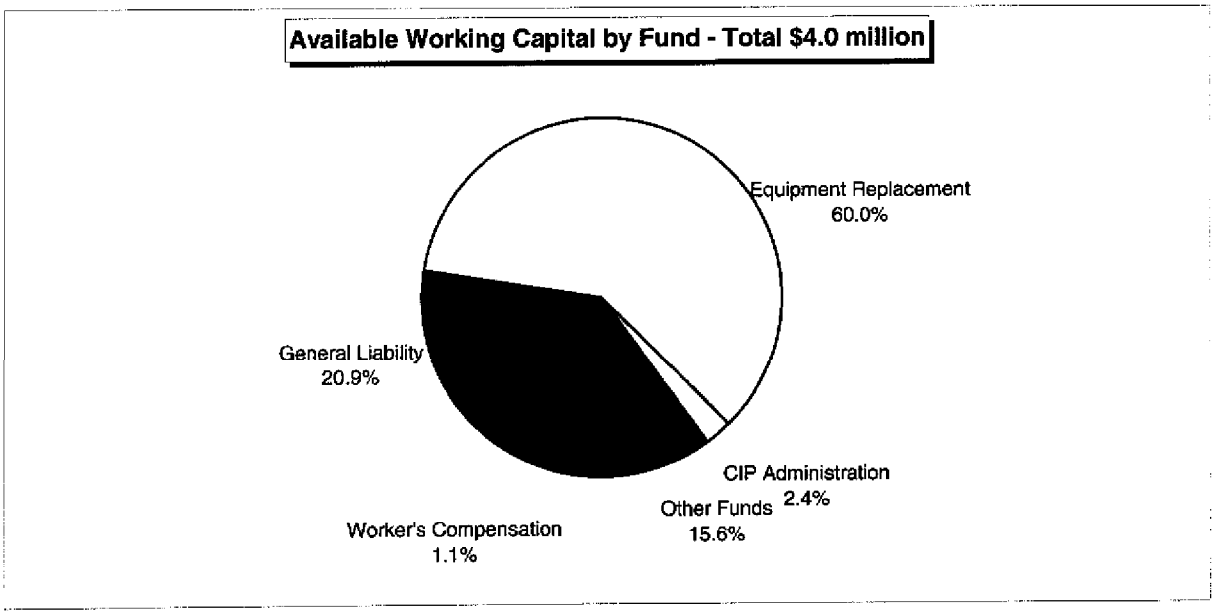
This fund levies a charge against each department for its share, based on the square footage of City owned facilities, of the costs of operations for building maintenance.

CIP Administration

This fund levies a charge against each fund for its share, based on payroll, of the costs of implementing the capital improvements program including the costs incurred for personnel, administration and capital outlay.

City Legal Defense

This fund closed into the General Fund on July 1, 2002.



City of Morgan Hill

INTERNAL SERVICE FUNDS (Continued)

Unemployment Insurance

This fund receives funds through charging each department an assessment, based on gross salaries, to cover the cost of the charges for unemployment benefits levied by the state.

Workers' Compensation

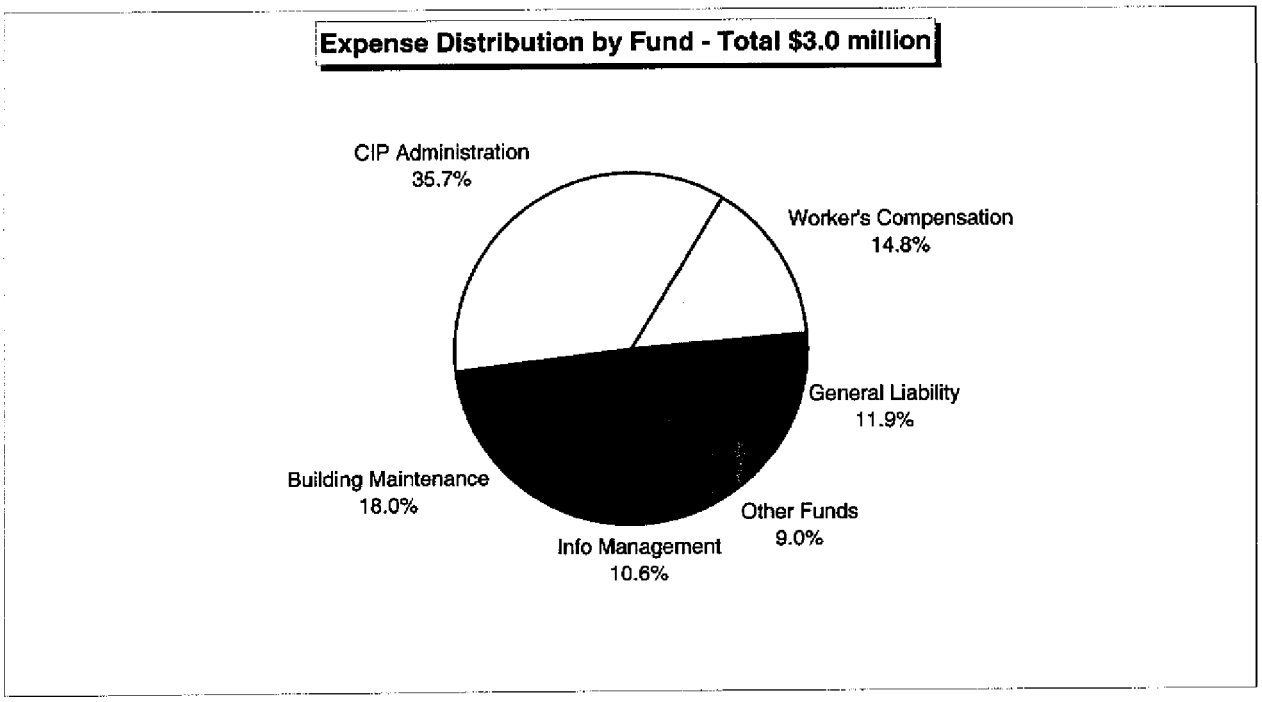
This fund assesses a levy against all labor expenditures to provide the revenue to cover the costs for the excess workers' compensation insurance premium, claims administration and expense for the workers' compensation program. A fund reserve covers the City's $250,000 deductible per claim.

Equipment Replacement

This fund is used to accumulate reserves, via a charge to all operating departments with either equipment and/or vehicles to fund the replacement of the equipment and vehicles.

General Liability Insurance

This fund levies a charge against each operating fund/department for its share, based on payroll, of the liability and property insurance programs to cover expenditures for insurance premiums, claims administration, and claims expense. A fund reserve covers the City's $50,000 deductible per claim.



City of Morgan Hill, California

Internal Service Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Human Resources	Finance/ Information Systems	Building Maintenance	CIP Administration
Assets				
Current assets:				
Pooled cash and investments		$ 401,554	$ 210,098	$ 162,670
Restricted pooled cash and investments				
Receivables:				
Accrued interest				
Other accounts receivable				
Prepaid expenses				
Total current assets	$ -	$ 401,554	$ 210,098	$ 162,670
Fixed assets, net		46,080	3,334	17,891
Total assets	**$ -**	**$ 447,634**	**$ 213,432**	**$ 180,561**
Liabilities and Fund Equity				
Liabilities:				
Current liabilities:				
Accounts payable		$ 18,209	$ 42,454	$ 49,604
Accrued liabilities			4,797	12,068
Current obligations for:				
Compensated absences			573	4,503
Total current liabilities	**$ -**	**$ 18,209**	**$ 47,824**	**$ 66,175**
Long term obligations for:				
Compensated absences			$ 10,163	$ 31,278
Total liabilities	**$ -**	**$ 18,209**	**$ 57,987**	**$ 97,453**
Fund Equity:				
Retained earnings:				
Reserved				
Unreserved		$ 429,425	$ 155,445	$ 83,108
Total fund equity	**$ -**	**$ 429,425**	**$ 155,445**	**$ 83,108**
Total liabilities and fund equity	**$ -**	**$ 447,634**	**$ 213,432**	**$ 180,561**

City Legal Defense	Unemployment Insurance	Workers' Compensation Insurance	Equipment Replacement	General Liability Insurance
	$ 77,805	$ 740,929	$ 2,384,303	$ 1,189,329
		30,000		
			12,066	6,159
		9,208		
$ -	$ 77,805	$ 780,137	$ 2,396,369	$ 1,195,488
			883,341	
$ -	**$ 77,805**	**$ 780,137**	**$ 3,279,710**	**$ 1,195,488**
	$ 112	$ 25,012		$ 15,315
		712,369		346,417
	-			
$ -	**$ 112**	**$ 737,381**	**$ -**	**$ 361,732**
$ -	**$ 112**	**$ 737,381**	**$ -**	**$ 361,732**
	$ 77,693	$ 42,756	$ 3,279,710	$ 833,756
$ -	**$ 77,693**	**$ 42,756**	**$ 3,279,710**	**$ 833,756**
$ -	**$ 77,805**	**$ 780,137**	**$ 3,279,710**	**$ 1,195,488**

(Continued)

City of Morgan Hill, California

Internal Service Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	TOTALS PRIMARY GOVERNMENT		Component Unit
	2002	2001	Morgan Hill Corporation Yard
Assets			
Current assets:			
Pooled cash and investments	$ 5,166,688	$ 5,230,573	$ 87,985
Restricted pooled cash and investments	30,000	20,000	
Receivables:			
Accrued interest	18,225	47,628	223
Other accounts receivable	9,208	11,798	105,686
Prepaid expenses		4,722	
Total current assets	$ 5,224,121	$ 5,314,721	$ 193,894
Fixed assets, net	950,646	1,189,158	231,478
Total assets	**$ 6,174,767**	**$ 6,503,879**	**$ 425,372**
Liabilities and Fund Equity			
Liabilities:			
Current liabilities:			
Accounts payable	$ 150,706	$ 367,958	$ 12,576
Accrued liabilities	1,075,651	1,026,561	
Current obligations for:			
Compensated absences	5,076	41,953	
Total current liabilities	**$ 1,231,433**	**$ 1,436,472**	**$ 12,576**
Long term obligations for:			
Compensated absences	$ 41,441	45,680	
Total liabilities	**$ 1,272,874**	**$ 1,482,152**	**$ 12,576**
Fund Equity:			
Retained earnings:			
Reserved			$ 139
Unreserved	$ 4,901,893	$ 5,021,727	412,657
Total fund equity	**$ 4,901,893**	**$ 5,021,727**	**$ 412,796**
Total liabilities and fund equity	**$ 6,174,767**	**$ 6,503,879**	**$ 425,372**
		(Concluded)	SEE CORP YARD F/S

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Human Resources	Finance/ Information Systems	Building Maintenance	CIP Administration
Operating revenues:				
Charges for current services		$ 262,094	$ 541,209	$ 1,027,484
Supplemental rent from operations				
Other operating income				
Total operating revenues	**$ -**	**$ 262,094**	**$ 541,209**	**$ 1,027,484**
Operating expenses:				
Salaries and benefits			$ 98,269	$ 516,336
Claims and insurance premiums				
Operations and maintenance		$ 240,057	428,488	389,441
Depreciation		77,714	2,679	15,352
Administrative charges		2,099	12,984	158,024
Total operating expenses	**$ -**	**$ 319,870**	**$ 542,420**	**$ 1,079,153**
Operating income (loss)	$ -	$ (57,776)	$ (1,211)	$ (51,669)
Nonoperating revenue (expense):				
Investment income				
Interest (expense)				
Total nonoperating revenue (expense)	$ -	$ -	$ -	$ -
Income (loss) before operating transfers	$ -	$ (57,776)	$ (1,211)	$ (51,669)
Operating transfers in		243,074	55,000	
Operating transfers (out)		(243,074)		
Net income (loss)	**$ -**	**$ (57,776)**	**$ 53,789**	**$ (51,669)**
Retained earnings - beginning of year	57,514	695,519	101,656	134,777
Equity transfer to general fund	(57,514)	(208,318)		
Retained earnings - end of year	**$ -**	**$ 429,425**	**$ 155,445**	**$ 83,108**

(Continued)

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	City Legal Defense	Unemployment Insurance	Workers' Compensation Insurance	Equipment Replacement
Operating revenues:				
Charges for current services		$ 934	$ 425,539	$ 409,020
Supplemental rent from operations				
Other operating income				9,445
Total operating revenues	**$ -**	**$ 934**	**$ 425,539**	**$ 418,465**
Operating expenses:				
Salaries and benefits				
Claims and insurance premiums		$ 18,738	$ 376,025	
Operations and maintenance			69,934	$ 5,628
Depreciation				246,283
Administrative charges				1,488
Total operating expenses	**$ -**	**$ 18,738**	**$ 445,959**	**$ 253,399**
Operating income (loss)	$ -	$ (17,804)	$ (20,420)	$ 165,066
Nonoperating revenue (expense):				
Investment income				$ 86,380
Interest (expense)				
Total nonoperating revenue (expense)	$ -	$ -	$ -	$ 86,380
Income (loss) before operating transfers	$ -	$ (17,804)	$ (20,420)	$ 251,446
Operating transfers in				18,795
Operating transfers (out)				
Net income (loss)	**$ -**	**$ (17,804)**	**$ (20,420)**	**$ 270,241**
Retained earnings - beginning of year	44,179	95,497	63,176	3,009,469
Equity transfer to general fund	(44,179)			
Retained earnings - end of year	**$ -**	**$ 77,693**	**$ 42,756**	**$ 3,279,710**

General Liability Insurance	TOTALS PRIMARY GOVERNMENT 2002	TOTALS PRIMARY GOVERNMENT 2001	Component Unit Morgan Hill Corporation Yard
$ 332,919	$ 2,999,199	$ 4,824,843	
			$ 506,327
	9,445	45,085	
$ 332,919	**$ 3,008,644**	**$ 4,869,928**	**$ 506,327**
	$ 614,605	$ 1,625,892	
$ 332,918	727,681	569,278	
25,329	1,158,877	1,982,652	$ 552,307
	342,028	437,116	6,717
	174,595	462,447	
$ 358,247	**$ 3,017,786**	**$ 5,077,385**	**$ 559,024**
$ (25,328)	$ (9,142)	$ (207,457)	$ (52,697)
$ 39,144	$ 125,524	$ 202,561	$ 823
		(738)	
$ 39,144	$ 125,524	$ 201,823	$ 823
$ 13,816	$ 116,382	$ (5,634)	$ (51,874)
	316,869	844,766	
	(243,074)	(210,295)	
$ 13,816	**$ 190,177**	**$ 628,837**	**$ (51,874)**
819,940	5,021,727	4,392,890	464,670
	(310,011)		
$ 833,756	**$ 4,901,893**	**$ 5,021,727**	**$ 412,796**

(Concluded) SEE CORP YARD F/S

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Cash Flows

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Human Resources	Finance/ Information Systems	Building Maintenance
Cash flows from operating activities:			
Operating income (loss)		$ (57,776)	$ (1,211)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation		77,714	2,679
Effect of changes in assets and liabilities:			
Receivables			
Prepaid expenses			
Accounts payable and accrued liabilities	$ (17,093)	(142,231)	860
Other liabilities	(3,268)	(39,328)	6,046
Net cash provided by (used in) operating activities	**$ (20,361)**	**$ (161,621)**	**$ 8,374**
Cash flows from capital and related financing activities:			
Acquisition and construction of fixed assets	$ 36,836	$ 59,182	$ (1,650)
Interest paid			
Net cash used in capital related financing activities	**$ 36,836**	**$ 59,182**	**$ (1,650)**
Cash flows from noncapital financing activities:			
Transfers in		$ 243,074	$ 55,000
Transfers out	$ (57,514)	(451,392)	
Net cash used in noncapital financing activities	$ (57,514)	$ (208,318)	$ 55,000
Cash flows from investing activities:			
Interest received on investments			
Net cash provided by investing activities	$ -	$ -	$ -
Net increase (decrease) in cash and investments	$ (41,039)	$ (310,757)	$ 61,724
Cash and investments - beginning of year	41,039	712,311	148,374
Cash and investments - end of year	**$ -**	**$ 401,554**	**$ 210,098**

CIP Administration	City Legal Defense	Unemployment Insurance	Workers' Compensation Insurance	Equipment Replacement	General Liability Insurance
$ (51,669)		$ (17,804)	$ (20,420)	$ 165,066	$ (25,328)
15,352				246,283	
			(2,391)		4,981
				4,722	
42,507	(46,265)	112	63,807	(110,447)	40,588
7,678	(12,244)				
$ 13,868	**$ (58,509)**	**$ (17,692)**	**$ 40,996**	**$ 305,624**	**$ 20,241**
$ (26,786)	$ 15,269			$ (186,367)	
$ (26,786)	**$ 15,269**	**$ -**	**$ -**	**$ (186,367)**	**$ -**
				$ 18,795	
	$ (44,179)				
$ -	$ (44,179)	$ -	$ -	$ 18,795	$ -
				$ 103,512	$ 51,415
$ -	$ -	$ -	$ -	$ 103,512	$ 51,415
$ (12,918)	$ (87,419)	$ (17,692)	$ 40,996	$ 241,564	$ 71,656
175,588	87,419	95,497	729,933	2,142,739	1,117,673
$ 162,670	**$ -**	**$ 77,805**	**$ 770,929**	**$ 2,384,303**	**$ 1,189,329**

(Continued)

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Cash Flows

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	TOTALS PRIMARY GOVERNMENT		Component Unit
	2002	2001	Morgan Hill Corporation Yard
Cash flows from operating activities:			
Operating income (loss)	$ (9,142)	$ (207,457)	$ (52,697)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	342,028	437,116	6,717
Effect of changes in assets and liabilities:			
Receivables	2,590	40,854	54,632
Prepaid expenses	4,722	5,667	
Accounts payable and accrued liabilities	(168,162)	487,848	(107,509)
Other liabilities	(41,116)	18,825	
Net cash provided by (used in) operating activities	**$ 130,920**	**$ 782,853**	**$ (98,857)**
Cash flows from capital and related financing activities:			
Acquisition and construction of fixed assets	$ (103,516)	$ (823,829)	
Interest paid		(738)	
Net cash used in capital related financing activities	**$ (103,516)**	**$ (824,567)**	**$ -**
Cash flows from noncapital financing activities:	-		
Transfers in	$ 316,869	$ 844,766	
Transfers out	(553,085)	(210,295)	
Net cash used in noncapital financing activities	$ (236,216)	$ 634,471	$ -
Cash flows from investing activities:			
Interest received on investments	$ 154,927	197,996	$ 2,988
Net cash provided by investing activities	$ 154,927	$ 197,996	$ 2,988
Net increase (decrease) in cash and investments	$ (53,885)	$ 790,753	$ (95,869)
Cash and investments - beginning of year	5,250,573	4,459,820	183,854
Cash and investments - end of year	**$ 5,196,688**	**$ 5,250,573**	**$ 87,985**
		(Concluded)	SEE CORP YARD F/S

City of Morgan Hill

AGENCY FUNDS

Agency funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Assets equal liabilities and the measurement of operations is not a focus.

Special Deposits

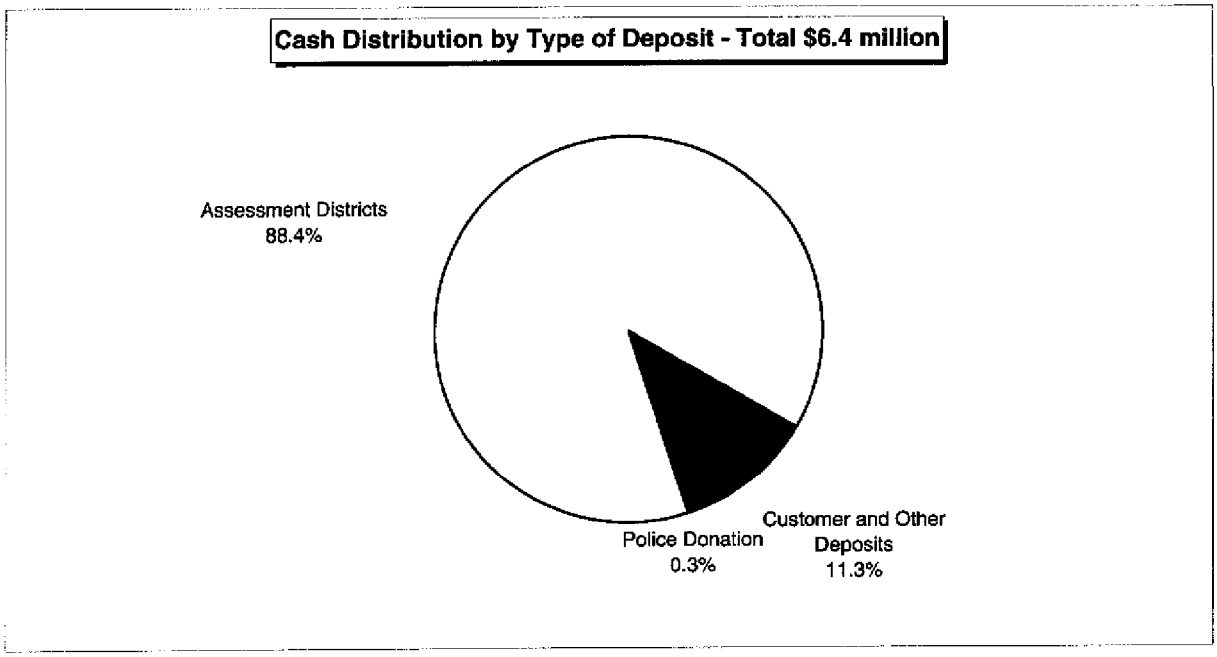
This fund receives deposits to guarantee performance on various types of agreements between individuals or companies and the City. The City holds the deposits until such time as the individual or company perform in accordance with the agreement, at which time the deposit is returned to the individual or company. In case of nonperformance, the City retains the deposit.

Police Donation Fund

This fund accounts for donations the City receives for specific programs. This includes the graffiti wipe out program and the DARE program.

Special Assessment District Agency Funds

These funds are established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Typically, these improvements are streets, curbs, gutters, sidewalks, water and sewer lines, undergrounding of utilities, and storm drains. The individual lots are assessed a proportionate share of the improvements, and the County levies this assessment as part of the annual property tax bill. The County remits the collections to the City, which in turn pays the debt service on the bonds. The debt is an obligation of the property owners and the City has no legal liability relating to these bond issues.



City of Morgan Hill, California

Agency Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Special Deposits	M.H. Business Ranch A.D.	Tennant Business Park A.D.
Assets			
Restricted pooled cash and investments	$ 728,264	$ 2,538,023	$ 307,309
Cash with fiscal agents		894,101	
Accounts receivable	4,801	144,291	11,979
Total Assets	**$733,065**	**$ 3,576,415**	**$ 319,288**
Liabilities			
Accounts payable	$ 13,060		
Customer and other deposits	720,005	$ 3,576,415	$ 319,288
Total Liabilities	**$ 733,065**	**$ 3,576,415**	**$ 319,288**

Police Donation	Madrone Business Park A.D.	TOTALS 2002	TOTALS 2001
$ 20,133	$ 698,243	$ 4,291,972	$ 4,556,029
	1,241,627	2,135,728	11,050,327
107	2,814	163,992	319,115
$ 20,240	**$ 1,942,684**	**$ 6,591,692**	**$ 15,925,471**
		$ 13,060	$ 37,914
$ 20,240	$ 1,942,684	6,578,632	15,887,557
$ 20,240	**$ 1,942,684**	**$ 6,591,692**	**$ 15,925,471**

City of Morgan Hill, California

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year ended June 30, 2002

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Special Deposits				
Restricted pooled cash and investments	$ 1,001,499	$ 643,103	$ 916,338	$ 728,264
Accounts Receivable	14,904	25,281	35,384	4,801
Total Assets	$ 1,016,403	$ 668,384	$ 951,722	$ 733,065
Accounts payable	$ 37,915	$ 750,263	$ 775,118	$ 13,060
Customer and other deposits	978,488	(81,879)	176,604	720,005
Total Liabilities	$ 1,016,403	$ 668,384	$ 951,722	$ 733,065
Morgan Hill Business Ranch A.D.				
Restricted pooled cash and investments	$ 2,295,201	$ 2,520,368	$ 2,277,546	$ 2,538,023
Cash with fiscal agents	897,658	19,186	22,743	894,101
Accounts Receivable	262,934	715,174	833,817	144,291
Total Assets	$ 3,455,793	$ 3,254,728	$ 3,134,106	$ 3,576,415
Customer and other deposits	$ 3,455,793	$ 3,254,728	$ 3,134,106	$ 3,576,415
Total Liabilities	$ 3,455,793	$ 3,254,728	$ 3,134,106	$ 3,576,415
Tennant Business Park A.D.				
Restricted pooled cash and investments	$ 943,290	$ 417,363	$ 1,053,344	$ 307,309
Accounts Receivable	12,253	11,980	12,254	11,979
Total Assets	$ 955,543	$ 429,343	$ 1,065,598	$ 319,288
Customer and other deposits	$ 955,543	$ 429,343	$ 1,065,598	$ 319,288
Total Liabilities	$ 955,543	$ 429,343	$ 1,065,598	$ 319,288

(Continued)

City of Morgan Hill, California

Agency Funds

Combining Statement of Changes in Assets and Liabilities (Continued)

Year ended June 30, 2002

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Police Donation Fund				
Restricted pooled cash and investments	$ 21,088	$ 1,216	$ 2,171	$ 20,133
Accounts Receivable	323	106	322	107
Total Assets	$ 21,411	$ 1,322	$ 2,493	$ 20,240
Customer and other deposits	$ 21,411	$ 1,322	$ 2,493	$ 20,240
Total Liabilities	$ 21,411	$ 1,322	$ 2,493	$ 20,240
Madrone Business Park A.D.				
Restricted pooled cash and investments	$ 294,951	$ 993,985	$ 590,693	$ 698,243
Cash with Fiscal Agent	10,152,669	117,905	9,028,947	1,241,627
Accounts Receivable	28,700	14,841	40,727	2,814
Total Assets	$ 10,476,320	$ 1,126,731	$ 9,660,367	$ 1,942,684
Accounts Payable		$ 10,750	$ 10,750	
Customer and other deposits	$ 10,476,320	1,115,981	9,649,617	$ 1,942,684
Total Liabilities	$ 10,476,320	$ 1,126,731	$ 9,660,367	$ 1,942,684
Totals - Agency Funds				
Restricted pooled cash and investments	$ 4,556,029	$ 4,576,035	$ 4,840,092	$ 4,291,972
Cash with fiscal agents	11,050,327	137,091	9,051,690	2,135,728
Accounts Receivable	319,114	767,382	922,504	163,992
Total Assets	$ 15,925,470	$ 5,480,508	$ 14,814,286	$ 6,591,692
Accounts payable	$ 37,915	$ 761,013	$ 785,868	$ 13,060
Customer and other deposits	15,887,555	4,719,495	14,028,418	6,578,632
Total Liabilities	$ 15,925,470	$ 5,480,508	$ 14,814,286	$ 6,591,692

(Concluded)

CITY OF MORGAN HILL

City of Morgan Hill

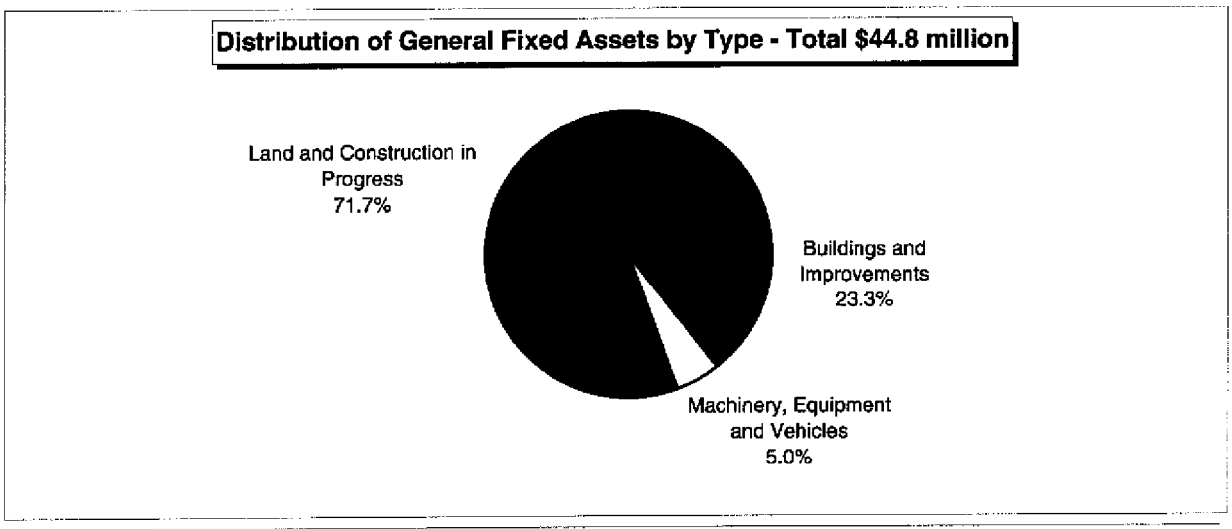
GENERAL FIXED ASSET ACCOUNT GROUP

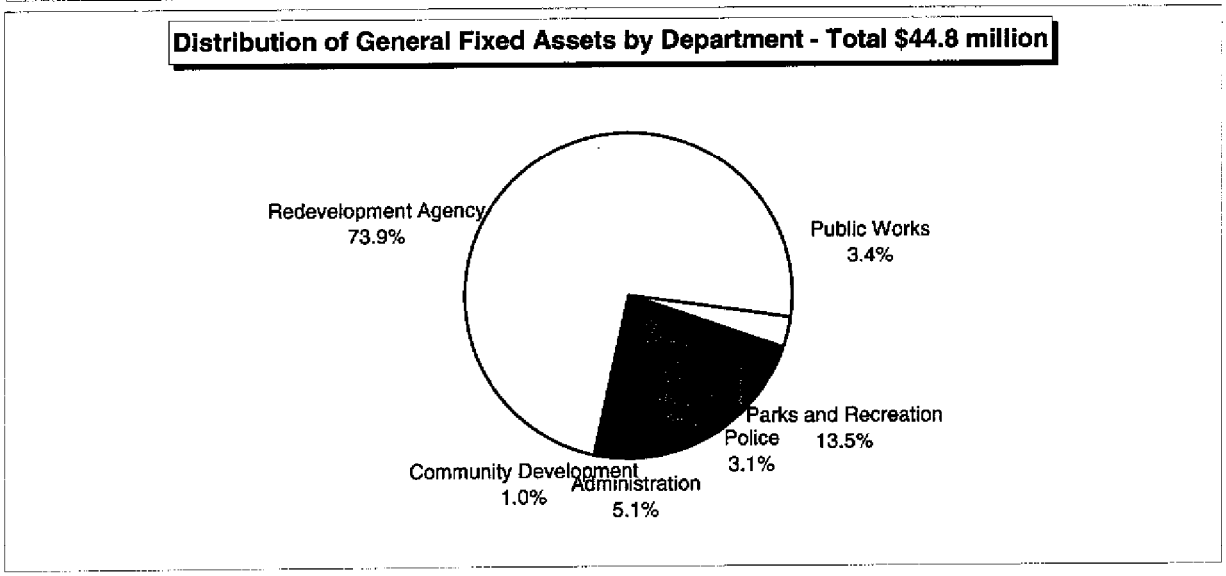
This account group is used to establish accounting control and accountability for the City's general fixed assets. Fixed assets of the City other than those accounted for in the Proprietary Fund Types are accounted for in this account group. Total Proprietary Fund Fixed Assets, net of depreciation, totaled appoximately $46.1 million as of June 30, 1998, which consisted of $15.5 million in the sewer funds, $29.8 million in the water funds, and $0.8 million in total for the internal service funds.

General fixed assets have been acquired for general governmental purposes and for long-term, future redevelopment. Assets purchased are recorded as expenditures in the governmental funds and are capitalized in the General Fixed Assets Account Group. Purchased fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are recorded at estimated fair market value at time received.

Public domain general fixed assets, consisting of certain improvements other than buildings, and including assets such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems, are not capitalized and are not included in the General Fixed Assets Account Group. Such assets are normally immovable and of value only to the City, therefore, the purpose of stewardship for capital expenditures is satisfied without recording such assets.

No depreciation has been provided on general fixed assets.





City of Morgan Hill, California
Schedule of General Fixed Assets by Source
June 30, 2002

General Fixed Assets	
Land	$ 22,697,581
Buildings and Improvements	10,460,114
Machinery, Equipment and Vehicles	2,223,308
Construction in Progress	9,465,087
Total General Fixed Assets	**$ 44,846,090**

Investment in General Fixed Assets - Funded by:	
Redevelopment Tax Increment	$ 33,136,597
Donations	5,792,208
Capital Project Funds	2,075,177
Special Revenue Funds	706,607
General Fund	3,135,501
Total Investment in General Fixed Assets	**$ 44,846,090**

City of Morgan Hill, California

Schedule of General Fixed Assets by Function and Activity

June 30, 2002

Function and Activity	Land	Buildings & Improvements	Machinery Equipment & Vehicles	Construction in Progress	Totals
Administration	$ 545,070	$ 1,285,749	$ 465,969		$ 2,296,788
Community Development		17,935	435,543		453,478
Redevelopment Agency	17,848,623	6,250,913	146,320	$ 8,890,741	33,136,597
Public Works	82,315	832,847	520,608	80,262	1,516,032
Public Safety	243,014	541,062	575,902	20,244	1,380,222
Parks and Recreation	3,978,559	1,531,608	78,966	473,840	6,062,973
Totals	**$ 22,697,581**	**$ 10,460,114**	**$ 2,223,308**	**$ 9,465,087**	**$ 44,846,090**

City of Morgan Hill, California

Schedule of Changes in General Fixed Assets by Function and Activity

Year ended June 30, 2002

Function and Activity	Balance July 1, 2001	Additions	Retirements Transfers	Balance June 30, 2002
Administration	$ 2,058,768	$ 253,147	$ (15,127)	$ 2,296,788
Community Development	390,674	62,804		453,478
Redevelopment Agency	14,470,227	18,668,370	(2,000)	33,136,597
Public Works	1,494,372	21,660		1,516,032
Public Safety	1,321,293	58,929		1,380,222
Parks and Recreation	6,057,369	5,604		6,062,973
Totals	**$ 25,792,703**	**$ 19,070,514**	**$ (17,127)**	**$ 44,846,090**

City of Morgan Hill

STATISTICAL SECTION

The statistical section includes a number of statistical tables and charts, providing financial, economic, social, and demographic data about the City. This section reveals trends affecting the City.

The statistical schedules below provide a ten year history on a variety of financial items:

a. General Governmental Revenues by Source and Expenditures by Function

b. Assessed and Estimated Actual Value of Taxable Property

c. General Fund Property Tax Levies and Collections

d. Property Tax Rates - Direct and Overlapping Governments

e. Property Values, Construction and Bank Deposits

f. Demographic Statistics

g. Special Assessment Billings and Collections

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

i. Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures

j. Sewer Revenue Bond Coverage

In addition, the statistical section contains several other useful tables, including:

a. Principal Employers - this lists the City's major employers which provide a significant amount of employment, sales and property tax revenue to the City.

b. Property, Sales, Transient Occupancy & Business License Taxes Per Capita, Total Revenue per Capita - these provide comparative revenue information for all cities in Santa Clara County, in comparison against the County average.

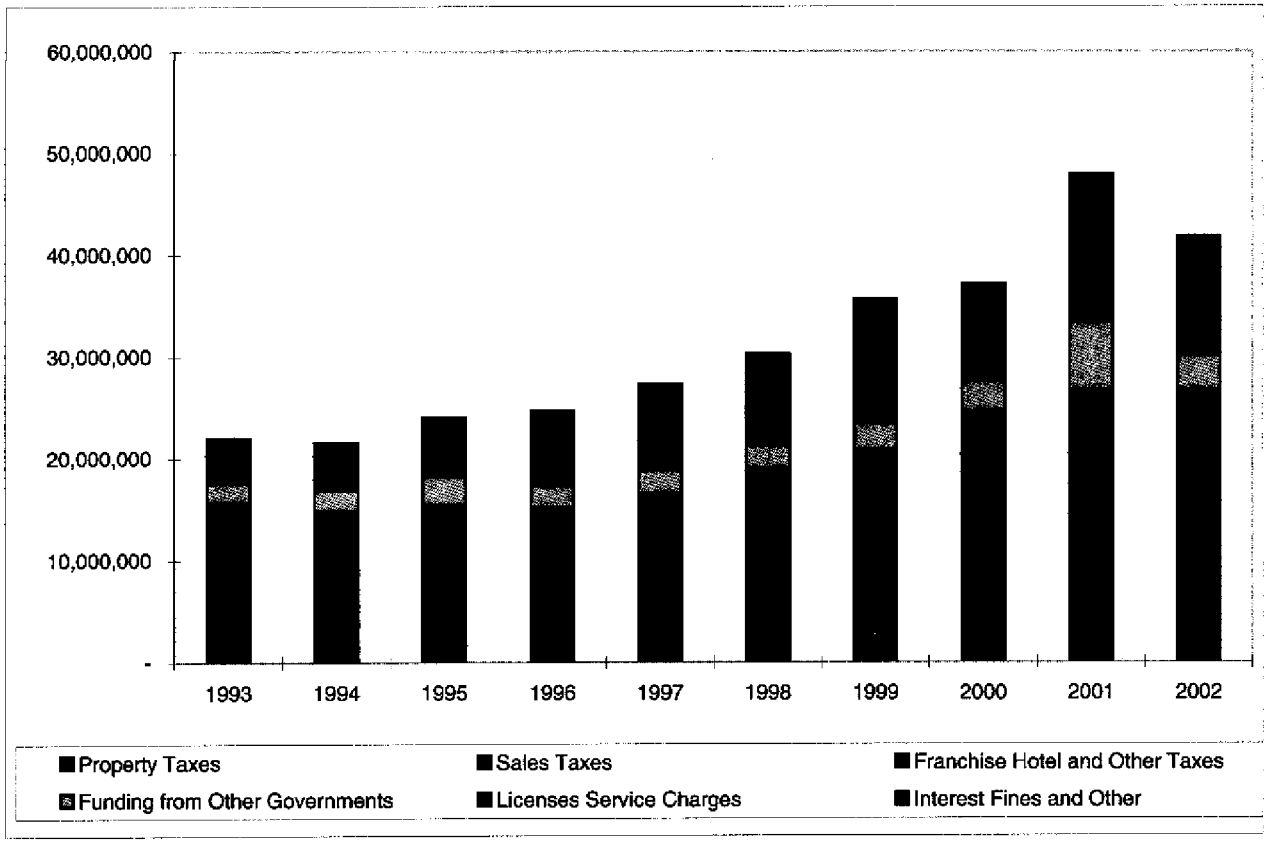
c. Schedule of Direct and Overlapping Debt - this reports on debt of all governmental agencies that is supported at least in part, by the City's taxpayers.

d. Computation of Legal Debt Margin - this table calculates the City's legal debt limit (the maximum amount of debt the City can issue) and compares it to the debt outstanding at the end of the year to produce the legal debt margin (the amount of debt the City can issue in future years).

e. Miscellaneous Statistics - this table provides additional information related to the City's financial condition, demographics and services provided.

City of Morgan Hill, California

General Governmental Revenues by Source - Last Ten Fiscal Years



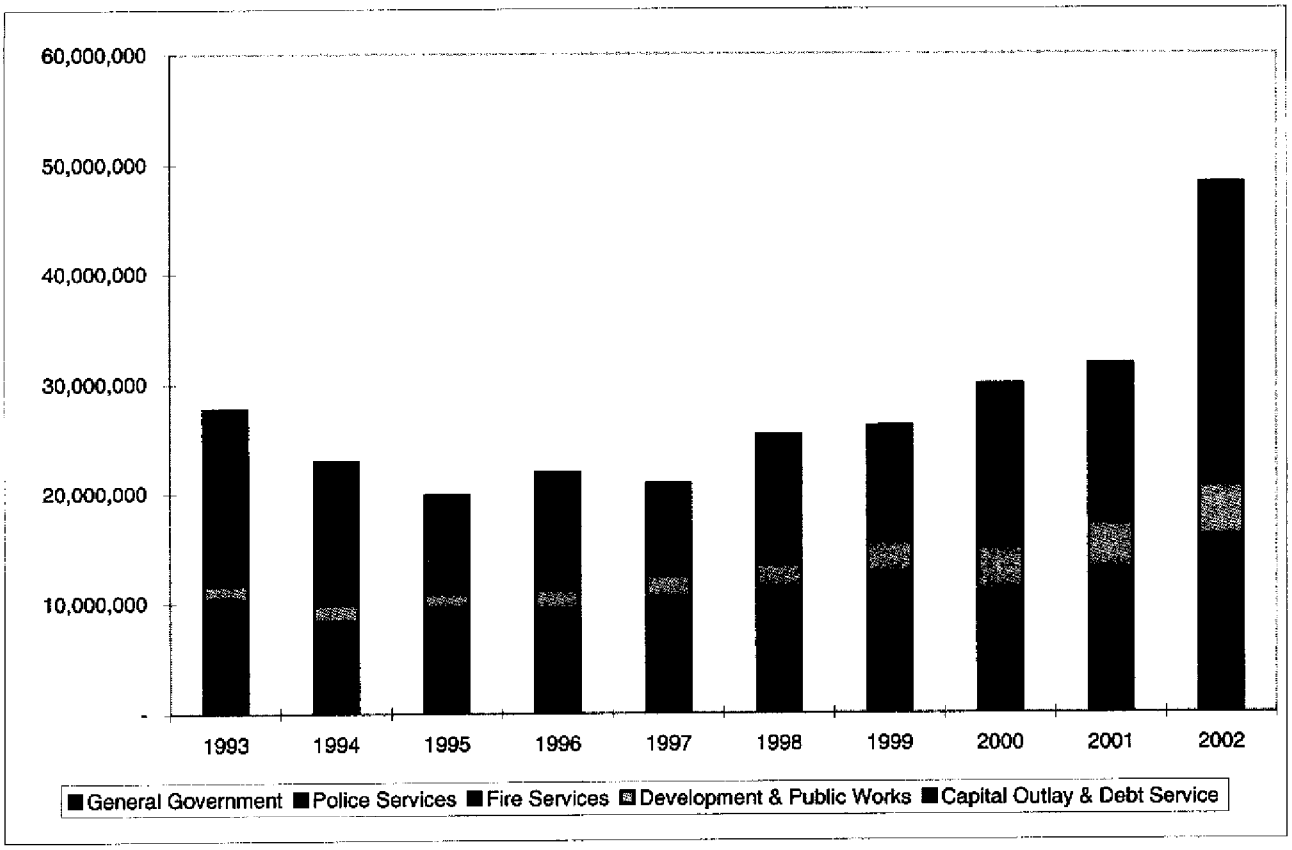
Fiscal Year	Property Taxes	Sales Taxes	Franchise Hotel and Other Taxes	Funding from Other Governments	Licenses Service Charges	Interest Fines and Other	Totals
1993	11,813,755	2,076,076	1,923,642	1,794,195	1,995,774	2,514,112	22,117,554
1994	11,541,133	2,652,090	690,064	2,109,677	2,014,726	2,682,975	21,690,665
1995	11,584,064	3,028,094	923,748	2,754,175	2,576,913	3,258,162	24,125,156
1996	10,889,489	3,213,586	1,193,623	2,010,451	4,094,657	3,303,862	24,705,668
1997	11,885,844	3,104,685	1,636,140	2,201,724	3,998,873	4,502,628	27,329,894
1998	13,533,222	3,762,371	1,748,706	2,297,906	4,675,066	4,247,341	30,264,702
1999	15,049,473	3,990,716	1,994,321	2,471,349	7,127,820	5,059,442	35,693,121
2000	17,655,775	4,454,774	2,525,798	3,000,557	5,033,724	4,441,596	37,112,224
2001	18,431,805	5,532,132	2,803,261	6,628,611	8,032,803	6,498,641	47,927,253
2002	19,454,298	4,870,295	2,443,461	3,316,144	6,769,058	4,947,817	41,801,073

Note: The City's Utility Tax was repealed effective January 1, 1993

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

General Governmental Expenditures by Function - Last Ten Fiscal Years



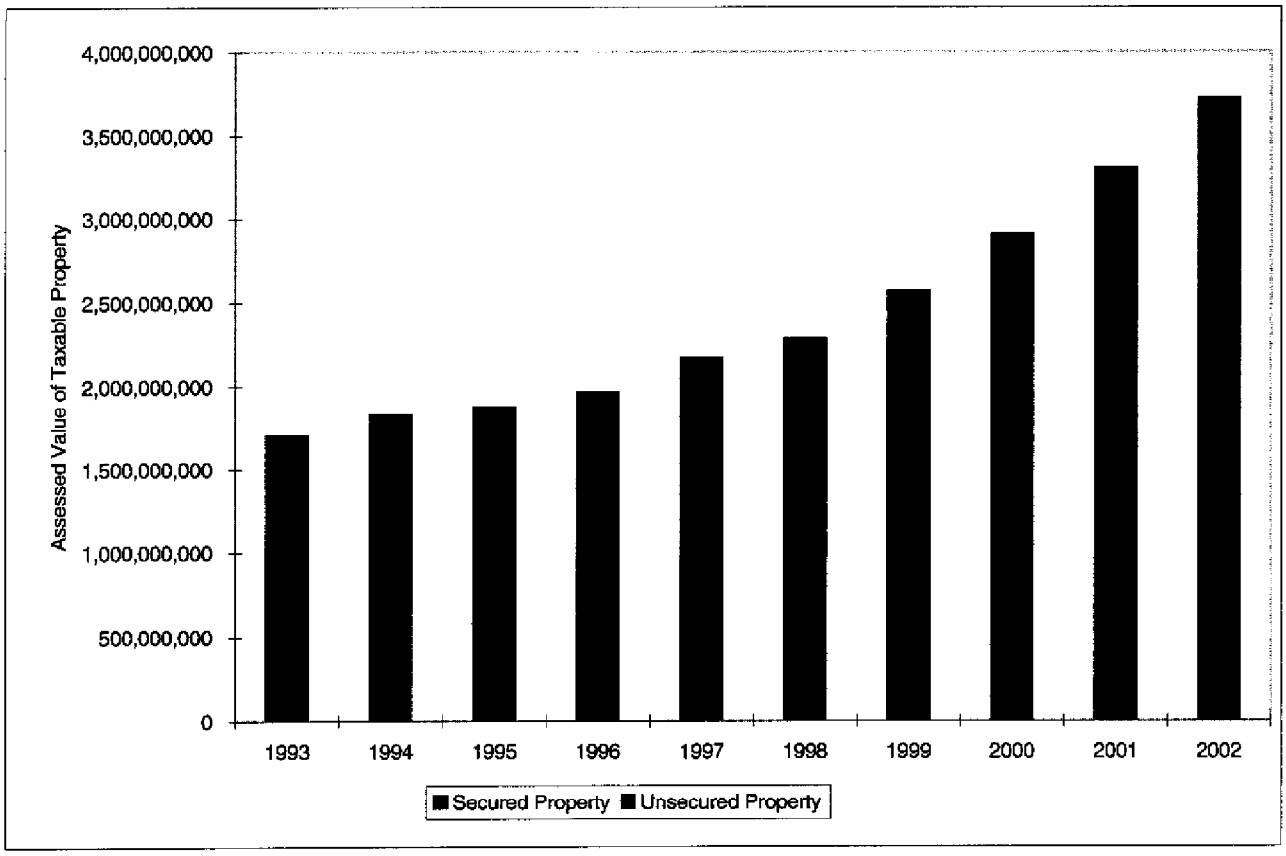
Fiscal Year	General Government	Police Services	Fire Services	Development & Public Works	Capital Outlay & Debt Service	Total
1993	5,431,893	3,008,219	1,949,051	1,317,837	15,997,144	27,704,144
1994	3,698,774	2,950,141	1,768,999	1,512,103	12,943,510	22,873,533
1995	4,131,617	3,244,260	2,224,823	1,317,124	8,940,441	19,858,265
1996	3,346,799	3,765,319	2,386,407	1,731,122	10,658,001	21,887,648
1997	3,412,365	4,069,462	3,067,547	1,960,351	8,357,653	20,867,358
1998	4,141,230	4,319,711	2,979,454	2,054,251	11,800,009	25,294,655
1999	5,065,372	4,629,768	3,077,031	2,685,493	10,674,428	26,132,092
2000	3,216,402	4,810,040	3,118,160	3,926,968	14,884,975	29,956,545
2001	4,225,128	5,529,991	3,350,334	4,145,308	14,515,759	31,766,520
2002	6,619,935	5,877,411	3,559,610	4,635,063	27,566,852	48,258,871

Note: The City disbanded its Recreation Department during the FY 1992-93. It was reestablished in FY 1997-98.

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years

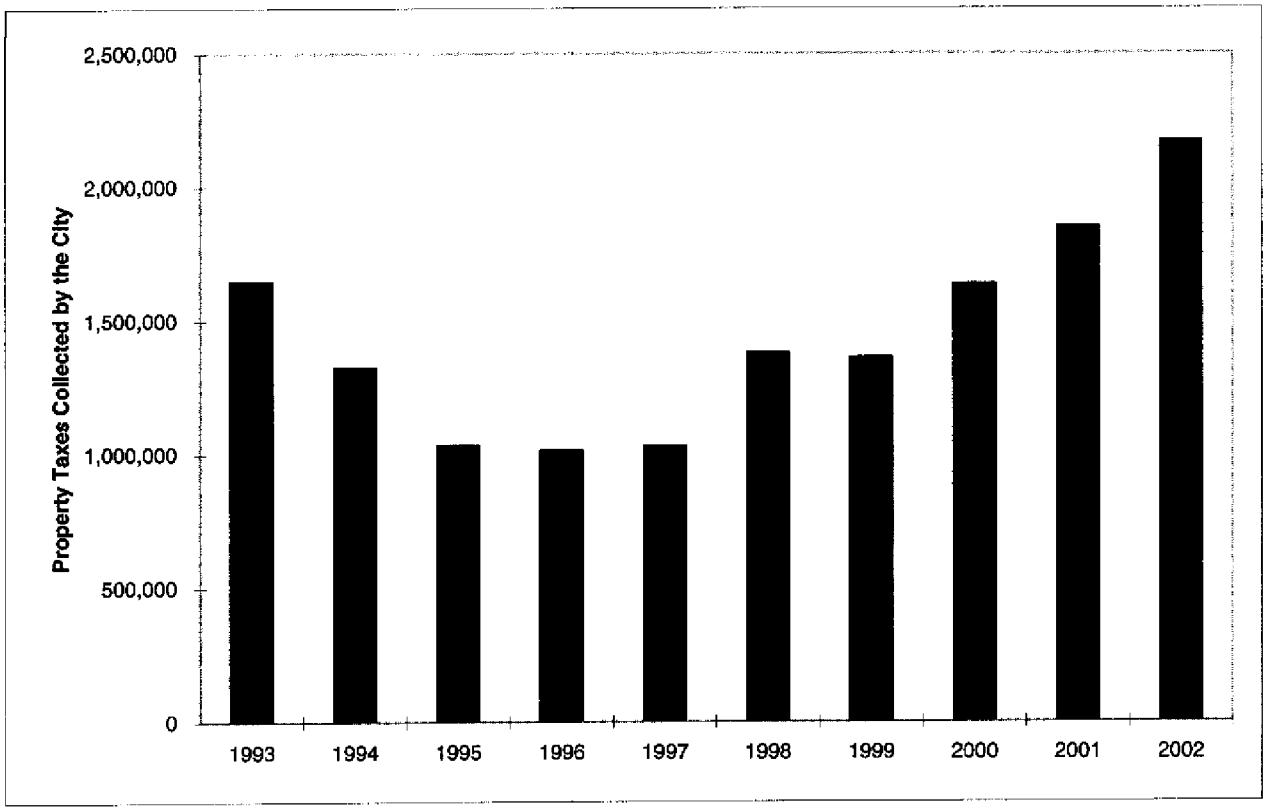


Fiscal Year	Secured Property	Unsecured Property	Total Assessed	Estimated Market
1993	1,615,399,314	89,412,299	1,704,811,613	1,704,811,613
1994	1,752,925,165	76,272,468	1,829,197,633	1,829,197,633
1995	1,802,279,091	74,424,527	1,876,703,618	1,876,703,618
1996	1,872,852,078	89,383,013	1,962,235,091	1,962,235,091
1997	2,067,578,668	104,430,641	2,172,009,309	2,172,009,309
1998	2,165,464,553	117,355,113	2,282,819,666	2,282,819,666
1999	2,425,372,759	143,744,374	2,569,117,133	2,569,117,133
2000	2,765,363,043	141,101,487	2,906,464,530	2,906,464,530
2001	3,138,372,709	163,977,576	3,302,350,285	3,302,350,285
2002	3,527,696,005	196,754,357	3,724,450,362	3,724,450,362

Source: County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

General Fund Property Tax Levies and Collections - Last Ten Fiscal Years

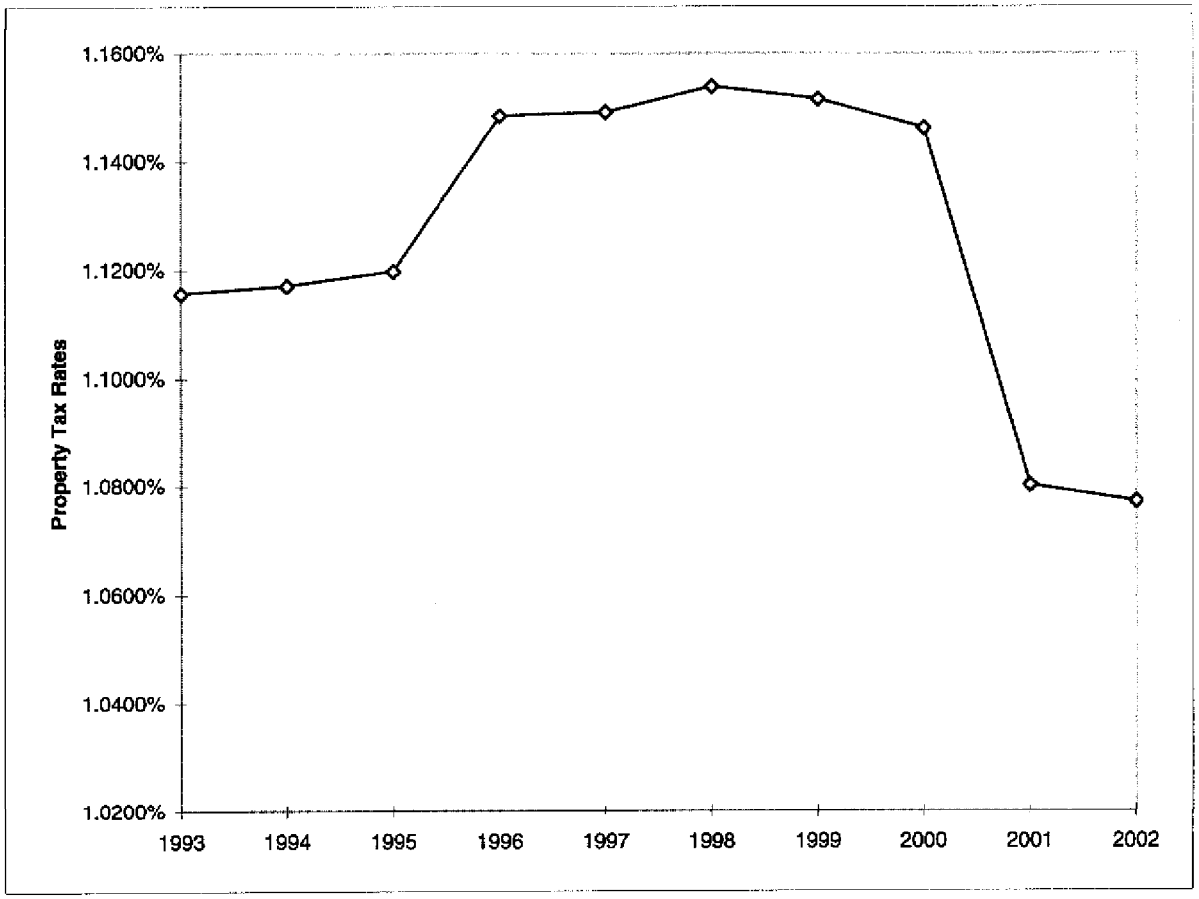


Fiscal Year	Property Tax Levied and Collected		Property Tax Rates		Value of Property Subject to Local Tax Rates
	Total	City's Portion	Total	City's Portion	
1993	19,020,583	1,645,467	1.1157%	8.6510%	1,704,811,613
1994	20,433,967	1,326,008	1.1171%	6.4892%	1,829,197,633
1995	21,015,327	1,031,614	1.1198%	4.9089%	1,876,703,618
1996	22,534,308	1,013,276	1.1484%	4.4966%	1,962,235,091
1997	24,958,559	1,030,483	1.1491%	4.1288%	2,172,009,309
1998	26,110,891	1,379,572	1.1538%	5.2835%	2,282,819,666
1999	29,385,562	1,363,527	1.1515%	4.6401%	2,569,117,133
2000	33,310,990	1,635,769	1.1461%	4.9106%	2,906,464,530
2001	37,849,227	1,848,188	1.1461%	4.8830%	3,302,350,285
2002	40,119,779	2,167,507	1.0772%	5.4026%	3,724,450,362

Sources: City of Morgan Hill Annual Financial Reports
County of Santa Clara Tax Rates and Information
Financial Transactions concerning Cities of California

City of Morgan Hill, California

Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years



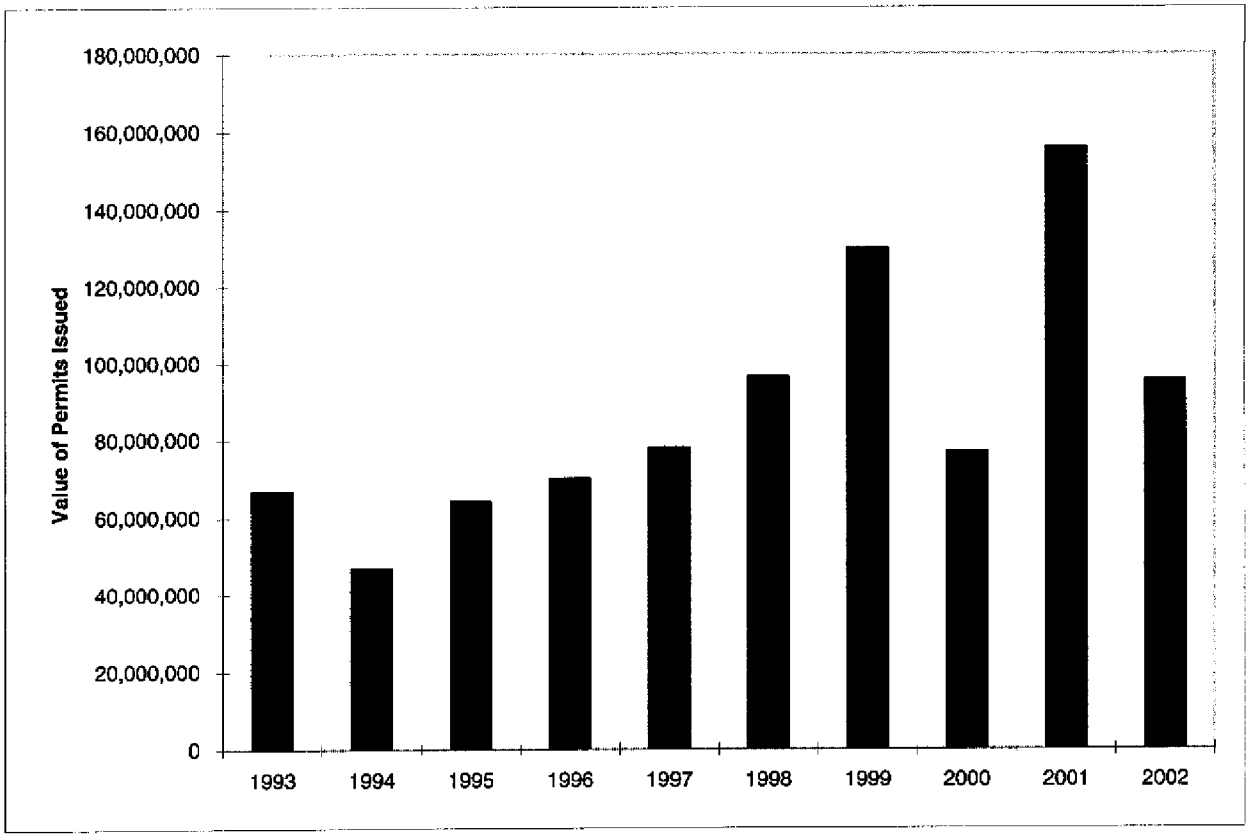
Fiscal Year	Basic County Wide Levy	Additional Approved Supplemental Taxes			
		County	City	Schools and Other Districts	Total Tax Rate
1993	1.0000%	0.0313%	0.0160%	0.0684%	1.1157%
1994	1.0000%	0.0329%	0.0000%	0.0842%	1.1171%
1995	1.0000%	0.0356%	0.0000%	0.0842%	1.1198%
1996	1.0000%	0.0362%	0.0000%	0.1122%	1.1484%
1997	1.0000%	0.0365%	0.0000%	0.1126%	1.1491%
1998	1.0000%	0.0412%	0.0000%	0.1126%	1.1538%
1999	1.0000%	0.0405%	0.0000%	0.1110%	1.1515%
2000	1.0000%	0.0343%	0.0000%	0.1118%	1.1461%
2001	1.0000%	0.0380%	0.0000%	0.0422%	1.0802%
2002	1.0000%	0.0388%	0.0000%	0.0384%	1.0772%

Note: A portion of the Basic County Wide Levy is distributed to Cities, Schools, and Other Districts per State Proposition 13.

Source: County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

Property Values, Construction and Bank Deposits - Last Ten Fiscal Years



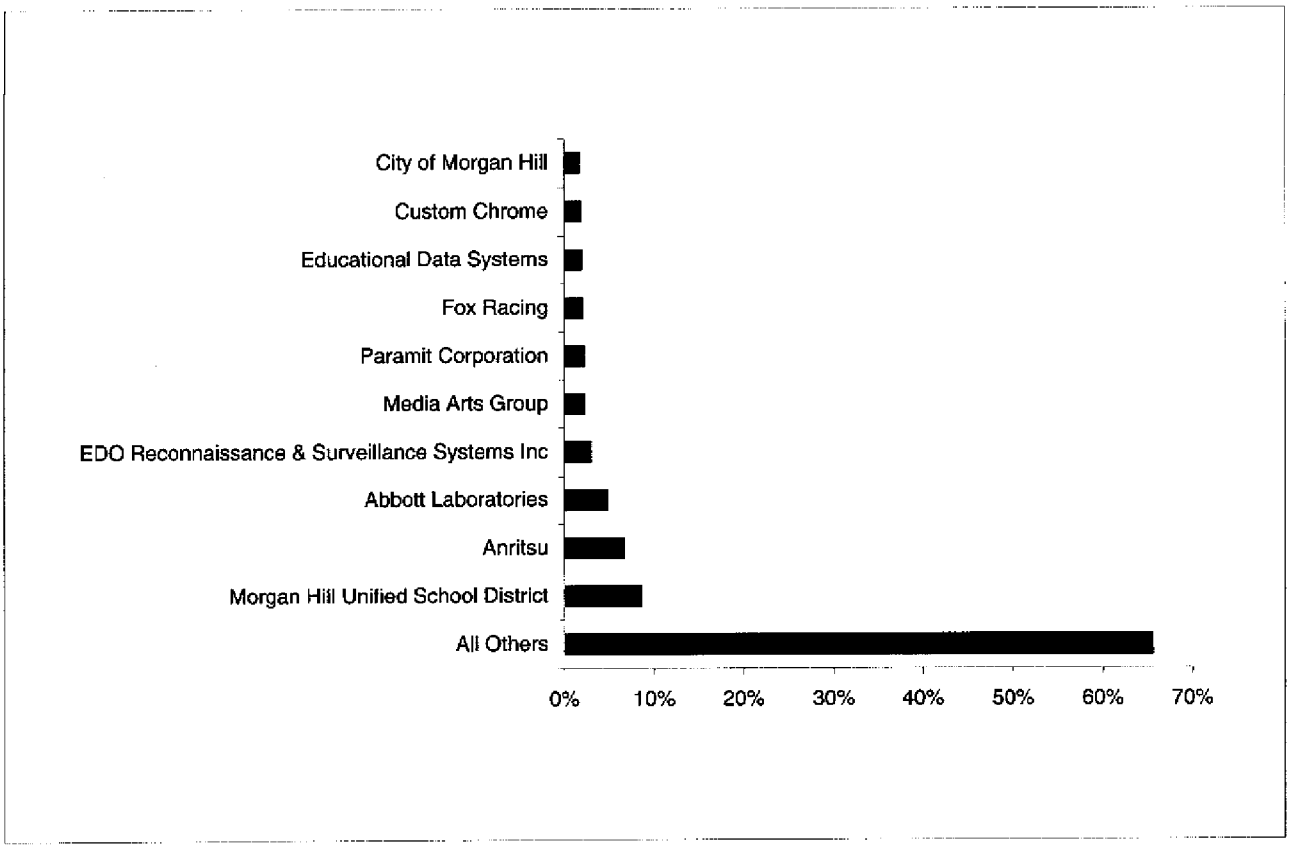
Fiscal Year	Assessed Property Values	Total Building Permits Issued	Value of Permits Issued for			Bank Deposits
			Commercial	Residential	Total	
1993	1,829,197,633	1,042	10,947,000	55,884,835	66,831,835	284,244,000
1994	1,876,703,618	1,322	10,899,547	35,811,864	46,711,411	304,138,000
1995	1,962,235,091	1,286	6,082,710	58,111,838	64,194,548	301,016,000
1996	2,172,009,309	566	14,334,753	55,795,905	70,130,658	308,311,000
1997	2,172,009,309	995	16,961,251	60,944,868	77,906,119	336,742,000
1998	2,282,819,666	934	35,615,808	60,840,534	96,456,342	368,886,000
1999	2,569,117,133	1,232	45,455,893	84,442,562	129,898,455	395,645,000
2000	2,906,464,530	1,312	31,214,390	45,608,507	76,822,897	467,837,000
2001	3,302,350,285	1,400	106,912,266	48,895,813	155,808,079	550,718,000
2002	3,724,450,362	1,457	22,044,283	73,537,055	95,581,338	N/A

Note: Total bank deposits within the City were not available for fiscal year 2002

Source: City of Morgan Hill Building Department
Bank Deposits from Findley Reports

City of Morgan Hill, California

Principal Employers

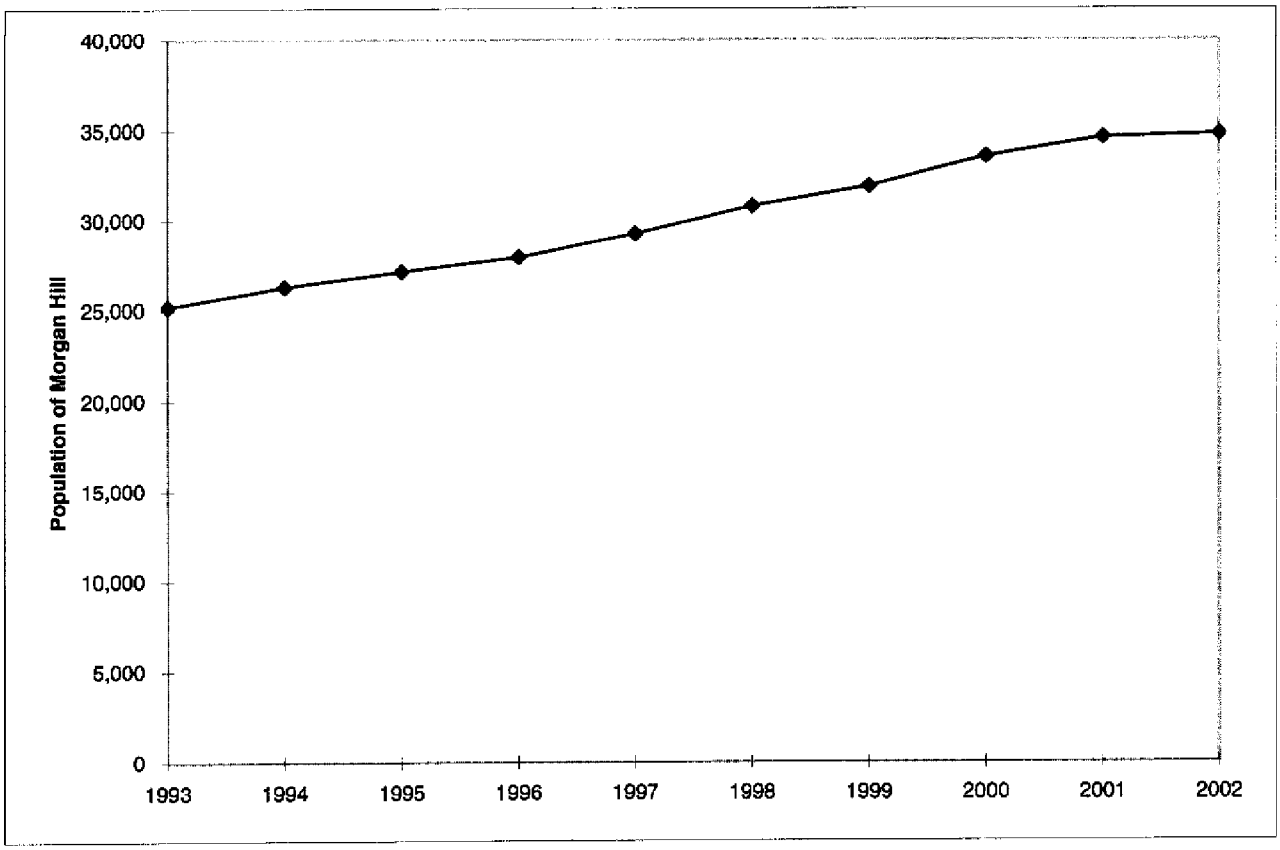


Employer	Number of Employees	Percent of Total
All Others	7,524	65.5%
Morgan Hill Unified School District	980	8.5%
Anritsu	753	6.6%
Abbott Laboratories	538	4.7%
EDO Reconnaissance & Surveillance Systems Inc	336	2.9%
Media Arts Group	260	2.3%
Paramit Corporation	249	2.2%
Fox Racing	231	2.0%
Educational Data Systems	218	1.9%
Custom Chrome	204	1.8%
City of Morgan Hill	180	1.6%
Total Employees of Principal Employers	11,473	100.0%

Source: City of Morgan Hill Business License Renewal Report

City of Morgan Hill, California

Demographic Statistics - Last Ten Fiscal Years

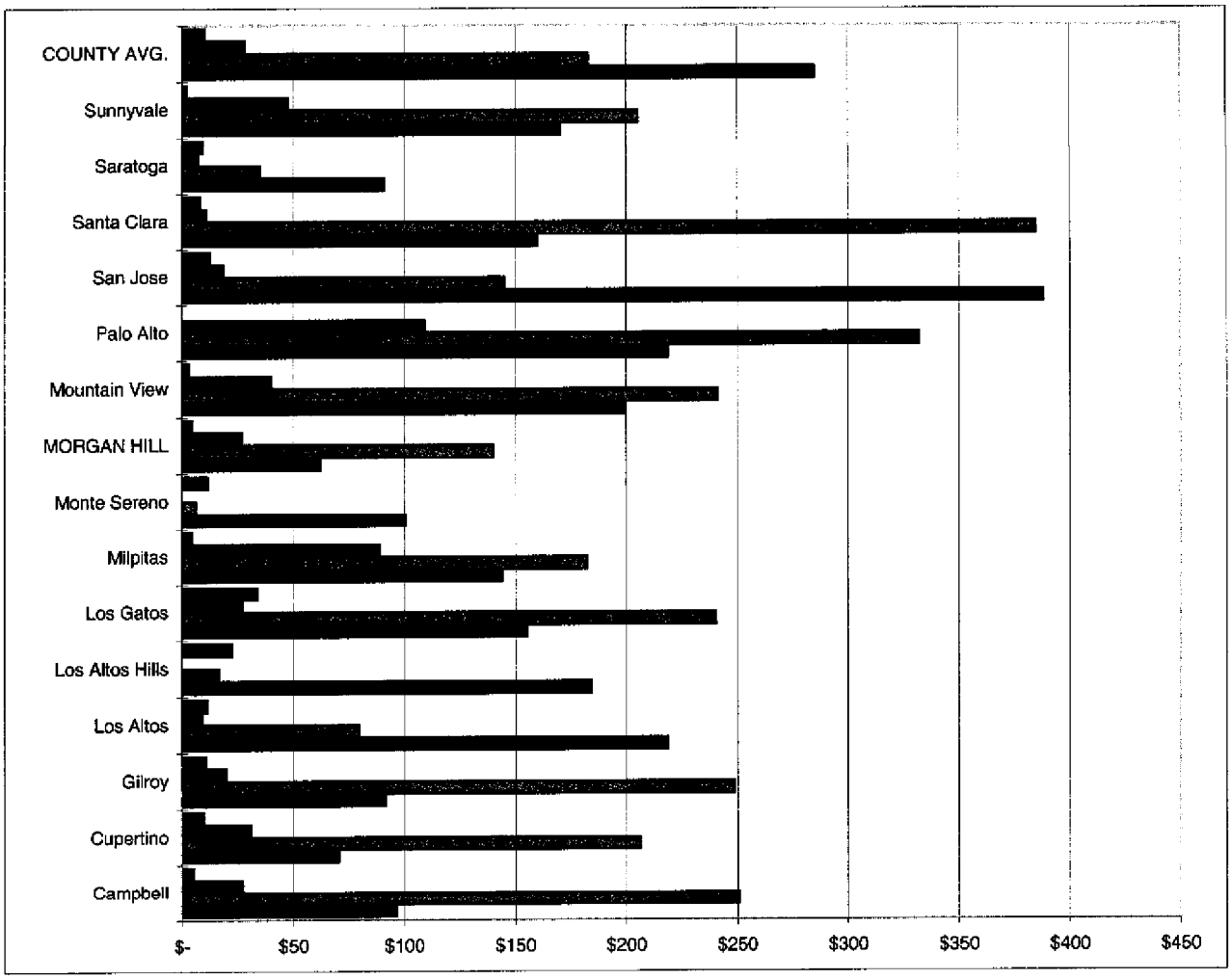


Fiscal Year	City Population	Santa Clara County Population	City Population as % of County's	Growth Rate for Year
1993	25,163	1,533,526	1.6%	0.4%
1994	26,285	1,587,768	1.7%	4.5%
1995	27,138	1,606,908	1.7%	3.2%
1996	27,933	1,612,258	1.7%	2.9%
1997	29,246	1,650,000	1.8%	4.7%
1998	30,786	1,653,100	1.9%	5.3%
1999	31,896	1,658,000	1.9%	3.6%
2000	33,550	1,682,585	2.0%	5.2%
2001	34,600	1,697,812	2.0%	3.3%
2002	34,785	1,719,565	2.0%	0.6%

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

City of Morgan Hill, California

Property Tax per Capita, Sales Tax per Capita, Transient Occupancy Tax per Capita, and Business License Tax Per Capita - Santa Clara County Cities - 2001-02

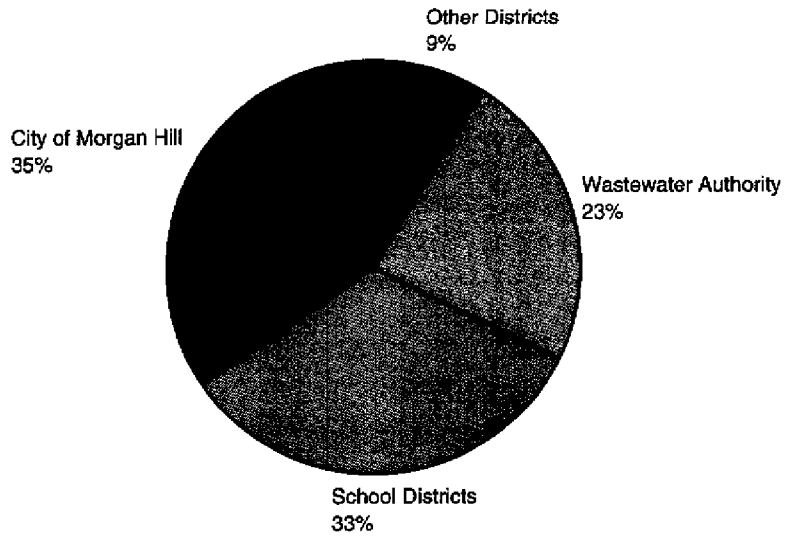


City	Population	Property Tax		Sales Tax		Transient Occupancy		Business License	
		Amount	Per capita	Amount	Per capita	Amount	Per capita	Amount	Per capita
Campbell	38,672	$ 3,723,460	$ 96	$ 9,690,416	$ 251	$1,053,949	$ 27	$ 194,663	$ 5
Cupertino	50,546	3,560,435	70	10,429,396	206	1,546,969	31	479,338	9
Gilroy	43,935	4,006,010	91	10,925,487	249	870,890	20	457,461	10
Los Altos	28,093	6,148,343	219	2,233,579	80	254,887	9	312,243	11
Los Altos Hills	8,000	1,475,773	184	131,715	16	-	-	179,759	22
Los Gatos	28,928	4,483,521	155	6,953,880	240	788,408	27	978,297	34
Milpitas	65,250	9,395,145	144	11,898,435	182	5,790,650	89	290,694	4
Monte Sereno	3,500	351,400	100	21,813	6	-	-	40,190	11
MORGAN HILL	**34,785**	**2,167,507**	**62**	**4,870,295**	**140**	**931,716**	**27**	**156,861**	**5**
Mountain View	71,610	14,261,679	199	17,259,079	241	2,873,871	40	219,206	3
Palo Alto	60,500	13,231,000	219	20,084,000	332	6,615,000	109	-	-
San Jose	917,971	356,136,000	388	133,241,000	145	17,020,000	19	11,573,000	13
Santa Clara	104,306	16,683,604	160	40,104,098	384	1,125,300	11	846,437	8
Saratoga	30,444	2,772,021	91	1,066,607	35	218,837	7	275,362	9
Sunnyvale	132,825	22,595,165	170	27,269,784	205	6,320,197	48	249,753	2
COUNTY AVG.	107,958	$30,732,738	$ 285	$19,745,306	$ 183	$3,027,378	$ 28	$1,083,551	$ 10

Source: Cities in Santa Clara County

City of Morgan Hill, California

Schedule of Direct and Overlapping Debt at June 30, 2002



Name of Entity	% Applicable To the City	Debt Applicable To the City
Santa Clara County General Fund Obligations	0.0001%	$ 6,136,220
Santa Clara County Board of Education Certificates of Participation	0.0001%	$253,733
Santa Clara Valley Water District Certificates of Participation	0.0001%	2,546,896
Gavilian Joint Community College District Certificates of Participation	0.0010%	93,432
Morgan Hill Unified School Lease Tax Obligations	0.0030%	33,321,986
City of Morgan Hill Certificates of Participation	100.0000%	4,036,396
City of Morgan Hill 1915 Act Bonds	100.0000%	30,560,000
South County Regional Wastewater Authority	100.0000%	23,297,557
Total Gross Direct and Overlapping Debt		$ 100,246,220
Less: South County Regional Wastewater Authority (100% Self Supporting from Sewer Service and Connection fees)		(23,297,557)
Total Net Direct and Overlapping Debt		$ 76,948,663

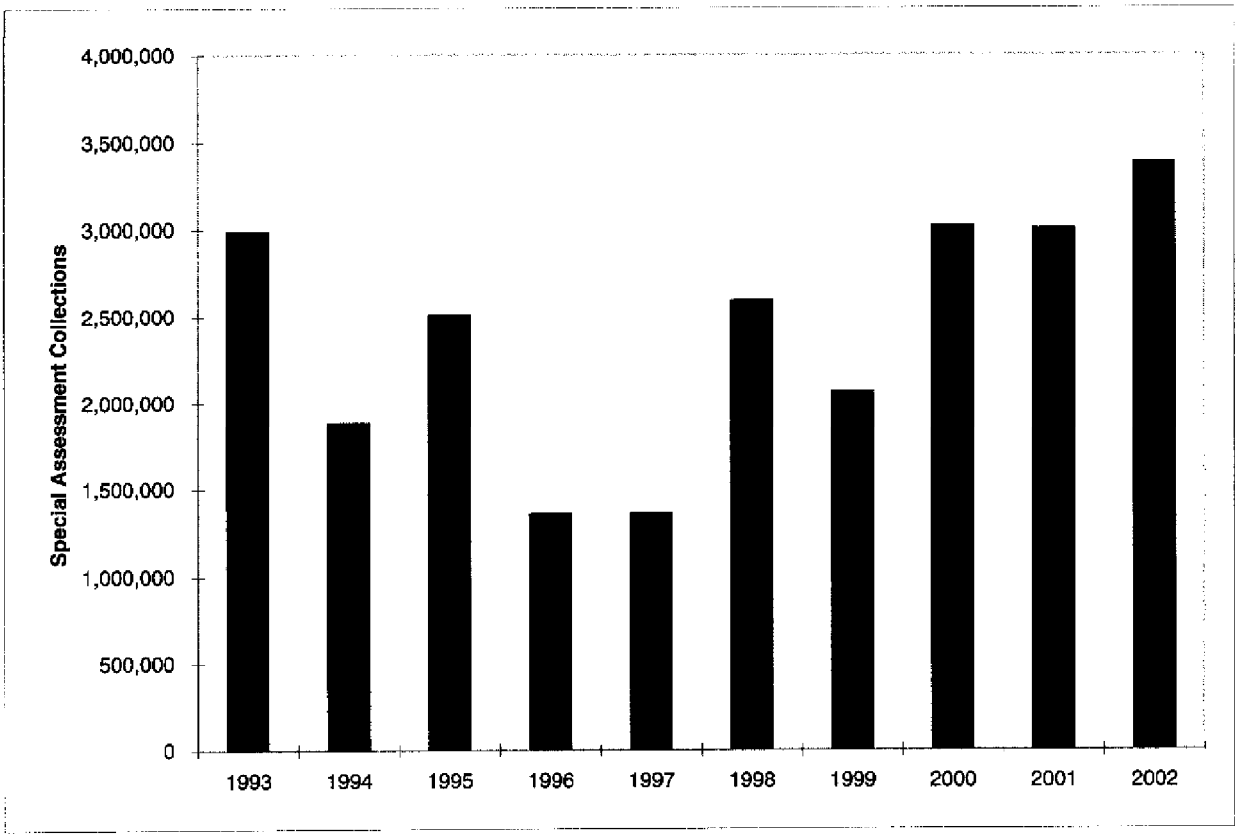
Ratios to Assessed Year Valuation

Direct Debt issued by the City of Morgan Hill	0.93%
Total Gross Debt	2.69%
Total Net Debt	2.07%

Note: % applicable to the City reflects portion of outstanding debt paid by Morgan Hill property owners.
Source: California Municipal Statistics and City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Special Assessment Billings and Collections - Last Ten Fiscal Years



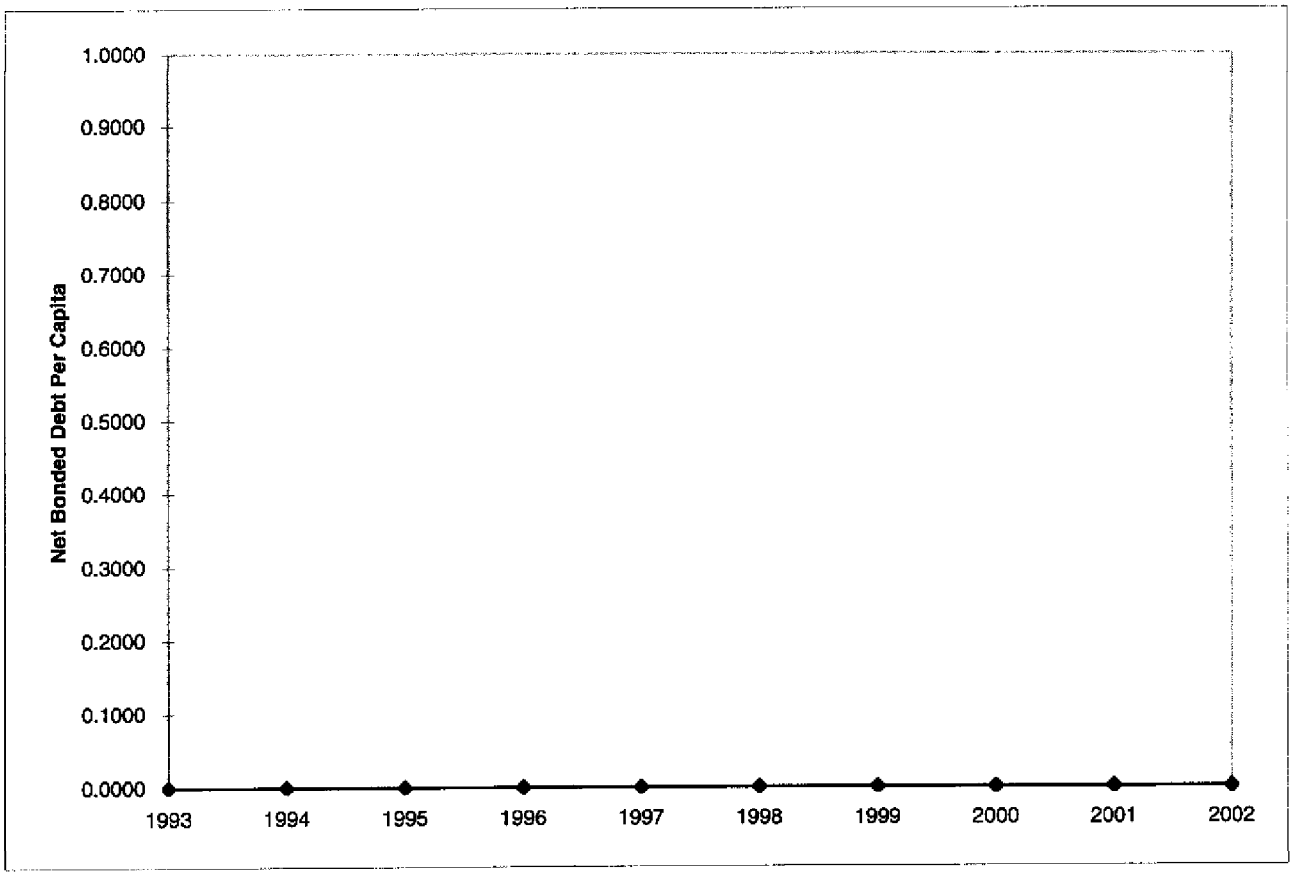
Fiscal Year	Special Assessment Billings	Special Assessment Collections
1993	N/A	2,987,726
1994	$ 2,686,176	1,883,891
1995	2,656,464	2,507,826
1996	1,382,183	1,353,589
1997	1,276,808	1,357,446
1998	2,331,787	2,591,476
1999	2,227,057	2,064,086
2000	2,920,472	3,016,811
2001	2,657,811	3,000,889
2002	3,294,976	3,381,575

Note: Information on Annual Billings was not available prior to the 1993-94 Fiscal Year. Collections include collection of taxes delinquent in prior year.

Sources: City of Morgan Hill Annual Financial Reports
NBS Government Finance Group Special Assessment Annual Reports

City of Morgan Hill, California

Net General Obligation Bonded Debt to Assessed Value/Net General Bonded Debt per Capita

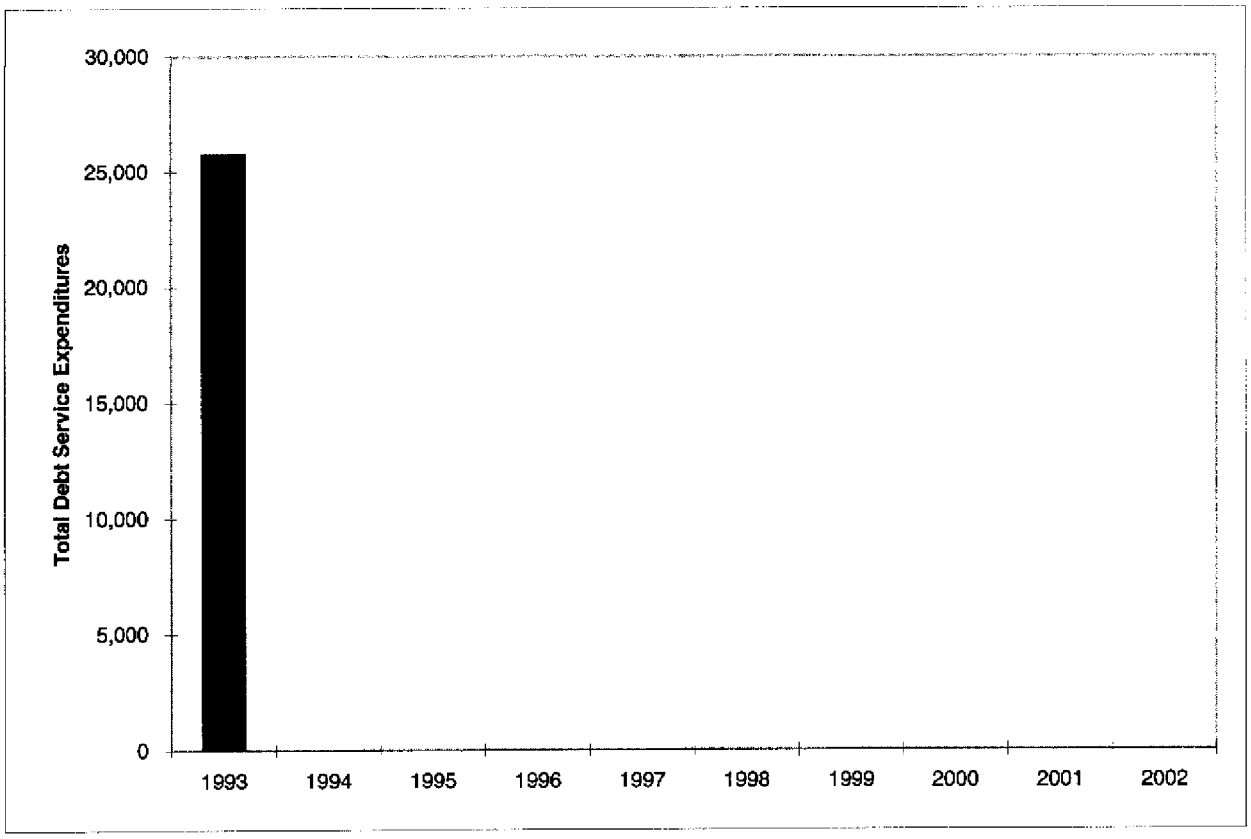


Fiscal Year	Population	Assessed Value	Outstanding Net General Bonded Debt	NetGeneral Bonded Debt Per Capita	Net General Bonded Debt to Assessed Value
1993	25,163	1,704,811,613	0	0.0000	0.0000%
1994	26,285	1,829,197,633	0	0.0000	0.0000%
1995	27,138	1,876,703,618	0	0.0000	0.0000%
1996	27,933	1,962,235,091	0	0.0000	0.0000%
1997	29,246	2,172,009,309	0	0.0000	0.0000%
1998	30,786	2,282,819,666	0	0.0000	0.0000%
1999	31,896	2,569,117,133	0	0.0000	0.0000%
2000	33,550	2,906,464,530	0	0.0000	0.0000%
2001	34,600	3,302,350,285	0	0.0000	0.0000%
2002	34,785	3,724,450,362	0	0.0000	0.0000%

Sources: City of Morgan Hill Annual Financial Reports
County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

General Bonded Debt Service Expenditures to Governmental Fund Expenditures

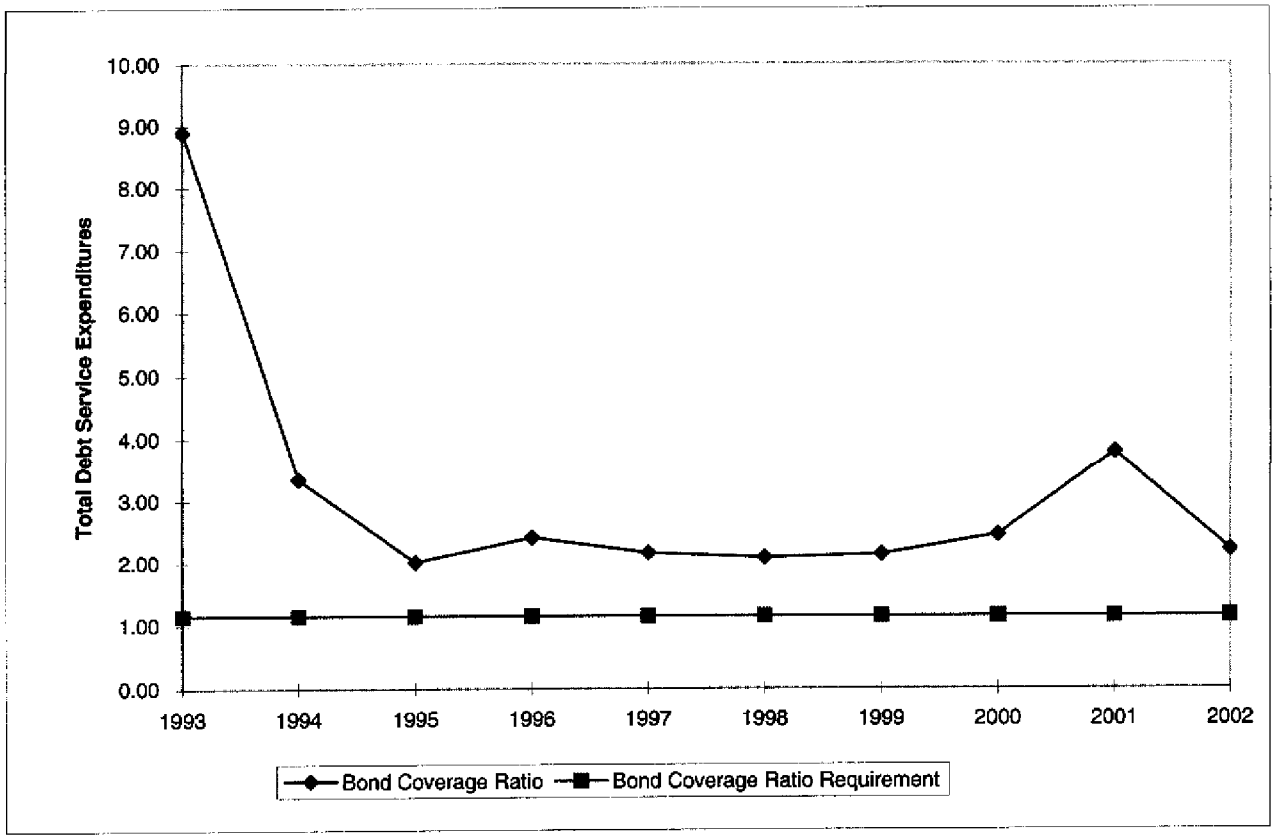


Fiscal Year	Principal	Interest and Fiscal Agent Charges	Total Debt Service	Total Governmental Fund Type Expenditures	Percent of Debt Service to Governmental Fund Expenditures
1993	25,000	729	25,729	27,473,195	0.09%
1994	0	0	0	22,873,533	0.00%
1995	0	0	0	20,313,961	0.00%
1996	0	0	0	21,887,648	0.00%
1997	0	0	0	20,867,358	0.00%
1998	0	0	0	25,294,655	0.00%
1999	0	0	0	26,132,092	0.00%
2000	0	0	0	29,956,545	0.00%
2001	0	0	0	31,766,520	0.00%
2002	0	0	0	48,258,871	0.00%

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Sewer Revenue Bond Coverage - Last Ten Fiscal Years



Fiscal Year	Gross Revenue	Direct Operating Expense	Net Revenue Available for Debt Service	Debt Service			Bond Coverage Ratio	Bond Coverage Ratio Requirement
				Principal	Interest	Total		
1993	4,397,244	1,416,692	2,148,571	30,000	211,839	241,839	8.88	1.15
1994	5,177,905	2,158,088	2,348,088	30,000	671,586	701,586	3.35	1.15
1995	6,676,176	2,337,546	3,188,863	35,000	1,547,408	1,582,408	2.02	1.15
1996	7,364,965	2,916,199	4,448,766	35,000	1,809,981	1,844,981	2.41	1.15
1997	7,588,490	3,034,977	4,553,513	505,000	1,599,054	2,104,054	2.16	1.15
1998	8,087,634	3,644,931	4,442,703	530,000	1,599,943	2,129,943	2.09	1.15
1999	8,107,084	3,500,574	4,606,510	560,000	1,592,583	2,152,583	2.14	1.15
2000	8,700,586	3,479,152	5,221,434	590,000	1,539,546	2,129,546	2.45	1.15
2001	9,596,371	3,309,528	6,286,843	625,000	1,035,311	1,660,311	3.79	1.15
2002	8,268,772	3,573,286	4,695,486	655,000	1,469,825	2,124,825	2.21	1.15

Note: Bond coverage ratio was calculated by dividing Net Revenue Available for Debt Service by Annual Debt Service Payment. Includes 1979 Sewer Revenue Bonds and Sewer Capacity Rights Payable. Includes both Sewer Operating and Sewer Mitigation Enterprise Funds.
Direct operating expense is net of depreciation and amortization.

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

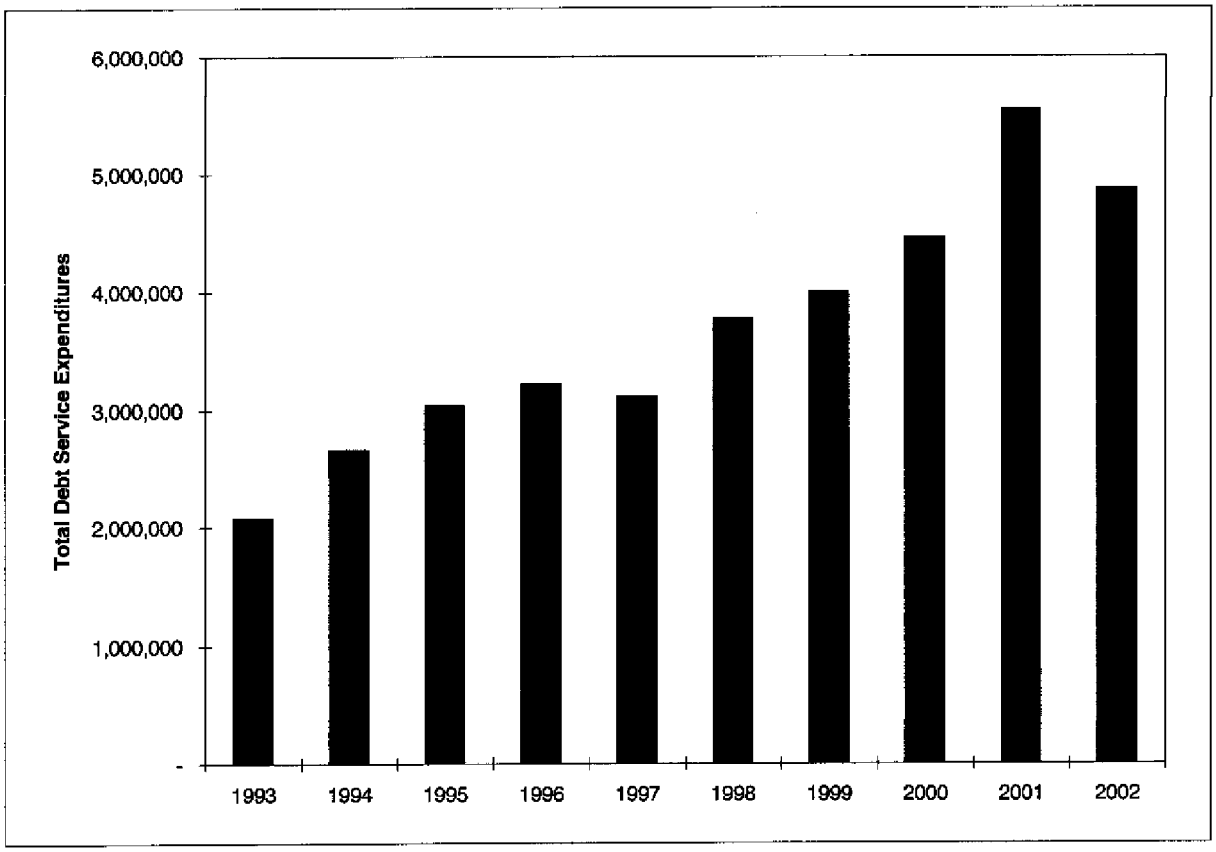
Computation of Legal Debt Margin
June 30, 2002

ASSESSED VALUE - SECURED PROPERTY			$ 3,527,696,005
Debt Limit Percentage			15%
Total Debt Limit			$ 529,154,401
AMOUNT OF DEBT SUBJECT TO LIMIT:			
Total Bonded Debt		$ 24,977,557	
Less:	Special Assessment Bonds	1,680,000	
	Capacity Rights Payable	23,297,557	
Amount of Debt Subject to Limit			0
LEGAL DEBT MARGIN			$ 529,154,401

Source: City of Morgan Hill Finance Department

City of Morgan Hill, California

Sales Taxes - Last Ten Fiscal Years



Fiscal Year	Sales Tax Received by City	% Change
1993	2,076,076	0.8%
1994	2,652,090	27.7%
1995	3,028,094	14.2%
1996	3,213,586	6.1%
1997	3,104,685	-3.4%
1998	3,762,371	21.2%
1999	3,990,716	6.1%
2000	4,454,774	11.6%
2001	5,532,132	24.2%
2002	4,870,295	-12.0%

Source: City of Morgan Hill Annual Financial Reports

Note: Above does not include public safety sales tax which is reported as funding from other governmental agencies.

City of Morgan Hill, California

Miscellaneous Statistics
June 30, 2002

General Information

Date of Incorporation	October 1906
Form of Government	Council/Manager
Area	12 square miles
Miles of Streets	104
Number of Street Lights	3,203
Taxable Sales	$487,029,500
Number of Registered voters	15,659
Median household income for Morgan Hill	$81,958
Elevation in feet	320
Building Permits Issued during year	1,457

Demographics:

Median Age	34.0
Median Persons per household	3.1
Population (consisting of)	
White	63%
Hispanic	28%
Asian	6%
Black	2%
Other	1%

Fire Protection:

Number of stations	2
Number of engines	3

Police Protection:

Number of stations	1
Number of personnel	50
Number of reserves	5
Number of police cars	27

Municipal Water Services:

Number of Active Accounts	11,028
Average Daily Consumption (gallons)	6,305,043
Miles of Water Mains	160
Pumping Capacity (gallons/day)	11,700,000

Sewer Services

Peak Flow (gallons/day)	5,209,000
Miles of sewer lines	135

Education:

Elementary Schools	11
Junior High and High Schools	4
Total Average Daily Attendance	8,500

Health Facilities:

Dentists and Optometrists	31
Physicians/Surgeons	28
Chiropractors	10
Physical Therapists	2
Medical Clinics	5
Veterinarians	4

Culture and Recreation:

Parks	9
Acres in parks	58
Libraries	1
Theaters	2
Churches	21
Radio Stations	2
Reservoirs	4

Employees:

Administration and Finance	37
Police Officers and Support Staff	50
Community Development	18
Public Works and Engineering	58
Economic Development	11
Police Dispatch Services	6
Total Employees	180

Property Tax Rates and Amount Levied:

Total (1)	1.08%	$ 40,119,779
City's Portion (2)	5.40%	$ 2,167,507

Note: (1) Excludes allocations collected by Special Assessment Districts.
(2) Excludes allocations collected by RDA.

Sources: Various School District Attendance and City Records, Morgan Hill Chamber of Commerce Directory

CITY OF MORGAN HILL
REDEVELOPMENT AGENCY

CITY OF MORGAN HILL, CALIFORNIA
REDEVELOPMENT AGENCY
GENERAL-PURPOSE
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

Redevelopment Agency of the City of Morgan Hill, California
(A Component Unit of the City of Morgan Hill)

General-Purpose Financial Statements
Year Ended June 30, 2002
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Redevelopment Agency of the City of Morgan Hill, California
(A Component Unit of the City of Morgan Hill)

General-Purpose Financial Statements
Year Ended June 30, 2002

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CITY OF MORGAN HILL
REDEVELOPMENT AGENCY

MORGAN HILL REDEVELOPMENT AGENCY

17555 PEAK AVENUE
MORGAN HILL, CA 95037-4128
TEL: 408-776-7373
FAX: 408-778-7869
WWW.MORGAN-HILL.CA.GOV

December 18, 2002

The Board of Directors
Redevelopment Agency of the City of Morgan Hill:

The General-Purpose Financial Statements of the Redevelopment Agency of the City of Morgan Hill for the Fiscal Year ended June 30, 2002, are submitted for your information and review. This document includes the auditor's report expressing an unqualified opinion on the financial statements by Caporicci & Larson, Certified Public Accountants, the Agency's independent auditor.

BACKGROUND ON THE REDEVELOPMENT AGENCY

The Redevelopment Agency of the City of Morgan Hill was established on November 20, 1980 to eliminate and reduce visual, economic, physical and social blight in the City, and more specifically within the redevelopment project area. In addition to these goals, the Agency is committed as well as obligated by law to increase and preserve the supply of affordable housing in Morgan Hill.

In March 1999, the Agency adopted a report to the City Council which supported amending the original 1981 Redevelopment Plan. The report concluded that there was still a need for redevelopment in Morgan Hill. In April 1999, the Agency amended its Redevelopment Plan to accomplish the following:

- Raise the cap as to the amount of tax increment which can be collected by the Agency from within the Project Area from $100 million to $247million, net of the required payment to affected taxing entities;
- Modify the projects list included in the original Redevelopment Plan;
- Extend the time limit on the establishment of loans, advances or indebtedness to finance, in whole or in part, the redevelopment project from the year 2001 to the year 2014;
- Extend the time for paying indebtedness or receiving property taxes from 2026 to 2031;

- Make clarifications and modifications to the original Redevelopment Plan including those which may be appropriate or necessary to ensure conformance with current redevelopment law.

In November, 1999 the voters of Morgan Hill strongly approved Measure D which supported the Agency Plan Amendment, thereby ratifying the changes outlined above.

The assessed valuation of the properties in the Ojo de Agua Project Area increased from $136,034,392 in 1981 to $1,660,563,839 for 2001/02. Through June 30, 2002, the Agency has collected approximately $139 million in tax increment.

KEY ACCOMPLISHMENTS FOR THE 2001/02 FISCAL YEAR

There have been significant accomplishments during the 2001/02 Fiscal Year, including:

Community Facilities:

- Began construction on the new Community & Cultural Center
- Acquired property for Aquatics Center, Sports Center, & Indoor Recreation Center
- Completed the design for the Community Playhouse and began construction
- Developed a conceptual design for an Indoor Recreation Center
- Provided an additional loan for relocation/rehabilitation of Morgan Hill School Building

Business Assistance Programs:

- Completed Small Business Loan Program guidelines & loan documents
- Provided grants/loans to Morgan Hill Charter School & Community Solutions for tenant improvements

Business Attraction/Retention:

- Assisted Santa Clara County in acquiring property for the Morgan Hill Courthouse
- Developed auto dealer strategy
- Worked to attract a Ford dealership
- Provided Ombudsman services to companies such as Alien Technology and Intercon Technologies for their new facilities
- Supported work of Morgan Hill Community Health Foundation to facilitate local medical services
- Helped to locate a Harley Davidson dealership in town
- Completed two business retention assistance agreements
- Assisted Safeway in its efforts to locate in Tennant Station

Planning and Studies:

- Assisted with the update of the Downtown Design Plan
- Worked with Downtown merchants and property owners to begin formation of a Downtown management organization

Marketing/Promotional Efforts

- Developed new Economic Development marketing brochure
- Working with Sister City Committee, established a relationship with San Casciano, Italy

Housing - New Construction

- With South County Housing, began development process to replace Alpine Trailer Park with a new 72-unit mixed-use housing and office project
- Completed construction of South County Housing's Villa Ciolino project, a blight elimination and renewal project containing 42 new affordable housing units
- Implemented RFP/RFQ process for development of Watsonville Road property for affordable housing
- Funded and began construction on first two phases (62 units) of First Community Housing's Murphy Ranch affordable rental housing project

Housing Rehabilitation Programs

- Provided a total of 134 Housing Rehabilitation Loans and Grants

Other Housing Programs

- Processed two loans under Police Officer Homebuyer Assistance Program
- Provided funding to Santa Clara County Housing Trust
- Prepared and implemented a work plan for the City's Comprehensive Housing Strategy
- Conducted a housing needs survey of Morgan Hill Unified School District employees

Below Market Rate (BMR) Housing

- Facilitated the development of 8 new and 8 resale Below Market Rate homes

GOALS FOR THE 2002/03 FISCAL YEAR

Community Facilities:

- Complete preliminary/final design for Indoor Recreation Center, Library, Aquatics Center, & Sports Complex
- Open the new Community & Cultural Center and Playhouse
- Pursue State funding for a new Library

Business Assistance Programs:

- Continue to promote and administer Redevelopment Agency business assistance programs
- Develop new programs to encourage economic development

Business Attraction/Expansion/Retention:

- Work with Santa Clara County to develop Morgan Hill Courthouse
- Attract major retailers, auto dealers, and high-tech businesses to Morgan Hill
- Work to retain existing businesses in Morgan Hill
- Help existing businesses expand

Historic Preservation:

- Develop action plan and schedule to relocate Acton Farmhouse and Morgan Hill Historical Museum to the Morgan Hill House site

Planning/Administration

- Update the assessment of Morgan Hill's economic base expansion potential for industrial and commercial development
- Prepare mid-term report on the Redevelopment Agency's 5-Year Implementation Plan

Marketing/Promotional Efforts

- Evaluate Chamber of Commerce's marketing plan for the City
- Implement auto dealer marketing strategy

Housing - New or Major Construction

- Continue construction on the Murphy Ranch affordable housing project
- Begin construction of the 72 unit "Church Street Trailer Park" mixed use housing and office project
- Develop at least one new affordable housing project

Housing Rehabilitation Programs

- Provide rehabilitation loans for at least twenty single-family units
- Process 105 grant applications for various Home Repair Programs
- Rehabilitate 6 rental housing units

BMR Housing

- Facilitate the resale or sale of at least 25 BMR units

Other Housing Programs/Projects

- Select developer and negotiate agreement for an affordable housing project on Agency owned property on Watsonville Road
- Complete and implement the City's Comprehensive Housing Strategy

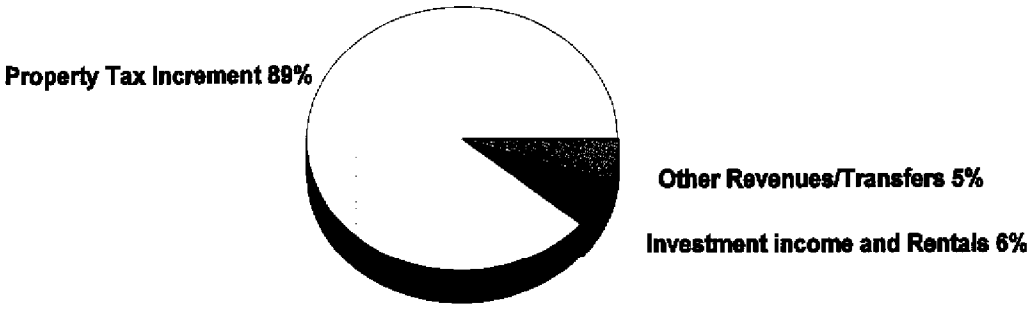
FISCAL YEAR 2001/02 FINANCIAL HIGHLIGHTS

Revenues

Redevelopment Agency revenues of $18.3 million and transfers in of $.2 million together totaled $18.5 million. Property taxes increased over the prior year by 8% as a result of increased property values. Investment income and rentals decreased 46% primarily because of lower interest rates and investment valuation fluctuations. Other revenues decreased by $659,883 primarily because $909,815 in one-time loan proceeds was received in the prior year from the California Housing Finance Agency (CHFA) to assist with the Agency's "HELP" program to help finance the Church Street Mixed Use Affordable Housing Project. Transfers in from other funds amounted to $212,882 in 2001/02. Revenues by source are summarized as follows:

Redevelopment Agency Revenues

Fiscal Year Ended June 30, 2002



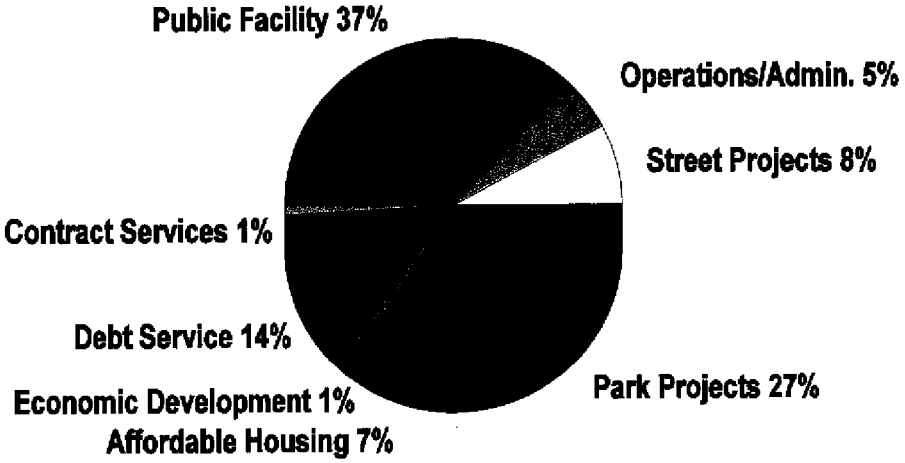
Redevelopment Agency Revenues	Amount	% of Total
Property Tax Increment	$ 16,539,296	89%
Investment income and Rentals	1,106,946	6%
Other Revenues/Transfers In	842,563	5%
Total Revenues	$ 18,488,805	100.0%

Expenditures

Redevelopment Agency expenditures of $24.4 million and $.2 million in transfers out together totaled $24.6 million. This was a $13.5 million, or 222%, increase compared to last year's combined expenditures and transfers out. The higher cost was related to major capital expenditures, including land acquisition, and to related debt service during 2001/02. Redevelopment Agency combined expenditures and transfers are summarized as follows:

Redevelopment Agency Expenditures

Fiscal Year Ended June 30, 2002



Redevelopment Agency Expenditures	Amount	% of Total
Affordable Housing	1,722,202	7%
Street Projects	1,930,706	8%
Park Projects	6,686,071	27%
Public Facility Projects	9,010,886	37%
Storm Drain Projects	3,870	0%
Economic Development	233,195	1%
Debt Service	3,550,000	14%
Operations/Administration	1,137,845	5%
Contract Services	283,233	1%
Total Expenditures	$ 24,558,008	100%

In summary, the attached financial statements for the Agency reflect a healthy financial position which will serve as the foundation upon which the Agency will move ahead with the major Redevelopment Plan projects and build upon past successes.

Sincerely,

Jack Dilles
Director of Finance

REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL

ELECTED OFFICIALS AND AGENCY STAFF AS OF JUNE 30, 2002

Dennis Kennedy	Chairperson
Hedy L. Chang	Vice Chairperson
Greg Sellers	Agency Member
Larry Carr	Agency Member
Steve Tate	Agency Member
Irma Torrez	Agency Secretary
J. Edward Tewes	Executive Director

Prepared By: Urban Futures, Inc.
Source: City of Morgan Hill, Public Works Dept.

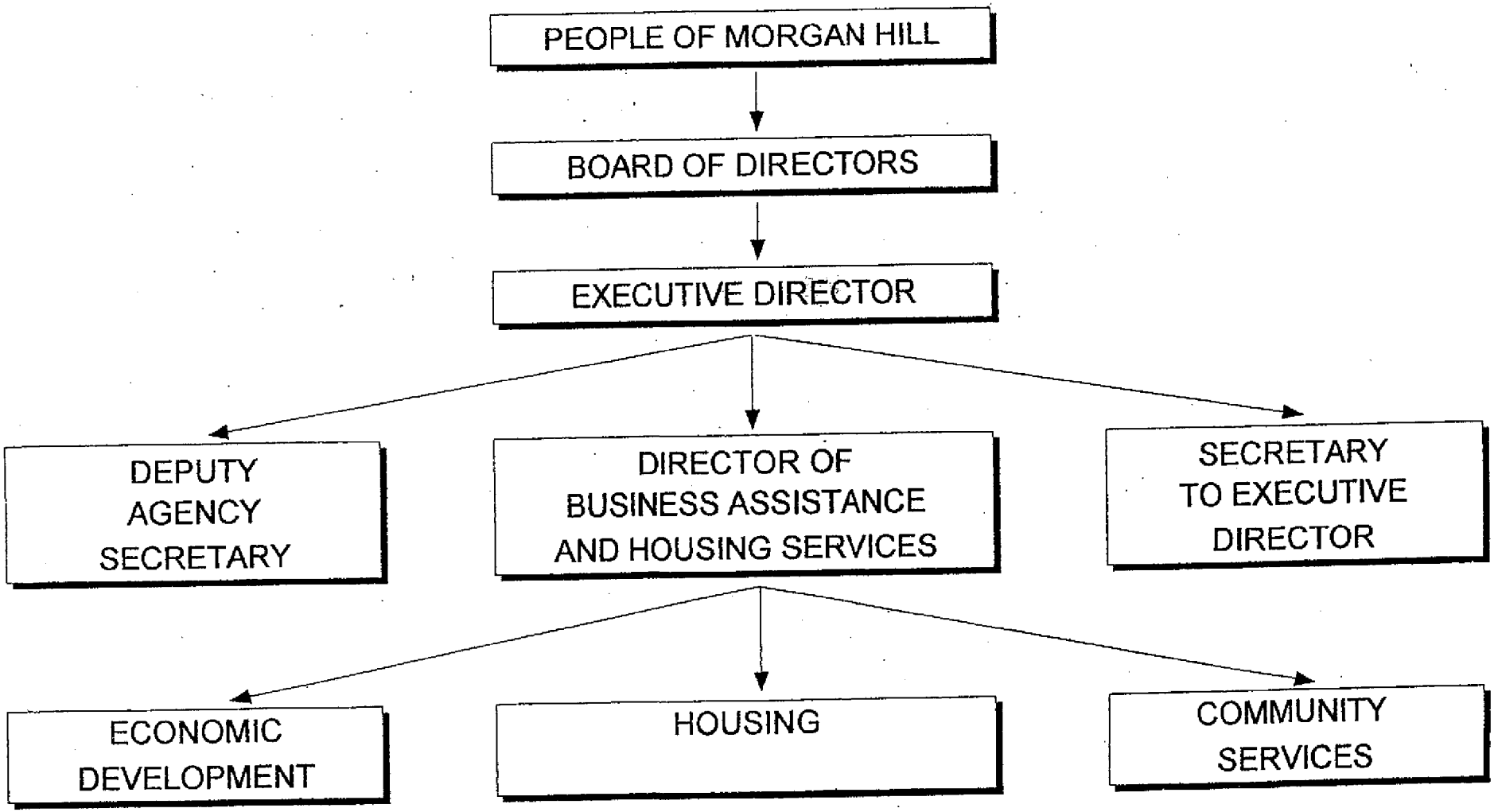
June 29, 1998, Revised: 10/16/

Ojo de Agua Community Development Project

Project Area Ma

MH_PA_Parcel_specific.wor

CITY OF MORGAN HILL REDEVELOPMENT AGENCY
ORGANIZATION CHART



C&L
Caporicci & Larson
Certified Public Accountants

Offices located in:
Bay Area
Orange County
Sacramento

INDEPENDENT AUDITORS' REPORT

To the Honorable Chairperson and Members of the
Redevelopment Agency of the City of Morgan Hill
Morgan Hill, California

We have audited the accompanying component unit financial statements of the Redevelopment Agency of the City of Morgan Hill (Agency) as of and for the year ended June 30, 2002, as listed in the foregoing table of contents. These component unit financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free from 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 component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2002, and the results of its operations for the year then ended in conformity with generally accepted accounting principles in the United States.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying supplemental information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Agency. This additional information is the responsibility of the management of the Agency. Such additional information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the component unit financial statements taken as a whole.

Caporicci & Larson

Oakland, California
October 11, 2002

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

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

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

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

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002
(With comparative totals for June 30, 2001)

	GOVERNMENTAL FUND TYPES	ACCOUNT GROUPS	
	Capital Project	General Fixed Assets	General Long-Term Obligations
Assets and Other Debits			
Assets:			
Pooled cash and investments (Note 4)	$ 26,176,025		
Receivables:			
Accrued interest	229,291		
Other accounts receivable	286,651		
Advance to the City			
Investment in properties held for resale	71,049		
Loans receivable (Note 6)	26,024,066		
General fixed assets (Note 5)		$ 33,136,597	
Other debits:			
Amount to be provided for retirement of general long-term obligations			$ 9,323,013
Total assets and other debits	**$ 52,787,082**	**$ 33,136,597**	**$ 9,323,013**
Liabilities, Fund Balances, and Other Credits			
Liabilities:			
Accounts payable	$ 2,623,173		
Accrued liabilities	21,365		
Vacation and compensated absence obligation	7,411		$ 31,342
Other long-term obligation			9,291,671
Deferred revenue (Note 6)	6,576,821		
Total liabilities	**$ 9,228,770**	**$ -**	**$ 9,323,013**
Fund balances and other credits:			
Investment in general fixed assets		$ 33,136,597	
Fund balances (Note 12):			
Reserved for:			
Advance to the City			
Encumbrances	$ 8,270,121		
Low and moderate income housing	3,640,281		
Noncurrent loans receivable	19,447,248		
Investment in properties held for resale	71,049		
Restricted Cash	67,159		
Unreserved:			
Designated for economic development	12,062,454		
Total fund balances and other credits	**$ 43,558,312**	**$ 33,136,597**	**$ -**
Total liabilities, fund balances and other credit	**$ 52,787,082**	**$ 33,136,597**	**$ 9,323,013**

TOTALS (Memorandum Only)	
2002	2001
$ 26,176,025	$ 27,716,840
229,291	345,947
286,651	147,392
	128,593
71,049	71,049
26,024,066	19,318,270
33,136,597	14,470,227
9,323,013	5,185,162
$ 95,246,692	**$ 67,383,480**
$ 2,623,173	$ 432,224
21,365	18,815
38,753	30,821
9,291,671	5,159,815
6,576,821	5,294,063
$ 18,551,783	**$ 10,935,738**
$ 33,136,597	$ 14,470,227
	128,593
8,270,121	3,342,232
3,640,281	18,583,334
19,447,248	1,591,928
71,049	71,049
67,159	
12,062,454	18,260,379
$ 76,694,909	**$ 56,447,742**
$ 95,246,692	**$ 67,383,480**

(Concluded)

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types

Year ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	GOVERNMENTAL FUND TYPES	TOTALS (Memorandum Only)	
	Capital Project	2002	2001
Revenues:			
Incremental property taxes	$ 16,539,296	$ 16,539,296	$ 15,299,316
Investment income and rentals	1,106,946	1,106,946	2,049,518
Fines, forfeitures, and other revenues	629,681	629,681	1,289,564
Total revenues	**$ 18,275,923**	**$ 18,275,923**	**$ 18,638,398**
Expenditures:			
Current:			
General government	$ 1,949,528	$ 1,949,528	$ 1,805,951
Capital outlay	18,847,777	18,847,777	3,101,269
Debt service:			
Principal	3,550,000	3,550,000	
Interest and fiscal charges			
Total expenditures	**$ 24,347,305**	**$ 24,347,305**	**$ 4,907,220**
Excess of revenues over (under) expenditures	$ (6,071,382)	$ (6,071,382)	$ 13,731,178
Other financing sources (uses):			
Operating transfers in	$ 212,882	$ 212,882	
Operating transfers (out)	(210,703)	(210,703)	$ (6,149,559)
Proceeds from long-term debt	7,650,000	7,650,000	
Total other financing sources (uses)	$ 7,652,179	$ 7,652,179	$ (6,149,559)
Net increase	**$ 1,580,797**	**$ 1,580,797**	**$ 7,581,619**
Fund balances - beginning of year	41,977,515	41,977,515	34,395,896
Fund balances - end of year	**$ 43,558,312**	**$ 43,558,312**	**$ 41,977,515**

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)

Combined Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year ended June 30, 2002

	CAPITAL PROJECTS FUNDS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Incremental property taxes	$ 14,548,000	$ 16,539,296	$ 1,991,296
Investment income and rentals	1,245,000	1,106,946	(138,054)
Fines, forfeitures, and other revenues	50,000	629,681	579,681
Total revenues	**$ 15,843,000**	**$ 18,275,923**	**$ 2,432,923**
Expenditures:			
Current:			
General government	$ 2,276,322	$ 2,003,893	$ 272,429
Capital outlay	43,940,577	27,063,533	16,877,044
Debt service:			
Principal		3,550,000	
Total expenditures	**$ 46,216,899**	**$ 32,617,426**	**$ 13,599,473**
Excess (deficiency) of revenues over (under) expenditures	$ (30,373,899)	$ (14,341,503)	$ 16,032,396
Other financing sources (uses):			
Operating transfers in		$212,882	(212,882)
Operating transfers (out)	($210,703)	(210,703)	
Proceeds from long-term debt		7,650,000	(7,650,000)
Total other financing sources (uses)	$ (210,703)	$ 7,652,179	$ 7,862,882
Net increase	**$ (30,584,602)**	**$ (6,689,324)**	**$ 23,895,278**
Adjustments to budgetary basis (Note 3)		8,270,121	
Fund balances - beginning of year		41,977,515	
Fund balances - end of year		**$ 43,558,312**	

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)

Combined Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year ended June 30, 2002

	TOTALS (Memorandum Only)		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Incremental property taxes	$ 14,548,000	$ 16,539,296	$ 1,991,296
Investment income and rentals	1,245,000	$ 1,106,946	(138,054)
Fines, forfeitures, and other revenues	50,000	$ 629,681	579,681
Total revenues	**$ 15,843,000**	**$ 18,275,923**	**$ 2,432,923**
Expenditures:			
Current:			
General government	$ 2,276,322	$ 2,003,893	$ 272,429
Capital outlay	43,940,577	27,063,533	16,877,044
Debt service:			
Principal		3,550,000	(3,550,000)
Total expenditures	**$ 46,216,899**	**$ 32,617,426**	**$ 13,599,473**
Excess (deficiency) of revenues over (under) expenditures	$ (30,373,899)	$ (14,341,503)	$ 16,032,396
Other financing sources (uses):			
Operating transfers in		$ 212,882	$ (212,882)
Operating transfers (out)	$ (210,703)	(210,703)	
Proceeds from long-term debt		7,650,000	(7,650,000)
Total other financing sources (uses)	$ (210,703)	$ 7,652,179	$ 7,862,882
Net increase	**$ (30,584,602)**	**$ (6,689,324)**	**$ 23,895,278**
Adjustments to budgetary basis (Note 3)		8,270,121	
Fund balances - beginning of year		41,977,515	
Fund balances - end of year		**$ 43,558,312**	

(concluded)

1. ORGANIZATION

The Redevelopment Agency of the City of Morgan Hill, California, (the Agency) was established by the City of Morgan Hill (the City) to provide an improved physical, social, and economic environment within the City. The current redevelopment plan was adopted on June 3, 1981, and was amended in the fiscal year 1996 for AB1290.

In April 1999, the Agency further amended its Redevelopment Plan to accomplish the following:

- Raise the cap as to the amount of tax increment which can be collected by the Agency from within the Project Area from $100 million to $247million, net of the required payment to affected taxing entities;
- Modify the projects list included in the original Redevelopment plan;
- Extend the time limit on the establishment of loans, advances or indebtedness to finance in whole or in part, the redevelopment project from the year 2001 to the year 2014;
- Extend the time for paying indebtedness or receiving property taxes from 2026 to 2031;
- Make clarifications and modifications to the original Redevelopment Plan including those which may be appropriate or necessary to ensure conformance with current redevelopment law.

In November, 1999 the voters of Morgan Hill strongly approved Measure D which supported the Agency Plan Amendment, thereby ratifying the changes outlined above.

The Agency generally finances redevelopment projects through the use of indebtedness collateralized by incremental property tax revenues. Base valuations were established for all properties in the Agency's Project Area at the time of the Agency's inception. Incremental property tax revenues result from increases in assessed valuations above these base valuations.

The Agency is a component unit of the City and has been blended into the City's general purpose financial statements as required by Statement No. 14 of the Government Accounting Standards Board (GASB). Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

Complete financial statements for the City may be obtained at the following address:

City of Morgan Hill
Attention: Finance Department
17555 Peak Avenue
Morgan Hill, CA 95037

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of the Agency have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The more significant accounting policies of the Agency are described in the following sections.

(a) *Basis of Presentation*

The accounts of the Agency are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be expended and the means by which spending activities are controlled. The Agency's funds are grouped in the general purpose financial statements as follows:

Capital Project Funds

The Capital Project Funds include a Capital Project Fund and a Low and Moderate Income Housing Fund. The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of capital facilities. The Low and Moderate Income Housing Fund is used for the incremental property tax revenues required to be set aside and used specifically for low and moderate income housing.

General Fixed Assets Account Group

Fixed assets of the Agency are accounted for in the General Fixed Assets Account Group.

General Long-Term Debt Account Group

Long-term liabilities, including the long-term portion of vested compensated absence obligations, are accounted for in the General Long-Term Debt Account Group.

(b) *Basis of Accounting*

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the combined financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Capital Projects fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Revenues considered susceptible to accrual include property taxes and interest income. Expenditures are generally recognized in the accounting period in which the liability is incurred, except for principal and interest on long-term debt, which is recognized when due and the long-term portion of compensated absences, which is recognized during the period it is expected to be paid.

The General Long-Term Debt Account Group includes long-term liabilities expected to be financed from incremental property taxes and other revenues accumulated in the Debt Service Fund.

(c) ***Budgetary Information***

The Agency adopts an annual operating budget for the Capital Projects fund. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the funds. The Agency Board may amend the budget during the fiscal year. The Executive Director is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the Agency Board. Unencumbered appropriations lapse at each fiscal year-end.

Budget proposals are prepared by each of the City's department directors for the Agency. The budget proposals and justifications are submitted to the City's Finance Department, which compiles the information and prepares the Agency's preliminary budget. The Agency Board reviews the preliminary budget at a meeting open to the public. Changes approved at this meeting are incorporated into the final budget. The final budget is then submitted to the Agency Board for adoption at a public hearing.

Any revisions that increase the total budgeted expenditures of any fund must be approved by the Agency board. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level. Budgeted amounts presented in the general-purpose financial statements are as originally adopted and include amendments approved by the Agency Board during the fiscal year.

(d) ***Encumbrances***

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all governmental funds. Encumbrances outstanding at year-end are reappropriated in the next year and reported as reservations of fund balances since they do not constitute expenditures or liabilities.

(e) ***Cash and Investments***

The Agency's cash and cash equivalents, excluding restricted cash and investments, are pooled and invested in the City's cash and investment pool. Cash and investments are stated at fair value. The fair value of investments is determined annually and is based on current market prices. Investment income earned on the commingled pool is allocated quarterly among the funds based upon the average daily balance of cash maintained by each fund.

Realized gains or losses on securities included in the investment portfolio are recognized at the end of each year or when the related security is sold. Investments in securities purchased with the intent to trade for a profit are prohibited by City policy.

The Agency considers all highly liquid investments with a maturity of three months or less when purchased and all funds held in its commingled pool that are available to it and have the general characteristics of demand deposit accounts to be cash equivalents. Cash and investments that are restricted for specified uses by bonded debt or other requirements are classified as restricted cash and investments.

(f) ***General Fixed Assets***

General fixed assets have been acquired for the Agency's general purposes and for long-term future redevelopment. Assets purchased are recorded as expenditures and are capitalized in the General Fixed Assets Account Group. Purchased fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are recorded at the estimated fair value at the time the asset is received. No depreciation has been provided on general fixed assets.

Public domain general fixed assets, consisting of certain improvements other than buildings, and including assets such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems, are not capitalized and are not included in the General Fixed Assets Account Group. Such assets are normally immovable and of value only to the Agency, therefore, the purpose of stewardship for capital expenditures is satisfied without recording such assets.

(g) ***Accrual for Vacation, Sick Leave, Compensatory Time, and Post-Employment Benefits***

Vested vacation, sick leave, and compensatory time are accrued, as benefits are earned, for all the Agency's fund types. The long-term portion of this liability is recorded in the General Long-Term Debt Account Group.

The Agency's employees may accrue vacation and compensatory time for which they may be compensated upon termination at current hourly rates. The accrual rates vary depending on employee classification and years of service.

Sick leave is accrued at a rate of one day a month. Sick leave accruals are carried forward to the next year; however, at the end of the calendar year, unless otherwise requested, 25% of each employee's sick leave accrual for that year which has not been used is paid to the employee. Upon retirement or leave from the Agency, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employees' Retirement System (CalPERS).

Upon retirement from the Redevelopment Agency of the City of Morgan Hill, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employee's Retirement System (CalPERS).

The Agency participates in the CalPERS Health Program. This program provides medical insurance coverage for both current employees and retirees. Participating employers must contribute toward the cost of the health premiums for both employee groups. The employer has chosen to contribute under the unequal contribution option. The unequal contribution option requires an initial employer contribution for each retiree of $1.00 per month, with annual increases of at least 5 percent of the employer's monthly contribution of $16.00 toward the premium for each active employee, until such time as the contribution for employees and retirees are equal.

(h) ***Restricted Assets***

Assets which are restricted for specified uses by grant provisions, or other requirements are classified as restricted assets.

(i) ***Interfund Transactions***

Interfund transfers which represent operating subsidy transfers are treated as operating transfers. Nonrecurring transfers of equity between funds are approved by the Agency Board and reported as residual equity transfers.

(j) ***Property Tax Levy, Collection, and Maximum Rates***

The state of California's (the State) Constitution, Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. The State legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

Santa Clara County (the County) assesses properties, bills for, collects, and distributes property taxes and special assessments as follows:

Date Category	Secured	Unsecured
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (For November) April 10 (For February)	August 31

Taxes on real estate, land, and buildings are secured by liens on the property being taxed.

(k) ***Income Taxes***

The Agency falls under the purview of the Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

(l) ***Investment in Properties Held for Resale***

The Agency purchases housing units and other properties for redevelopment within the Agency's Project Area. The cost of agency properties held for resale is capitalized in the Agency's Capital Project Funds, at the lower of acquisition cost or net realizable value.

(m) ***Estimates***

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

(n) ***Total Columns***

The total columns in the accompanying general-purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate additional analysis. The data in these columns is not comparable to a consolidation and does not present financial position or results of operations in conformity with generally accepted accounting principles. Eliminations of interfund activity have been made within fund types but not between fund types.

3. BUDGETARY INFORMATION

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). The results of operations are presented in the accompanying budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The difference between the budgetary basis and the GAAP basis is that year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures for the GAAP basis.

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a GAAP basis is as follows:

	Capital Projects Fund
Expenditures - combined statement of revenues, expenditures, and changes in fund balances (GAAP basis)	$15,081,958
Plus: Encumbrances	8,260,172
Expenditures - budgetary basis	**$23,342,130**

4. CASH AND INVESTMENTS

The Agency's unrestricted cash and cash equivalents are included in the City's cash and investment pool. The City's pooled cash and investments consist of cash in banks, U.S. government securities, mutual funds, and deposits in the State's Local Agency Investment Fund (LAIF) as authorized by State statutes and the City's Investment Policy.

Additional information regarding insurance, collateralization, and custodial risk categorization of the City's pooled cash and investments is presented in Note 4 of the City's general-purpose financial statements.

Cash and investments are comprised of the following amount as shown at fair value on the general-purpose financial statements:

Cash Investments	$26,176,025

5. GENERAL FIXED ASSETS

The following is a summary of the Agency's general fixed assets as of June 30, 2002:

Fixed Asset Category	Carrying Value
Land	$17,848,623
Buildings and improvements	6,250,913
Machinery, equipment and	146,320
Construction in progress	8,890,741
Total general fixed assets	**$33,136,597**

Changes in the Agency's general fixed assets for the year ended June 30,2002 were as follows:

Fixed Asset Category	Balance July 1,2001	Additions	Transfers/ Retirements	Balance June 30,2002
Land	$10,483,145	7,365,478		$17,848,623
Buildings and Improvements	2,773,627	3,477,286		6,250,913
Machinery, equipment, and vehicles	136,679	9,641		146,320
Construction in progress	1,076,776	7,813,965		8,890,741
Totals for general fixed assets	**$14,470,227**	**18,666,370**	**0**	**$33,136,597**

6. LOANS RECEIVABLE

The Agency's loans receivable as of June 30, 2002 totaled $26,024,066. These consisted of the following types of loans receivable:

(a) *Housing Rehabilitation Loans ($1,479,819)*

The Agency administers a home improvement revolving loan fund using Agency Housing monies. The program provides below market rate loans, secured by deeds of trust, to eligible participants for housing rehabilitation. Although payments for most loans are

amortized over an established payment schedule, some loans allow for deferred payment of accrued interest and principal until the homeowner's property is sold or transferred, primarily for seniors and very low income families. Repayments received from the outstanding loans are used to make additional housing rehabilitation loans. As of June 30, 2002, the Agency had $1,479,819 of these loans outstanding.

(b) ***Jasmine Way ($648,476)***

The Agency also issued "sweat equity" loans in 1989, secured by deeds of trust, to 15 low and moderate income families to purchase homes. Interest accrues at the rate of 7% annually for 10 years after the execution of the loan. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 10 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2002, the Agency had $648,476 of these loans outstanding.

(c) ***Sunrise Meadows ($2,918,209)***

The Sunrise Meadows project consisted of 24 self-help homes reserved for low income households, and 36 contractor-built units reserved for those at median income. The Agency purchased the project (including land and all entitlements) for $1,670,000. The entire project was then sold to South County Housing for this same amount. The Agency attached a third trust deed on each of the 24 self-help units for loan amounts varying from $50,000 to $100,000 each. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 20 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2002, $2,918,209 of loans were outstanding.

(d) ***San Pedro Gardens ($1,242,580)***

The San Pedro Gardens project consisted of 20 rental apartments and 16 self-help owner built units. The Agency issued a loan for $825,000 in June 1991, secured by a third trust deed, with the following repayment terms:

•Of the total loan, $400,000 has been split into 16 individual loans, secured by deeds of trust on the individual properties. The loan agreements allow the Agency to repurchase units during the first 4 years of ownership at a restricted sales price, and at market rates thereafter. If the borrower has occupied the unit for 20 years, 10% of the balance outstanding will be forgiven each year and the loan will be totally canceled at year 30. As of June 30, 2002, the balance for these loans was $805,804.

•The remaining $425,000 of the loan will accrue simple interest at 1% per year. Interest payments only are due on May 1st of each year payable solely from the surplus funds in the borrower's ground lease rent fund. Portions not paid due to insufficient funds shall accrue and be due on May 1st of the following year until paid. All principal and interest remaining unpaid shall be due and payable on June 15, 2021. As of June 30, 2002 the Agency had a $425,000 loan outstanding in its Capital Project Funds. At June 30, 2002 the loan had accrued interest of $11,776 bringing the loan balance to $436,776.

(e) ***Abbott Critical Care Systems ($813,132)***

On September 20,1995, the Agency approved an agreement with Abbott Critical Care Systems (Abbott), which offered them $2.275 million in financial incentives, which included right-of-way purchase and traffic fee credits, to move their laboratories to the Morgan Hill Business Ranch within the City limits. In addition, the Agency approved a loan in the amount of $610,000 to Abbott with a 5% interest rate. Part or all of this interest may be forgiven if Abbott begins construction on its second phase within the first five years. At June 30, 2002 the loan has accrued interest of $203,131 bringing the loan balance to $813,132.

(f) ***Morgan Hill Ranch Family Housing ($3,289,625)***

The Morgan Hill Ranch Family Housing Project (Project) consists of up to one hundred (100) residential rental units and a day care center in the Project area. Ecumenical Association for Housing (Association) developed the Project and received approval from the City Council for an allocation of fifty (50) affordable housing units pursuant to Measure P for fiscal year 1996/1997, and an additional fifty (50) affordable housing units for fiscal year 1997/1998. The Agency made a principal predevelopment loan of $10,000 in fiscal year 1995/1996 and principal development loan of $610,579 in fiscal year 1996/1997. The Agency provided an additional loan for land acquisition and construction costs in the amount of $2,524,585 in fiscal year 1997/1998. Commencing on the date of the first disbursement of the loans the loans accrue simple interest at 3% per annum. At June 30, 2002, the loan had accrued interest of $169461, bringing the loan balance to $3,289,625. The Association will begin making payments on its loans on the first May 1 following the calendar year in which the Morgan Hill Ranch Family Housing units are first occupied. All loans are secured by deeds of trust.

(g) ***Village Avante Apartments ($1,665,437)***

On June 1, 1999, the Agency entered into an agreement with Don Avante Family Homes, Inc. to lend the lesser of $1,540,000 or so much as shall be disbursed under the loan agreement for the acquisition and rehabilitation of the existing Village Avante 112-unit housing project located in the identified Agency Project Area. The loan accrues simple interest at a rate of 4% per annum on the unpaid balance with annual payments until April 1, 2039 and is secured by a deed of trust. The current unpaid balance as of June 30, 2002 was $1,665,437.

(h) ***Village Avante Apartments 2 ($672,173)***

On March 22, 2000, the Agency Board authorized a loan to Don Avante Associates II in the amount of $640,000. This loan is to provide more attractive and durable landscaping, new steel-post privacy fencing at each patio and new black vinyl-coated chain link fencing along the west property line. The loan also included provisions for site and street lighting to create a safer environment at night. The note is a residual receipts note with a 40-year term. It accrues simple interest at a rate of 4% per annum and is secured by deed of trust. The balance at June 30, 2002 was $672,173.

(i) ***Villa Ciolino ($2,596,727)***

On November 23, 1999, the Agency Board approved a loan of $1.9 million to South County Housing Corporation to acquire a blighted trailer park and housing project. Under the terms of the loan, South County Housing will remove and replace 21 occupied but dilapidated

housing units, rehabilitate 8 more, and add 13 additional apartments to create a new 42-unit rental housing complex. The loan is a residual receipt note in second position, at 4% compounded annually, with a term of 55 years, and is secured by deed of trust.

On December 15, 1999, the Agency Board modified the interest rate from compound to simple. On June 28, 2000, the loan was further modified by approving an increase of $475,000 to cover the additional costs of material and labor incurred because of an increased scope for off-site work and because of the pressures of a very busy construction market place. The balance at June 30, 2002 was $2,596,727.

(j) ***Church Street Apartments ($3,163,259)***

On August 31, 2000, the Redevelopment Agency Board entered into an agreement to loan $1.35 million to South County Housing to purchase two parcels and develop an affordable housing project. On December 6, 2000 the Agency Board approved additional funding to the Church Street apartments housing project in the amount of $1.9 million for the acquisition of four vacant parcels. This housing project will combine up to 72 residential family apartment to lower income families including a minimum of 23 replacement units and approximately 10,000 square feet of commercial space. The apartment units will be located in 2 and 3 story buildings with up to 12 units located on the second floor of the commercial building. The loan is secured by a deed of trust. The balance of the Church Street loan at June 30, 2002 was $3,163,259.

The California Housing Finance Agency (CHFA) will be reimbursing the Agency for part of this disbursement through its HELP program. The Agency Board approved the CHFA loan in the amount of up to $1 million. This is an unsecured loan to the Agency for use as "holding" funds for housing projects in development.

(k) ***Murphy Ranch ($4,634,415)***

On August 8, 2001 the Redevelopment Agency of the City of Morgan Hill entered into a loan agreement in the amount of $3,300,000 with Murphy Ranch, L.P. The purpose was to fund the acquisition of property and the predevelopment, infrastructure and related costs of the development of the first 62 units of a 100 unit affordable residential complex. The term of the loan is 55 years and bears simple interest at 4%. Payments are received annually. On May 7, 2002 the agreement was amended to increase the principal amount of the promissary note by $1,990,000, increasing the total commitment to $5,290,000. At June 30, 2002 there was a balance due to the Agency in the amount of $4,634,415.

(l) ***Other Owner Participation and Disposition, Development and Construction Loan Agreements ($2,900,215)***

The Agency has issued loans for several other projects, all of which are secured by a deeds of trust. Detailed information for these loans is as follows:

Project Name	Loan Balance Outstanding	Interest Rate	Maturity Date	Special Provisions of Loan
Morgan Hill Grange	$614,681	7.0%	2026	Loan will be forgiven at maturity unless property is transferred or debtor is in violation of loan covenants
Woodland Hill	69,654	various	various	various
Bridge Counseling Center	94,850	3.0%	2020	Interest and principal due at maturity
Methodist Church	25,566	None	2005	Entire balance due if property sold or leased other than to a nonprofit organization
Sycamore Glen	310,000	4.6%	2028	Interest and principal due at maturity
South County Housing (Skeels)	227,585	3.0%	2005	Interest and principal due at maturity
Police Housing	46,816	6.1%	2020	Interest and principal deferred 5 yrs and must be police officer of the City
GMP Metal Plating	3,333	None	2002	None
Specialized Loan	464,048	6.0%	2039	After 10 years, interest free
MH School relocation	1,019,396	6.0%	2025	Interest and Principal deferred for 10 years
Gayle Richter	24,286	6.5%	2016	None
Total	$2,900,215			

Recognition of Valuation Allowance by Recording Deferred Revenue for Loans Receivable

The Agency has recognized a valuation allowance by recording deferred revenue for the portion of loans where there is a significant possibility that they will become uncollectible or be forgiven at a future date if all of the terms of the loans have been met. The remaining balance is offset by reserved fund balance.

Loans Receivable:

Balance outstanding as of June 30, 2002	$26,024,066
Less deferred revenue	6,576,820
Reserved Fund Balance	$19,447,246

7. LONG-TERM DEBT

(a) *Summary of Changes in Long-Term Obligations*

Type of Debt	Balance July 1,2001	Retirement /Additions	Balance June 30, 2002
CHFA Loan	909,815	31,857	941,672
Gunderson Property	4,250,000	(1,000,000)	3,250,000
Sports Complex Property		5,100,000	5,100,000
Compensated Absences	25,347	5,994	31,341
Total	$5,185,162	$4,137,851	$9,323,013

(b) *Long term debt*

The Redevelopment Agency had $9,323,013 in long-term debt as of June 30, 2002 comprised of $941,672 for the California Housing Finance Agency (CHFA) loan, $4,250,000 for the Gunderson property purchase, $5,100,000 for the purchase of the Soccer Complex property and $31,341 for compensated absences.

On October 5, 2000, the Agency entered into a loan agreement with CHFA. This HELP loan is to be used as a revolving source of funds for the purpose of making loans to property owners or operators for acquisition and predevelopment expenses associated with the aggregation of parcels for multifamily rehabilitation and/or new construction developments. This loan is for the South County Housing Church Street project. The loan payment has been deferred for 10 years. At June 30, 2002 the loan had a principal balance of $909,815 and deferred interest of $31,856 for a total outstanding balance of $941,671.

On April 26, 2001 the Agency entered into a loan agreement for property acquisition of the Gunderson property in the amount of $4,250,000. This loan is to be paid in two installments. The first installment in the amount of $1,000,000 was paid on April 26, 2002 and the second installment will be paid on April 26, 2004.

On July 25, 2001 the Agency entered into a purchase agreement for property to be used as the future site of the sports complex. The original amount of the loan was $7,650,000. Installments of $2,550,000 are due annually in July until paid in full. The balance of this loan at June 30, 2002 was $5,100,000.

(c) *Bonds for which the Agency has No Obligation - La Crosse Village Project*

As of June 30, 2002, the Agency had approximately $4,600,075 outstanding in tax exempt multifamily mortgage revenue bonds due through December 1, 2027. These bonds were issued to provide funds for secured mortgage loans to builders of a multifamily housing project, the La Crosse Village Project. The purpose of the program is to provide needed rental housing for low to moderate income households. The Agency is required to set aside 20% of all units built in this project for low to moderate income households. The bonds are payable solely from payments made on the related secured mortgage loans. The unpaid balance is insured by mortgage guaranty insurance of the Federal Housing Authority (FHA).

In the opinion of the Agency's officials, these bonds are not payable from any revenues or assets of the Agency. Neither the faith and credit nor the taxing power of the Agency, the State, or any political subdivision thereof is pledged for the payment of the principal or interest on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying combined financial statements.

8. EMPLOYEES' RETIREMENT PLAN

The Agency, in conjunction with the City, contributes to the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Additional information regarding the description of the plan, funding status and progress, contribution requirements and trend information is presented in Note 10 and Note 17 of the City's general purpose financial statements.

9. FUND EQUITY

Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion which is not available for appropriation or expenditure, or is legally segregated for a specific future use. Fund balance reserves as of June 30, 2002, were as follows:

Description of Fund Balance Reservation	Amount
Reserved for Restricted Cash	67,159
Reserved for encumbrances to reflect outstanding contractual obligations for which goods and services have not been received	8,270,121
Reserved for low and moderate income housing to reflect the portion of the Agency's property tax revenues that are restricted for low and moderate income housing projects	3,640,281
Reserved for noncurrent loans and notes receivable	19,447,248
Reserved for investment in properties held for resale	71,049
Total fund balance reserves	**$31,495,858**

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as general contingencies or capital projects. Such plans or intent are subject to change, and have not been legally authorized or may not result in expenditures. The Agency has designated $12,062,454 of its fund balance for future economic development.

10. RELATED PARTIES

The City Council serves as the governing body of the Agency. The City also provides substantially all administrative services to the Agency. In fiscal year 2001/2002, the City charged the Agency approximately $509,621 for administrative services.

11. COMMITMENTS

(a) *Low and Moderate Income Housing Requirements of the Agency*

California Health and Safety Code, Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the Low and Moderate Income Housing Fund to account for this commitment and has reserved $3.640,281 for such expenditures. The Agency has expended approximately $31,962,170 for low and moderate income housing since its inception.

(b) *Redevelopment Plan Requirements*

Effective January 1, 1996, the State legislature passed Assembly Bill 1290 (AB 1290). This legislation imposes several new requirements on redevelopment agencies and permits the establishment of new time limits for the issuance of debt, plan termination, and the collection of tax increment. The Agency amended its redevelopment plan during the year ended June 30, 1995 to be in accordance with these requirements.

As part of AB 1290, the Agency is required to report any "excess surplus" to the Federal Department of Housing and Community Development. An excess surplus exists for a fiscal year if the unencumbered balance at year-end in the Agency's Low and Moderate Income Housing Fund exceeds the greater of $1 million or the aggregate amount of tax increments deposited into this fund during the preceding four fiscal years. If any excess surplus is not spent or encumbered within three years it must be transferred to the County's housing authority. The Agency did not have any excess surplus housing funds for the fiscal year ended June 30, 2002, based on calculations by the Agency's management.

As detailed in the current redevelopment plan amended November 1999, the maximum amount of tax increment revenue that the Agency may collect over its lifetime is $247 million. The Agency had collected approximately $139 million of tax increment revenue from its inception through June 30, 2002, leaving approximately $108 million available to be collected in the future through the year 2031.

(c) *Risk Management*

The Agency is insured as a component unit of the City for workers' compensation, unemployment, and general liability claims. The City participates in a self-funded pooled insurance corporation, the Association of Bay Area Governments Pooled Liability Assurance Network (ABAG-PLAN), established by a joint powers authority in which the City is a member. The pooled insurance corporation provides additional general liability and workers' compensation insurance up to specified limits. Additional disclosures required under GASB Statements No. 10 and 30 and information regarding the City's insurance is presented in Note 15 of the City's general purpose financial statements.

With respect to the general liability accrual, the City and Agency have several unsettled lawsuits filed or claims asserted against them as of June 30, 2002. The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City or Agency. As a result of such review, the City has categorized such claims and lawsuits as "remote" loss contingencies, as defined in Financial Accounting Standards Board (FASB) Statement No. 5.

The final outcome of other claims and lawsuits which have been categorized as reasonably possible or remote loss contingencies is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying combined financial statements relative to the potential outcome of such claims and lawsuits. However, the ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying combined financial statements.

Complete financial statements for ABAG-PLAN may be obtained from their administrative offices at the following address:

ABAG Plan Corporation
Finance Department
P.O. Box 2050
Oakland, CA 94604

(d) ***Construction and Other Significant Commitments***

As of June 30, 2002 the Agency had committed $8,190,777 for the completion of capital improvement projects. The projects are as follows:

Community Center construction	$ 5,200,989
Indoor Recreation Center design	171,332
Community Playhouse	2,454,306
Pavement rehabilitation	158,749
Other	205,401

CITY OF MORGAN HILL
REDEVELOPMENT AGENCY

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)
Capital Project Funds
Combining Balance Sheet
June 30, 2002
(With comparative totals for June 30, 2001)

	Capital Project Fund	Low and Moderate Income Housing	TOTALS 2002	TOTALS 2001
Assets				
Pooled cash and investments	$22,196,013	$ 3,980,012	$ 26,176,025	$ 27,716,840
Receivables:				
Accrued interest	194,636	34,655	229,291	345,947
Other accounts receivable	228,128	58,523	286,651	147,392
Advance to the City				128,593
Investment in properties held for resale	71,049		71,049	71,049
Loans receivable	3,274,441	22,749,625	26,024,066	19,318,270
Total assets	**$ 25,964,267**	**$ 26,822,815**	**$ 52,787,082**	**$ 47,728,091**
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 2,212,695	$ 410,478	$ 2,623,173	$ 432,224
Accrued liabilities	11,047	10,318	21,365	18,815
Vacation and compensated absence obligation	5,249	2,162	7,411	5,474
Deferred revenue	999,969	5,576,852	6,576,821	5,294,063
Total liabilities	**$ 3,228,960**	**$ 5,999,810**	**$ 9,228,770**	**$ 5,750,576**
Fund balances:				
Reserved for:				
Advance to the City	$ -			$ 128,593
Encumbrances	8,260,172	$ 9,949	$ 8,270,121	3,342,232
Low and moderate income housing		3,640,281	3,640,281	18,583,334
Noncurrent loans receivable	2,274,473	17,172,775	19,447,248	1,591,928
Investment in properties held for resale	71,049		71,049	71,049
Restricted cash	67,159		67,159	
Unreserved:				
Designated for economic development	12,062,454		12,062,454	18,260,379
Total fund balances	**$ 22,735,307**	**$ 20,823,005**	**$ 43,558,312**	**$ 41,977,515**
Total liabilities and fund balances	**$ 25,964,267**	**$ 26,822,815**	**$ 52,787,082**	**$ 47,728,091**

(Concluded)

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)

Capital Project Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2002

(With comparative totals for the year ended June 30, 2001)

	Capital Project Fund	Low and Moderate Income Housing	TOTALS 2002	TOTALS 2001
Revenues:				
Incremental property taxes	$12,977,638	$ 3,561,658	$ 16,539,296	$ 15,299,316
Investment income and rentals	867,179	239,767	1,106,946	2,049,518
Fines, forfeitures, and other revenues	587,968	41,713	629,681	1,289,564
Total revenues	**$ 14,432,785**	**$ 3,843,138**	**$ 18,275,923**	**$ 18,638,398**
Expenditures:				
Current:				
General government	$ 1,238,171	$ 711,357	$ 1,949,528	$ 1,805,951
Capital outlay	17,943,787	903,990	18,847,777	3,101,269
Debt service:				
Principal (Note 8)	3,550,000		3,550,000	
Total expenditures	**$ 22,731,958**	**$ 1,615,347**	**$ 24,347,305**	**$ 4,907,220**
Excess of revenues over expenditures	$ (8,299,173)	$ 2,227,791	$ (6,071,382)	$ 13,731,178
Other financing (uses):				
Operating transfers in	$ 212,882		$ 212,882	
Operating transfers (out)	(103,848)	$ (106,855)	(210,703)	$ (6,149,559)
Proceeds from long-term debt	7,650,000		7,650,000	
Total other financing (uses)	$ 7,759,034	$ (106,855)	$ 7,652,179	$ (6,149,559)
Net increase (decrease)	**$ (540,139)**	**$ 2,120,936**	**$ 1,580,797**	**$ 7,581,619**
Fund balances - beginning of year	23,275,446	18,702,069	41,977,515	34,395,896
Fund balances - end of year	**$ 22,735,307**	**$ 20,823,005**	**$ 43,558,312**	**$ 41,977,515**

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	CAPITAL PROJECT FUND		
	Revised Budget	**Actual Plus Encumbrances**	**Favorable (Unfavorable) Variance**
Revenues:			
Incremental property taxes	$ 11,642,000	$ 12,977,638	$ 1,335,638
Investment income and rentals	948,000	867,179	(80,821)
Fines, forfeitures, and other revenues	50,000	587,968	537,968
Total revenues	**$ 12,640,000**	**$ 14,432,785**	**$ 1,792,785**
Expenditures:			
Current:			
General government	$ 1,430,033	$ 1,288,046	$ 141,987
Capital outlay	34,635,842	26,154,084	8,481,758
Debt service:			
Principal		3,550,000	(3,550,000)
Total expenditures	**$ 36,065,875**	**$ 30,992,130**	**$ 5,073,745**
Excess of revenues over expenditures	$ (23,425,875)	$ (16,559,345)	$ 6,866,530
Other financing (uses):			
Operating transfers in		$ 212,882	$ (212,882)
Operating transfers (out)	$ (103,848)	(103,848)	
Proceeds from long-term debt		7,650,000	(7,650,000)
Total other financing (uses)	$ (103,848)	7,759,034	$ 7,862,882
Net increase (decrease)	**$ (23,529,723)**	**$ (8,800,311)**	**$ 14,729,412**
Adjustments to budgetary basis		8,260,172	
Fund balances - beginning of year		23,275,446	
Fund balances - end of year		**$ 22,735,307**	

Redevelopment Agency of the City of Morgan Hill, California

(A Component Unit of the City of Morgan Hill)

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	LOW AND MODERATE HOUSING FUND		
	Revised Budget	**Actual Plus Encumbrances**	**Favorable (Unfavorable) Variance**
Revenues:			
Incremental property taxes	$ 2,906,000	$ 3,561,658	$ 655,658
Investment income and rentals	297,000	239,767	(57,233)
Fines, forfeitures, and other revenues		41,713	41,713
Total revenues	**$ 3,203,000**	**$ 3,843,138**	**$ 640,138**
Expenditures:			
Current:			
General government	$ 846,289	$ 715,847	$ 130,442
Capital outlay	9,304,735	909,449	8,395,286
Debt service:			
Principal			
Total expenditures	**$ 10,151,024**	**$ 1,625,296**	**$ 8,525,728**
Excess of revenues over expenditures	$ (6,948,024)	$ 2,217,842	$ 9,165,866
Other financing (uses):			
Operating transfers in			
Operating transfers (out)	$ (106,855)	$ (106,855)	
Proceeds from long-term debt			
Total other financing (uses)	$ (106,855)	$ (106,855)	$ -
Net increase (decrease)	**$ (7,054,879)**	**$ 2,110,987**	**$ 9,165,866**
Adjustments to budgetary basis		9,949	
Fund balances - beginning of year		18,702,069	
Fund balances - end of year		**$ 20,823,005**	

TOTALS		
Revised Budget	Actual Plus Encumbrances	Favorable (Unfavorable) Variance
$ 14,548,000	$ 16,539,296	$ 1,991,296
1,245,000	1,106,946	(138,054)
50,000	629,681	579,681
$ 15,843,000	**$ 18,275,923**	**$ 2,432,923**
$ 2,276,322	$ 2,003,893	$ 272,429
43,940,577	27,063,533	16,877,044
	3,550,000	(3,550,000)
$ 46,216,899	**$ 32,617,426**	**$ 13,599,473**
$ (30,373,899)	$ (14,341,503)	$ 16,032,396
	$ 212,882	$ (212,882)
$ (210,703)	(210,703)	
	7,650,000	(7,650,000)
$ (210,703)	$ 7,652,179	$ 7,862,882
$ (30,584,602)	**$ (6,689,324)**	**$ 23,895,278**
	8,270,121	
	41,977,515	
	$ 43,558,312	

C&L
Caporicci & Larson
Certified Public Accountants

Offices located in:
Bay Area
Orange County
Sacramento

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

To the Honorable Chairperson and Members of the
Redevelopment Agency of the City of Morgan Hill
Morgan Hill, California

We have audited the financial statements of Redevelopment Agency of the City of Morgan Hill (Agency), a component unit of the City of Morgan Hill, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 Agency'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

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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 Audit Committee, management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Oakland, California
October 11, 2002