



*City of Saratoga*



Council Chamber / Civic Theater

**Comprehensive Annual  
Financial Report**

**For the Fiscal Year Ending  
June 30, 2005**

**City of Saratoga**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2005**

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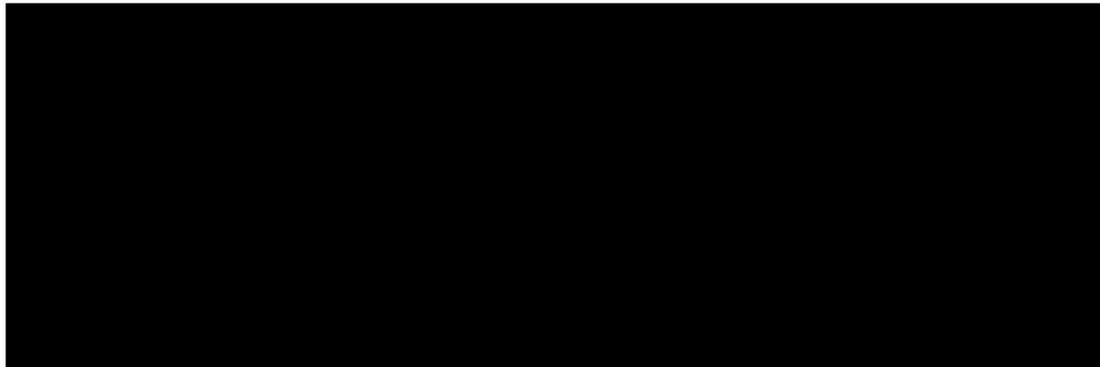
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November 1, 2005

Honorable Mayor and City Council,

The Comprehensive Annual Financial Report (CAFR) of the City of Saratoga for the year ended June 30, 2005, is hereby submitted as mandated by applicable statutes. These statutes require that the City of Saratoga annually issue a report on its financial position and activity, and that an independent firm of certified public accountants audit this report. Responsibilities for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. The information in this report is intended to present the reader with a comprehensive view of the City's financial position and the results of its operations for the fiscal year ending June 30, 2005, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the City's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GAAP) Statement No. 34, *Basic Financial Statements and Management's Discussions and Analysis-for State and Local Governments* (GASB 34). This GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

This Comprehensive Annual Financial Report is organized into three sections:

1. **Introductory Section** - The introductory section, includes the table of contents, letter of transmittal, a list of the City of Saratoga's elected officials and City administrative personnel, an organization chart, the Government Finance Officers Association's (GFOA's) of the United States Certificate of Achievement for Excellence in Financial Reporting and the California Society of Municipal Finance Officer's (CSMFO) Certificate of Award for Financial Reporting to the City of Saratoga for its CAFR for the fiscal year ending June 30, 2004.
2. **Financial Section** - The financial section includes the independent auditors' opinion, management's discussion and analysis, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
3. **Statistical Section** - The statistical section includes both financial and non-financial data about the City.

### **THE REPORTING ENTITY AND ITS SERVICES**

The City, incorporated in 1956, is located 40 miles south of San Francisco in the Santa Clara Valley. The City currently covers a land area of approximately 12 square miles and contains a population of 30,850 as reported by the State of California Department of Finance. The City is a general law city of the State of California and operates under a council-manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor, Vice Mayor and three additional council members. City Council members are elected at-large for staggered four-year terms. The Mayor is selected annually by the City Council. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing members to the City's seven advisory commissions and hiring the City Manager and City Attorney. The City Manager is responsible for implementing the policies and ordinances of the City Council, overseeing the daily operations of the City, and recommending appointments of the City's department directors to the City Council.

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

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

The financial reporting entity (the City) includes all the fund activity of the primary government, as well as all of its component units. Component units are legally separated entities for which the City is fully accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations and data from these units are combined with data of the City. Accordingly, the operations of the Landscaping and Lighting Assessment District #1 and the agency cash flows and cash balances of the Saratoga Public Finance Authority are reported in the City's financial statements

## ECONOMIC CONDITIONS AND OUTLOOK

For the past three years the City of Saratoga has faced budget shortfalls resulting from cost increases that outpace revenue growth and funding takeaways by the State of California. The financial structure of Saratoga with its mostly built-out residential neighborhoods and limited commercial development means that the two largest sources of revenue for cities—property tax and sales tax—account for a smaller proportion of revenue than in other cities. Funds taken by the State of California in the past few years represent substantial losses to Saratoga—\$516,100 in 2003-04, \$260,100 in 2004-05 and \$260,100 in 2005-06.

The passage of Proposition 1A in November 2004 provided some relief to California agencies by specifying how and when the State can take future funding. The measure also committed to repayment of the borrowed amounts in 2006-07.

Saratoga's response to the impact of current declining economic conditions over the last few years has been to implement the traditional course of recessionary budgeting—where budget line items are repeatedly scrutinized to wring out any expenditures not affecting direct service provision. Corresponding actions have been taken such as reducing employee expenses by instituting a hiring freeze and layoffs, and limiting salary and benefit growth. In addition, the City has deferred facility maintenance, under-funded pavement management, suspended capital equipment and furniture replacement, and halted purchasing of new computer hardware and software. These short term budgeting strategies have produced unintended results such as high staff turnover, deteriorating facilities, eventual degradation of our streets and roads, and greater costs for equipment maintenance—results that undermine the City's long-term ability to function successfully.

“The New Normal” is a term used by the City to represent an end to recessionary budgeting as described above and a return to normalized City operations around core City priorities while operating under the constraints of a limited budget. Examples of the types of changes needed include funding for facility maintenance, addressing employee retention issues, and beginning to once again purchase equipment. Allocation of limited resources, such as staff time, impacted in several of the City's commissions. The Arts and the Parks & Recreation Commission have been suspended for at least a year. The Finance Commission has been converted to an ad hoc basis at the discretion of the Administrative Services Director. The scope of the Public Safety Commission has been focused on traffic issues and it is now simply the Traffic Safety Commission. The number of meetings of the Traffic Safety Commission and the Library Commission has been limited to four per year, and the Finance Commission, Library Commission and the Traffic Safety Commission the number of commissioners has been reduced from seven to five, to be achieved by attrition. It is anticipated that the implementation of the New Normal may take several years.

By focusing on redefining core city priorities, the Council set the stage for making the tradeoffs necessary to determine which services will continue on an ongoing basis regardless of the state of the economy or state funding cuts. These tradeoffs are both difficult and essential for the long-term viability of the City of Saratoga. The City Council accepted the challenge of redefining core city priorities, achieving excellence in services with fewer resources, and the unenviable responsibility for making permanent reductions in current service levels to achieve fiscal stability. The Finance Commission was instrumental in recommending a structure for Council's use in starting the process of defining the core priorities. Council members were ultimately asked to classify service elements into one of the following three categories:

**Class A - Core Priorities, Must Provide:** Essential services that members of the community cannot provide for themselves that they expect the City to provide, and that are critical to the maintenance of the quality of life in Saratoga.

**Class B - Should Provide:** Services that make an important contribution to the quality of life in Saratoga but that are not absolutely necessary.

**Class C - Would Like to Provide:** Services that enhance the quality of life in Saratoga but that make a less important contribution than class B services.

In order for the New Normal to be successful, Saratoga residents must be viewed as partners. In that capacity their understanding of the state of the City's finances must be accurate.

## **FINANCIAL INFORMATION AND MAJOR INITIATIVES**

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, the City is also responsible for guaranteeing that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by the City's management.

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

In addition, the City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, special revenue funds, capital projects funds and debt service funds are included in the annual appropriation.

The level of budgetary control (i.e., the level at which expenditures cannot exceed the appropriated amount) is at the fund level. The City also maintains an encumbrance accounting system as another method of maintaining budgetary control. Encumbered amounts lapse at year-end with the exception of the Capital Improvements Projects, which contains multiple-year projects. However, outstanding encumbrances of a material nature are reviewed by the responsible Department and if appropriate Council is requested to take action by Resolution to re-appropriated these funds into the following year's budget.

## OTHER INFORMATION

**Independent Audit.** California law requires cities to prepare an annual audit by an independent certified public accountant. In addition to meeting the requirements set forth in statutes, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984, as amended, and the related U.S. Office of Management and Budget's Circular. Generally accepted auditing standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's unqualified report is included in the financial section of this report. Caporicci & Larson, CPA's, performed the City's fiscal year 2004-2005 audit.

**Awards.** The City was awarded a certificate for its early implementation of GASB #34. Additionally, the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Achievement to the City for its Excellence in Financial Reporting on the CAFR for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Dave Anderson  
City Manager



Michele Braucht  
Administrative Services Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Saratoga,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

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.



*Nancy L. Zjella*

President

*Jeffrey R. Emery*

Executive Director

CITY OF SARATOGA

ELECTED OFFICIALS AND  
ADMINISTRATIVE PERSONNEL

As of June 30, 2005

CITY COUNCIL

Kathleen King - Mayor  
Norman Kline - Vice Mayor  
Nick Streit  
Aileen Kao  
Ann Walton Smith

CITY STAFF

Dave Anderson - City Manager  
Lorie Tinfow - Assistant City Manager  
Cathleen Boyer - City Clerk  
Michele Braucht - Administrative Services Director  
John Livingston - Community Development Director  
John Cherbone - Public Works Director  
Joan Pisani - Recreation Director

CITY ATTORNEY

Richard S. Taylor - Shute, Mihaly & Weinberger

INDEPENDENT AUDITOR

Caporicci & Larson





## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Saratoga, California (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the financial statements, the Authority adopted statement of the Governmental Accounting Standards Board No. 40, *Deposit and Investment Risk Disclosure* (an amendment of GASB Statement No. 3).

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

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

*Caporicci & Larson*

Oakland, California

October 6, 2005

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# **City of Saratoga**

## **Management's Discussion and Analysis**

### **June 30, 2005**

#### **Introduction**

The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2005 for the City of Saratoga. The Management Discussion and Analysis is to be read in conjunction with the annual Transmittal Letter and the Basic Financial Statements.

#### **Fiscal Year 2004-2005 Financial Highlights**

- The City's total net assets were \$118,900,964 (reference pg #17).
- Total City revenues, including program and general revenues were \$15,744,633 (reference pg #18), while total expenses were \$16,762,918 (reference pg #18).
- Governmental program revenues were \$6,846,053 (reference pg #18), while Governmental Program expenses were \$16,762,918 (reference pg #18).
- General Fund revenues were \$12,559,275 (reference pg #27), while General Fund expenditures were \$11,067,661 (reference pg #27).

#### **The Basic Financial Statements**

The Basic Financial Statements are comprised of City-wide Financial Statements and Fund Financial Statements. These two sets of financial statements provide the reader two different viewpoints of the City's financial activities and financial position.

The Government-Wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on a full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on a full accrual basis, with the emphasis on measuring net revenues and/or expenses for each of the City's programs. The Statement of Activities explains in detail the change in Net Assets for the fiscal year.

All of the City's activities are required to be grouped into government activities and business-type activities. The entire amount in the Statement of Net Assets and the Statement of Activities are also required to be separated into governmental activities or business-type activities in order to provide a summary of these two activities of the City as a whole. In the case of the City of Saratoga, there are no business-type activities as of June 30, 2005.

The Fund Financial Statements report the City's operations in more detail than the governmental-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major funds are explained below.

#### **The Government -Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities present information about the following:

**Governmental activities** – All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, transportation, and, cultural and leisure. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

**Business-type activities** – Enterprise activities are reported here; they would include activities such as water, sewer, and utilities. Unlike governmental services, these services are supported by charges paid by user based on the amount of service the use. The City of Saratoga does not have any business-type activities at this time.

Governmental-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

# **City of Saratoga**

## **Management's Discussion and Analysis**

### **June 30, 2005**

#### **Fund Financial Statements**

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the fiscal year, and may change from year to year as a result of changes in the pattern of the City's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities are not presented in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Internal Service Funds - the City has no internal service funds at June 30, 2005.

Enterprise Funds - the City has no enterprise funds at June 30, 2005.

Proprietary Funds - the City has no proprietary funds at June 30, 2005.

Fiduciary Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organization, other governmental units, and/or other funds. The City maintains two such funds:

- Community Access Television Trust Fund - acts as a trustee for the CATV Foundation Board for investment purposes.
- Assessment District Bonds - acts as an agent for bondholders for Village Parking Districts #3 which had its final fiscal transaction in FY 2004-05, the Leonard Road Improvement District and the Saratoga Public Financing Authority.

#### **Notes to the Financial Statements**

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

#### **Required Supplementary Information**

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

#### **Combining and Individual Fund Statements and Schedules**

Combining and individual fund statements and schedules provide information for non-major governmental funds, and special revenue funds.

#### **Government-Wide Financial Analysis**

Net assets may serve over time as an indicator of the City's financial position. The total City's assets increased 1% to \$118,900,964 in fiscal year 2004-05 from \$117,899,126 in fiscal year 2003-04.

The most significant portion of the City's net assets \$105,784,434 or 89% accounts for its investment in capital assets (e.g., land, buildings, general government infrastructure, equipment, etc.); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending.

**City of Saratoga**  
**Management's Discussion and Analysis**  
**June 30, 2005**

\$6,788,804 or 6% of the City's net assets is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

\$6,327,726 or 5% of the City's net assets is subjected to external restrictions on how they may be used. Of these restricted net assets, \$5,321,217 is for restricted for capital projects, \$539,890 is for repayment of long-term debt and \$466,619 is restricted for housing activities.

**Statement of Net Assets**

	Governmental Activities	
	2005	2004
Current Assets	\$ 16,088,742	\$ 16,011,868
Capital Assets	120,224,434	118,999,458
Total Assets	136,313,176	135,011,326
Current Liabilities	2,996,918	2,413,492
Long-term Debt	14,415,294	14,698,708
Total Liabilities	17,412,212	17,112,200
Net Assets:		
Investment in capital assets, net of related debt	105,784,434	104,304,458
Restricted for Capital Projects	5,321,217	500,937
Restricted for Debt Service	539,890	701,976
Restricted for Special Projects	466,619	84,000
Unrestricted	6,788,804	12,307,755
Total Net Assets	\$ 118,900,964	\$ 117,899,126

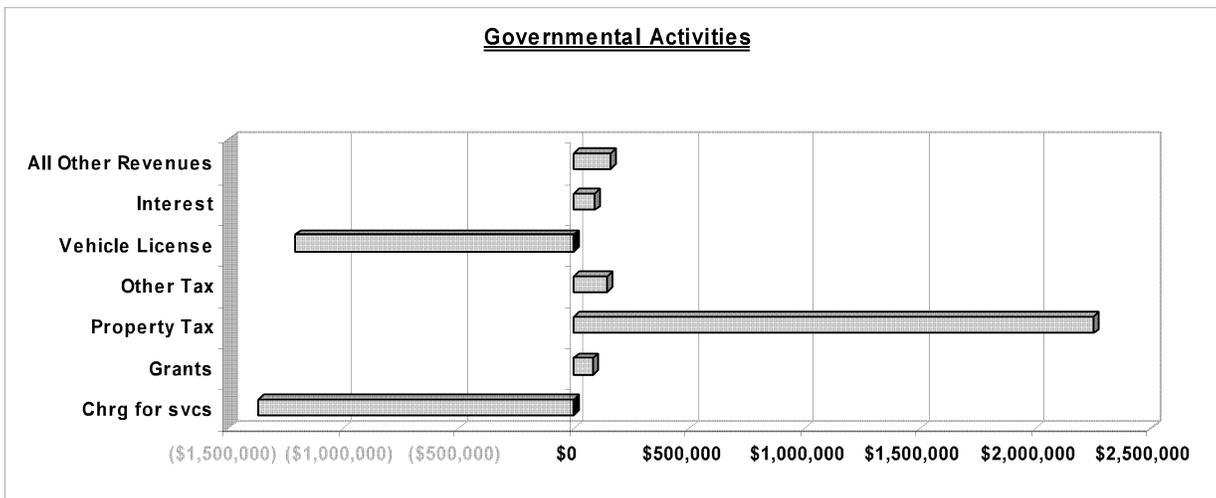
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**Statement of Changes in Net Assets**

Functions/Programs	2005	2004	Inc/(Dec)
<b>Program Revenues</b>			
Charge for Services	\$ 3,299,708	\$ 4,663,950	\$ (1,364,242)
Operating Grants & Contributions	1,217,938	953,962	263,976
Capital Grants & Contributions	864,553	1,044,971	(180,418)
Total Program Revenues	<u>5,382,199</u>	<u>6,662,883</u>	<u>(1,280,684)</u>
<b>General Revenues</b>			
Property Taxes	4,841,022	3,020,515	1,820,507
Voter Approved Indebtedness Property Taxes	1,174,484	887,385	287,099
Special Assessments	301,670	271,123	30,547
Sales Taxes	1,011,721	895,028	116,693
Local Taxes	1,143,089	1,128,441	14,648
Franchise Fees	994,798	983,620	11,178
Intergovernmental - Motor Vehicle In-Lieu Fees	281,625	1,488,954	(1,207,329)
Intergovernmental - Other Unrestricted	138,595	-	138,595
Use of Money & Property	282,823	228,883	53,940
Other Revenues	192,607	22,971	169,636
Total Revenues	<u>10,362,434</u>	<u>8,926,920</u>	<u>1,435,514</u>
<b>Expenses</b>			
General and Intergovernmental Services	4,159,852	3,149,593	1,010,259
Public Safety Services	3,735,516	3,208,027	527,489
Environmental Services	378,539	513,539	(135,000)
Public Works	3,450,245	5,113,509	(1,663,264)
Community Services	1,929,480	1,535,575	393,905
Community Development Services	2,348,447	2,575,621	(227,174)
Interest on Long Term Debt (unallocated)	760,839	771,670	(10,831)
Total Expenses	<u>16,762,918</u>	<u>16,867,534</u>	<u>(104,616)</u>
Increase (Decrease) in Net Assets	<u>(1,018,285)</u>	<u>(1,277,731)</u>	
Net Assets, July 1	117,899,126	118,830,902	
Restatement of Capital Asset; Dept & Acc Dep	<u>2,020,123</u>	<u>345,955</u>	
Net Assets, June 30	<u>\$ 118,900,964</u>	<u>\$ 117,899,126</u>	

**City of Saratoga**  
**Management's Discussion and Analysis**  
**June 30, 2005**

**Chart of Increase or (Decrease) in Revenues by Type**

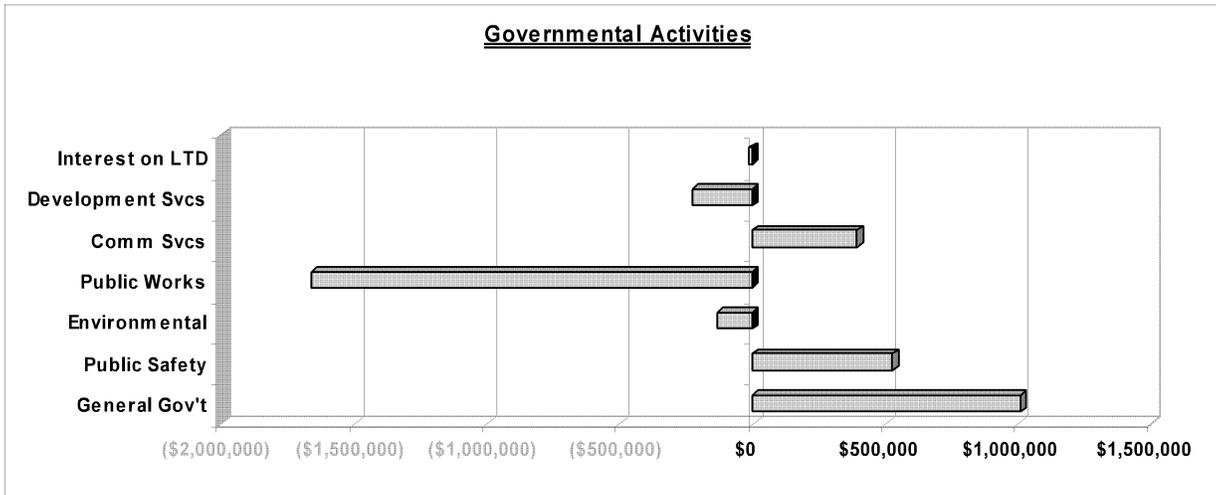


The net change in revenues for Governmental Activities was an increase of \$154,830 which is equal to approximately a 1% net increase. A brief analysis by revenue type of significant events follows:

- **Increases in Revenues**
  - \$2,248,958 Property Taxes; There are several components to the increase in property tax revenues. The first is simply a reclass of VLF fees from Intergovernmental to Supplemental Property Taxes in the amount of \$1,440,973. The remaining increase is a combination of the property tax assessment increase of \$808,000 related to the Library GO Bond, and a growth in assessed property values in the City due to new homes and remodels.
  - \$90,956 Investment Earnings; The increase in investment earnings is primarily due to a change in methodology in the internal distribution of interest earnings. Beginning in FY 2004-05 interest earnings are distributed at the LAIF rate to all funds that have an interest earning requirement, the remainder of the interest earnings is no longer shared between all funds, it defaults to the General Fund.
  - \$142,519 Other Taxes; An increase of 116,693 in Sales Tax (Triple Flip Included); There was an overpayment by the State of California for \$23,100 related to the triple flip, a minor overall growth rate, and some one time adjustments by the State Board of Equalization.
  - \$160,410 Miscellaneous; Increase due to the receipt of \$51,000 for the State Mandated Cost program, \$44,000 reimbursement from the Santa Clara Valley Animal Control Joint Power Authority, \$20,000 receipt for a claim settlement, and \$64,000 return of deposits from Association of Bay Area Governments for the power windup agreement.
  
- **Decreases in Revenues**
  - \$1,364,242 Charges for Services; The decrease between fiscal years is attributed to the City ending an indirect cost allocation plan, creating a reduction in this category of \$1,467,643. This is offset by an equal reduction in expenditures.
  - \$1,207,329 Motor Vehicle in Lieu Fees; The decrease in Motor Vehicle in Lieu Fees (VLF) is the direct result of a reclassification of VLF fees from the Intergovernmental revenue type to Property Tax, as supplemental property tax. The receipt for FY 2004-05 was \$1,440,973. This then translates to an increase in VLF fees for FY 2004-05 due to the impact in FY 2003-04 of the deferred back-fill from the State of California of \$516,900.

**City of Saratoga**  
**Management's Discussion and Analysis**  
**June 30, 2005**

**Chart of Increase or (Decrease) in Expenditures by Function**



The net change in expenditures for Governmental Activities was a decrease of \$104,616. A brief analysis by expenditure function of significant events follows:

- **Increases in Expenditures**
  - \$527,489 Public Safety Services; This expenditure has increased as a direct result in increase to the City of Saratoga from their contract with the County of Santa Clara for police services.
  - \$393,905 Community Services; Reflects a reclassification of \$102,728 the Community Development Block Grant program expenditures to Community Development and increase of about \$116,000 in the Parks & Open Space program expenditures.
  - \$1,010,259 General Governmental; Most significantly is the recording of the loss on the disposal of assets of \$824,529 due to a change of capitalization threshold and a general increase of employees salary and benefits.
- **Decreases in Expenditures**
  - \$1,663,264 Public Works Department; Of that amount \$550,000 is from the elimination of the indirect cost allocation plan, and \$2,000,000 is due to an audit adjustment to the prior year calculation of accumulated depreciation. Refer to auditors note 5, page 50 for additional information.
  - \$227,174 Development Services; The decrease is the result of the elimination of the indirect cost allocation plan, and the treatment of administrative support as a transfer from the Development Fund to the General Fund. Other reduction is due to staff vacancies during FY 2004-05 including the Director, Associate Planner, Code Enforcement Specialist and Office Specialist.
  - \$135,000 Environmental; Decreases primary due to the reclassification of prior year reporting of the Congestion Management program in the Public Works function.

**Major Funds Net Change in Fund Balance**

There are five funds included in the grouping of Major Funds. They are the General Fund the Community Block Grant Fund, the Streets and Roads Fund, the Library Expansion Fund and the Capital Improvement Program Fund. The net impact of the fiscal year transaction is a reduction of fund balance for the Major Funds by \$730,136.

**City of Saratoga**  
**Management's Discussion and Analysis**  
**June 30, 2005**

**Statement of Change in Fund Balance**

Major Funds					
	General	CDBG	Streets and Roads	Library Expansion	Capital Improvement
Fund Balance Beginning of Year	\$ 6,352,504	\$ 84,000	\$ 551,771	\$ 1,140,644	\$ 4,949,729
Total Revenues	12,559,275	102,000	841,495	6,454	568,280
Total Expenditures	11,067,661	44,767	1,983,997	380,953	1,395,438
Transfer In	1,235,478	-	898,733	-	358,002
Transfer Out	(2,104,035)	(15,000)	(308,002)	-	-
Fund Balance End of Year	6,975,561	126,233	-	766,145	4,480,573
Net Change in Fund Balance	\$ 623,057	\$ 42,233	\$ (551,771)	\$ (374,499)	\$ (469,156)

General Fund - As shown in the prior table, the net change in the General Fund was an increase of \$623,057.

- The methodology for the distribution of interest earnings were revised, all funds mandated to participate interest earnings continued to receive their quarterly distributions at the LAIF rate. All other interest earnings defaulted to the General Fund, creating an excess in interest earnings of \$121,200.
- The City received a one time State mandated reimbursement of \$57,200 related to animal care.
- The City received a one time reimbursement from the ABAG - Electric Program of \$65,000.
- A one time catch-up of 3 prior years of encroachment billings netted the General Fund \$83,500.
- Salary savings from vacant positions through out the fiscal year generated a saving of \$237,500.
- The contract with Santa Clara County for Public Safety services came in \$61,200 less than expected.

Community Development Block Grant Fund (CDBG) - As shown in the table above, the net change in the CDBG Fund was an increase of \$42,233. This was result of a reimbursement to the Fund for Community Development Fund for staff time charged to CDBG in excess of the annual \$15,000 maximum per fiscal year.

Streets & Roads - As shown in the table above, the net change in the Streets and Roads Funds was a decrease of \$551,771. This was a result of the General Fund limiting the transfer to the Street and Roads Fund on an as needed basis, instead of transferring the maximum amount budgeted.

Library Expansion - As shown in the table above, the net change in the Library Expansion Fund was a decrease of \$374,499. This fund was established to account for the capital expenditures of renovating and expanding the Saratoga Library. During FY 2004-05 the final construction payment of \$266,000 was made along with \$108,900 of various punch-list items.

Capital Improvement Project Fund - As shown in the table above, the net change in the Capital Improvement Fund was a decrease of \$469,156. Capital projects in the City of Saratoga does not have a distinct funding source, therefore as project expenditures are paid the existing fund balance balances are depleted. During the FY 2004-05, the City made \$300,000 contribution to the County of Santa Clara for the animal control facility and incurred \$151,000 on the Deanza Trail Project.

**City of Saratoga**  
**Management's Discussion and Analysis**  
**June 30, 2005**

**General Fund Budgetary Highlights**

Changes from the City's original budget to the final budget are detailed in the Required Supplementary Information Section along with a comparison to actual activity for the year ended. Changes to the City's budget that increases or decreased the bottom line must be approved by a resolution of the City Council. Modifications to the budget that are a realignment of fiscal activities with no impact to the bottom line may be proposed by Department Heads and approved by the City Manager.

As the following table shows final budget revenue estimates were less than 1% off expectations, and final budget expenditures 7% under budget. As indicated by the final budget column Council had authorized up to \$480,960 to be used from fund balance for FY 2004-05. As shown in the column for actual financial transactions the use of fund balance was not necessary.

**General Fund Comparison Budget to Actual**

	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b><u>Source of Funds:</u></b>				
Property Tax	\$ 4,743,415	\$ 4,743,415	\$ 4,834,577	\$ 91,162
Other Taxes	1,865,425	1,865,425	1,862,434	(2,991)
License & Permit	16,950	16,950	100,459	83,509
Fines & Forfeiture	110,055	110,055	161,721	51,666
Intergovernmental - State	508,190	508,190	575,596	67,406
Franchise Fees	1,260,030	1,260,030	1,293,621	33,591
Use of Money & Property	467,074	467,074	605,857	138,783
Charges for Services	3,455,070	3,455,070	3,125,010	(330,060)
Transfer In	1,176,532	1,210,151	1,235,478	25,327
<b>Total Source of Funds</b>	<b>\$ 13,602,741</b>	<b>\$ 13,636,360</b>	<b>\$ 13,794,753</b>	<b>\$ 158,393</b>
<b><u>Use of Funds:</u></b>				
General and Intergovt.	\$ 3,419,640	\$ 3,489,106	\$ 3,238,277	\$ (250,829)
Public Safety	2,672,097	3,725,141	3,630,146	(94,995)
Environmental Services	655,701	655,701	379,120	(276,581)
Community Services	2,094,849	2,240,738	1,830,475	(410,263)
Community Development	2,695,560	2,652,715	1,989,643	(663,072)
Transfer Out	1,376,128	1,376,128	2,104,035	727,907
<b>Total Use of Funds</b>	<b>\$ 12,913,975</b>	<b>\$ 14,139,529</b>	<b>\$ 13,171,696</b>	<b>\$ (967,833)</b>

**Capital Assets**

The City of Saratoga elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting in which eligible infrastructure capital assets are not required to be depreciated if the following requirements:

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

**City of Saratoga**  
**Management's Discussion and Analysis**  
**June 30, 2005**

The City policy is to achieve an average Pavement Condition Index (PCI) rating of 70 for all streets. The City achieved the 70 rating with 86% of streets are rated as Excellent to Good, 13% of streets are rated as Poor, and 1% of streets are rated as Very Poor. The City estimated and spent \$2,609,648 to maintain and preserve eligible infrastructure assets. For more detail information on Capital Assets activity, please refer to Note G in the section entitled "Notes to the Basic Financial Statements" and "Required Supplementary Section".

As of June 30, 2005, the City had \$120,224,432 invested in a variety of capital assets, as reflected in the following schedule, which represents an increase of \$1,224,975 or 1% above the prior year.

**Capital Assets at Year End**  
**Net of Depreciation**

	Governmental Activities	
	2005	2004
Land	\$ 11,118,028	\$ 11,118,028
Building & Structures	16,649,809	16,913,932
Machinery & Equipment	262,466	568,557
Infrastructure	86,513,324	86,174,460
Construction in Progress	5,680,805	4,224,480
	\$ 120,224,432	\$ 118,999,457

The following reconciliation summarizes the change in Capital Assets

**Changes in Capital Assets**

	Governmental Activities	
	2005	2004
Beginning Balance	\$ 118,999,458	\$ 118,724,924
Addition		
Land	-	6,287,189
Building and Structures	-	14,418,357
Construction in Progress	1,777,491	2,087,331
Infrastructure	-	88,363
Machinery & Equipment	-	88,142
Retirements		
Construction in Progress	(321,164)	
Inventory Adjustments	1,528,246	(20,786,879)
Depreciation	(1,759,599)	(1,907,969)
Ending Balance	\$ 120,224,432	\$ 118,999,458

**Debt Administration**

The net change in outstanding debt for the City of Saratoga is a decrease of \$416,040. During the fiscal year, the City did not enter into any new debt structures.

**City of Saratoga**  
**Management's Discussion and Analysis**  
**June 30, 2005**

**Outstanding Debt at Year-End**

	Governmental Activities	
	2005	2004
2001 General Obligation Bond	\$ 14,440,000	\$ 14,695,000
Claims Payable	-	180,865
Compensated Absences	245,294	259,478
Total	\$ 14,685,294	\$ 15,135,343

The current portions of long-term debt (\$270,000 and \$255,000 for 2005 and 2004, respectively) are classified as current liabilities in the City's Statement of Net Assets.

2001 General Obligation Bond - During the fiscal year, the City made debt service payments that include a principal reduction of \$255,000 on the City's \$15,000,000 2001 General Obligation Library bonds.

Claims Payable - The City is fully funded through their membership in a pooled liability assurance network with the Association of Bay Area Governments, hence there is no potential liability.

**Economic Factors**

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

**Request for Financial Information**

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

## **BASIC FINANCIAL STATEMENTS**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**



**City of Saratoga**  
**Statement of Net Assets**  
**June 30, 2005**

	<u>Primary Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 12,688,397
Restricted cash and investments	2,298,174
Receivables:	
Accounts	740,734
Interest	96,943
Loans	264,494
Total current assets	<u>16,088,742</u>
Noncurrent assets:	
Capital assets:	
Non-depreciable	62,040,301
Depreciable, net	58,184,133
Total capital assets	<u>120,224,434</u>
Total noncurrent assets	<u>120,224,434</u>
<b>Total assets</b>	<u><u>136,313,176</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	904,224
Accrued payroll	180,818
Interest payable	315,523
Deposits payable	1,326,353
Long-term debt - due within one year	270,000
Total current liabilities	<u>2,996,918</u>
Noncurrent liabilities:	
Long-term debt - due in more than one year	14,415,294
Total noncurrent liabilities	<u>14,415,294</u>
<b>Total liabilities</b>	<u><u>17,412,212</u></u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	<u>105,784,434</u>
Restricted for:	
Capital projects	5,321,217
Debt service	539,890
Special projects	466,619
Total restricted	<u>6,327,726</u>
Unrestricted	<u>6,788,804</u>
<b>Total net assets</b>	<u><u>\$ 118,900,964</u></u>

See accompanying Notes to the Basic Financial Statements.

**City of Saratoga**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
<b>Governmental activities:</b>					
General and intergovernmental services	\$ 4,159,852	\$ 250	\$ -	\$ -	\$ 250
Public safety	3,735,516	140,891	420,642	-	561,533
Environmental services	378,539	504,142	26,325	-	530,467
Public works	3,450,245	7,906	663,971	675,723	1,347,600
Community services	1,929,480	757,014	5,000	188,830	950,844
Community development services	2,348,447	1,889,505	102,000	-	1,991,505
Interest on long-term debt (unallocated)	760,839	-	-	-	-
<b>Total</b>	<b>\$ 16,762,918</b>	<b>\$ 3,299,708</b>	<b>\$ 1,217,938</b>	<b>\$ 864,553</b>	<b>\$ 5,382,199</b>

**General revenues and taxes:**

Taxes:

- Property taxes
- Sales taxes
- Franchise taxes
- Special assessments
- Voters approved property taxes
- Local taxes
- Intergovernmental revenue, unrestricted
- Total taxes

Investment earnings

Other revenues

**Total general revenues and taxes**

**Change in net assets**

Net assets - beginning of year, as restated (Note 13)

Net assets - end of year

See accompanying Notes to the Basic Financial Statements.

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Net (Expense)  
Revenue and  
Changes in  
Net Assets

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Primary  
Government  
Governmental  
Activities

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\$ (4,159,602)  
(3,173,983)  
151,928  
(2,102,645)  
(978,636)  
(356,942)  
(760,839)

---

(11,380,719)

---

4,841,022  
1,011,721  
994,798  
301,670  
1,174,484  
1,143,089  
420,220

---

9,887,004  
282,823  
192,607

---

10,362,434

---

(1,018,285)

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119,919,249

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\$ 118,900,964

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## **FUND FINANCIAL STATEMENTS**



# GOVERNMENTAL FUND FINANCIAL STATEMENTS

## General Fund

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

## Community Development Block Grant Special Revenue Fund

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

## Streets and Roads Special Revenue Fund

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

## Capital Improvement Capital Projects Fund

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

## Other Governmental Funds

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

**City of Saratoga**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	Major Funds				
	General	Community Development Block Grant	Streets and Roads	Capital Improvement	Library Expansion
<b>ASSETS</b>					
Cash and investments	\$ 8,269,053	\$ -	\$ -	\$ 4,419,344	\$ -
Restricted cash and investments	-	119,785	94,494	-	1,072,238
Receivables:					
Accounts	581,724	6,048	55,414	91,134	-
Interest	90,047	400	-	-	2,029
Loans	-	264,494	-	-	-
<b>Total assets</b>	<b>\$ 8,940,824</b>	<b>\$ 390,727</b>	<b>\$ 149,908</b>	<b>\$ 4,510,478</b>	<b>\$ 1,074,267</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 423,830	\$ -	\$ 127,335	\$ 29,905	\$ 308,122
Accrued payroll	156,543	-	22,573	-	-
Deposits payable	1,326,353	-	-	-	-
Deferred revenue	58,537	264,494	-	-	-
<b>Total liabilities</b>	<b>1,965,263</b>	<b>264,494</b>	<b>149,908</b>	<b>29,905</b>	<b>308,122</b>
<b>Fund Balances:</b>					
Reserved for:					
Petty Cash	300	-	-	-	-
Debt service	-	-	-	-	-
Unreserved, designated for:					
Operations	2,457,847	-	-	-	-
Economic uncertainty	1,350,000	-	-	-	-
Community Development Services	342,123	-	-	-	-
Environmental Services	898,658	-	-	-	-
MIS	128,198	-	-	-	-
Unreserved, undesignated, reported in:					
General fund	1,798,435	-	-	-	-
Special revenue funds	-	126,233	-	-	-
Capital projects funds	-	-	-	4,480,573	766,145
<b>Total fund balances</b>	<b>6,975,561</b>	<b>126,233</b>	<b>-</b>	<b>4,480,573</b>	<b>766,145</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,940,824</b>	<b>\$ 390,727</b>	<b>\$ 149,908</b>	<b>\$ 4,510,478</b>	<b>\$ 1,074,267</b>

See accompanying Notes to the Basic Financial Statements.

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Other Governmental Funds	Total Governmental Funds
\$ -	\$ 12,688,397
1,011,657	2,298,174
6,414	740,734
4,467	96,943
-	264,494
<u>\$ 1,022,538</u>	<u>\$ 16,088,742</u>

\$ 15,032	\$ 904,224
1,702	180,818
-	1,326,353
-	323,031
<u>16,734</u>	<u>2,734,426</u>

-	300
855,413	855,413
-	2,457,847
-	1,350,000
-	342,123
-	898,658
-	128,198
-	1,798,435
75,892	202,125
74,499	5,321,217
<u>1,005,804</u>	<u>13,354,316</u>
<u>\$ 1,022,538</u>	<u>\$ 16,088,742</u>

**City of Saratoga**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2005**

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<b>Total Fund Balances - Total governmental funds</b>	<u>\$ 13,354,316</u>
Amounts reported for governmental activities in the statement of net assets were different because:	
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:	
Non-depreciable capital assets	62,040,301
Depreciable capital assets, net	<u>58,184,133</u>
Total capital assets	<u>120,224,434</u>
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	<u>(315,523)</u>
Deferred revenues reported in Governmental Funds Balance Sheet includes balance of loans receivable. The balance was deferred because funds were not available to pay for current-period expenditures.	<u>323,031</u>
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:	
General obligation bonds	(14,440,000)
Compensated absences	<u>(245,294)</u>
Total long-term liabilities	<u>(14,685,294)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 118,900,964</u></u>

**City of Saratoga**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2005**

	Major Funds				
	General	Community Development Block Grant	Streets and Roads	Capital Improvement	Library Expansion
<b>REVENUES:</b>					
Property taxes	\$ 4,834,577	\$ -	\$ -	\$ -	\$ -
Other local taxes	1,862,434	-	-	-	-
Licenses & permits	100,459	-	-	-	-
Fines & forfeiture	161,721	-	-	-	-
Intergovernmental - State	575,596	-	657,668	41,558	-
Intergovernmental - Federal	-	58,702	-	31,154	-
Intergovernmental - Other	-	-	175,921	495,568	-
Franchise fees	1,293,621	-	-	-	-
Use of money and property	605,857	43,298	-	-	6,454
Current service charges	3,125,010	-	7,906	-	-
<b>Total revenues</b>	<b>12,559,275</b>	<b>102,000</b>	<b>841,495</b>	<b>568,280</b>	<b>6,454</b>
<b>EXPENDITURES:</b>					
Current:					
General and intergovernmental services	3,238,277	-	-	-	-
Public safety	3,630,146	-	-	-	-
Environmental services	379,120	-	-	-	-
Public works	-	-	1,983,997	-	-
Community services	1,830,475	44,767	-	-	-
Community development services	1,989,643	-	-	-	-
Capital outlay	-	-	-	1,395,438	380,953
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<b>11,067,661</b>	<b>44,767</b>	<b>1,983,997</b>	<b>1,395,438</b>	<b>380,953</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,491,614</b>	<b>57,233</b>	<b>(1,142,502)</b>	<b>(827,158)</b>	<b>(374,499)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	1,235,478	-	898,733	358,002	-
Transfers out	(2,104,035)	(15,000)	(308,002)	-	-
<b>Total other financing sources (uses)</b>	<b>(868,557)</b>	<b>(15,000)</b>	<b>590,731</b>	<b>358,002</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>623,057</b>	<b>42,233</b>	<b>(551,771)</b>	<b>(469,156)</b>	<b>(374,499)</b>
<b>FUND BALANCES:</b>					
Beginning of year, as restated (Note 13)	6,352,504	84,000	551,771	4,949,729	1,140,644
End of year	\$ 6,975,561	\$ 126,233	\$ -	\$ 4,480,573	\$ 766,145

See accompanying Notes to the Basic Financial Statements.

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Other Governmental Funds	Total Governmental Funds
\$ 1,469,272	\$ 6,303,849
-	1,862,434
-	100,459
-	161,721
100,000	1,374,822
-	89,856
-	671,489
-	1,293,621
7,966	663,575
112,815	3,245,731
<u>1,690,053</u>	<u>15,767,557</u>
-	3,238,277
100,000	3,730,146
-	379,120
235,710	2,219,707
-	1,875,242
-	1,989,643
1,100	1,777,491
255,000	255,000
766,152	766,152
<u>1,357,962</u>	<u>16,230,778</u>
<u>332,091</u>	<u>(463,221)</u>
-	2,492,213
<u>(65,176)</u>	<u>(2,492,213)</u>
<u>(65,176)</u>	-
266,915	(463,221)
<u>738,889</u>	<u>13,817,537</u>
<u>\$ 1,005,804</u>	<u>\$ 13,354,316</u>

# City of Saratoga

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2005

<b>Net Change in Fund Balances - Total governmental funds</b>	<b>\$ (463,221)</b>
<p>Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:</p>	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	1,777,491
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the Governmental Funds.	(1,759,599)
Loss on the disposal of capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, it is not reported as expenditures in Governmental Funds	(824,529)
Unearned revenues do not provide current financial resources and therefore are not reported as revenues in the governmental funds.	58,537
Repayments of loans receivable are recognized as revenues in the governmental funds, however the full amount of loans receivable were recognized as revenues in prior years in the Government-Wide Statement of activities and therefore they are not recognized as revenue in the current year in the Government-Wide Statement of Activities	(81,461)
Long-term compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in governmental funds.	14,184
Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.	
Long-term debt repayments	255,000
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the change in accrued interest from prior year.	5,313
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (1,018,285)</b>

See accompanying Notes to the Basic Financial Statements.



# FIDUCIARY FUND FINANCIAL STATEMENTS

## Agency Funds

Agency Funds is the aggregate of all the agency funds.

**City of Saratoga**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 73,540
Restricted cash and investments	192,122
Interest Receivable	798
Accounts receivable	<u>42,946</u>
<b>Total assets</b>	<b>\$ 309,406</b>
<b>LIABILITIES</b>	
Deposits payable	\$ 74,064
Due to assessment district bondholders	<u>235,342</u>
<b>Total liabilities</b>	<b>\$ 309,406</b>

See accompanying Notes to the Basic Financial Statements.

**City of Saratoga**  
**Index to Notes to the Basic Financial Statements**  
**For the year ended June 30, 2005**

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**City of Saratoga**  
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**For the year ended June 30, 2005**

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**City of Saratoga**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

The City was incorporated as a municipal corporation in 1956 under the general laws of the State of California, and had a population of 30,850 at June 30, 2005. The City is a largely residential community located in the foothills of the Santa Cruz Mountains.

The City operated under the Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. At June 30, 2005, the City's staff comprised 59 full time employees who were responsible for the following City provided services:

- ◆ Public Safety - The City provides round-the-clock police services under a contract with the County Sheriff's offices. Fire services are provided by special district. Emergency management, code enforcement and inspection services are provided by 1 City employee.
- ◆ Public Works/Maintenance - The City builds and maintains its parks, streets, curbs, gutters and related public property with a force of 23 employees. Major projects may be contracted out to reduce costs.
- ◆ Community Development - Zoning administration, plan checking and advance planning services are provided by 13 employees.
- ◆ Culture, Recreation and Community Support services are provided by a total of 11 employees.
- ◆ General Government services are provided by a total of 11 employees.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City Council acts as the governing board. In addition, the City staff performs all administrative and accounting functions for these entities and these entities provide their services entirely to the City. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the City. Each blended component unit has a June 30 year-end. The City had no discretely presented component units.

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Financial Reporting Entity, Continued**

The following entities are reported as blended component units:

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

Lighting and Landscaping Assessment District - The Lighting and Landscaping Assessment District (District) was established in 1980 for the levy and the collections of assessments upon the several lots or parcels of land in the District, and for the construction or installation of improvements, including maintenance. The District is reported as a blended component unit of the City because it have the same Governing Board as the City.

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

**B. Basis of Accounting and Measurement Focus**

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

**Government-Wide Financial Statements**

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

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

**Government-Wide Financial Statements, Continued**

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

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

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

- ◆ Transfers in/out

**Governmental Fund Financial Statements**

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

**General Fund**

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

**Community Development Block Grant Special Revenue Fund**

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

**Streets and Roads Special Revenue Fund**

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

**Library Expansion Capital Projects Fund**

This fund accounts for bond proceeds from the sale of the library bonds, which was passed in March 2000, for the purpose of renovating and expanding the City library.

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

**Governmental Fund Financial Statements, Continued**

***Capital Improvement Capital Projects Fund***

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

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

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (up to 7 months after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures, licenses and permits and parking meter revenues are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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

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

**Fiduciary Fund Financial Statements**

Fiduciary fund financial statements include a Statement of Net Assets. The City’s fiduciary funds represent agency funds. Agency funds do not have a measurement focus, although they do have a basis of accounting. An accrual basis of accounting is used to record the financial transactions. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**C. Cash, Cash Equivalents and Investments**

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

Deposit and Investment Risk Disclosures - In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

Other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

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

**D. Restricted Cash and Investments**

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

**E. Prepaid Items**

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

**F. Interfund Transactions**

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**F. Interfund Transactions, Continued**

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

**G. Capital Assets**

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

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

Buildings and structures	40 years
Machinery and equipment	5-10 years
Infrastructure	15-50 years

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

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*G. Capital Assets, Continued*

The following conditions were defined:

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

The City's policy relative to maintaining the street assets is to achieve an average rating of 70 for all street segments. This acceptable rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. For all other infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2001 and has completed an internal update for June 30, 2005. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

*H. Interest Payable*

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

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

*I. Claims Payable*

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**J. *Compensated Absences***

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

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

**K. *Long-Term Obligations***

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

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

**L. *Fund Balances***

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

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

City Council has designated \$1,350,000 for economic uncertainty. The designation was also authorized a draw down of \$260,100 in fiscal year 2005-2006 to bridge the budget shortfall.

Community development services designation is for development services that includes zoning administration, inspection services, and development regulation programs.

Environmental services is designated for the environmental fees collected from surcharges on garbage bills and tipping fees at the landfills and associated grants related to integrated waste management and storm water management.

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. Fund Balances, Continued*

Management information system (MIS) is designated for the support, maintenance, replacement and upgrade of existing computer network.

*M. Net Assets*

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

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

*N. Use of Restricted/Unrestricted Net Assets*

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

*O. Property Tax and Special Assessments*

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

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

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

*P. Use of Estimates*

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Q. Implementation of New GASB Pronouncements*

The City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- No. 40, *Deposit and Investment Risk Disclosures* - This Statement addresses selected issues and amends GASB Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

**2. CASH AND INVESTMENTS**

The following is a summary of pooled cash and investments and restricted cash and investments at June 30, 2005:

	Government-Wide Statement of Net Assets <hr/> Governmental Activities	Fiduciary Funds Statement of Net Assets	Total
Cash and investments	\$ 12,688,397	\$ 73,540	\$ 12,761,937
Restricted cash and investments:	2,298,174	192,122	2,490,296
<b>Total</b>	<b>\$ 14,986,571</b>	<b>\$ 265,662</b>	<b>\$ 15,252,233</b>

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

**A. Cash Deposits**

The carrying amounts of the City's cash deposits were \$249,648 at June 30, 2005. Bank balances before reconciling items were \$727,094 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below.

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**2. CASH AND INVESTMENTS, Continued**

**A. Cash Deposits, Continued**

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

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

**B. Investments**

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

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

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

**C. External Investment Pool**

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2005, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**2. CASH AND INVESTMENTS, Continued**

*C. External Investment Pool, Continued*

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

As of June 30, 2005, the City had \$14,616,092 invested in LAIF which had invested 2.406% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.997747553 was used to calculate the fair value of the investments in LAIF.

*D. Risk Disclosures*

At June 30, 2005, the City had the following deposits and investments:

Interest Rate Risk:

Investment type:	Fair Value	Investment
		Maturities (in years) 1 year or less
Demand accounts	\$ 249,648	\$ 249,648
Petty cash	300	300
California Local Agency Investment Fund	14,616,092	14,616,092
SJNB Money Market Account	53,794	53,794
Investment held by Fiscal Agents	332,399	332,399
<b>Total</b>	<b>\$ 15,252,233</b>	<b>\$ 15,252,233</b>

Credit Risk:

	Credit Quality Ratings		Fair Value
	Moody's	Standard & Poor's	
Cash and Investments:			
Cash deposits	Not Rated		\$ 249,948
SJNB Money Market Account	Not Rated		53,794
State Local Agency Investment Fund	Not Rated		14,616,092
Investments held by Fiscal Agents	Not Rated		332,399
<b>Total Cash and Investments</b>			<b>\$ 15,252,233</b>

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**3. LOANS RECEIVABLE**

The City had the following loan receivable as of June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Housing Rehabilitation Loan Program	\$ 345,955	\$ -	\$ (81,461)	\$ 264,494

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

At June 30, 2005, the City had outstanding SHARP loans of \$264,494. During the year ended June 30, 2005, the City received \$81,273 in repayments from all participants.

In the Governmental Fund Financial Statements, these loans have been offset by deferred revenue as they are not expected to be repaid immediately.

In the Government-Wide Financial Statements, the amount of deferred revenue was recognized as revenues.

**4. FUND FINANCIAL STATEMENTS INTERFUND TRANSACTIONS**

**A. Transfers In/Out**

Transfers for the year ended June 30, 2005 were as follows:

Transfers Out	Transfers In			Total
	General Fund	Special Revenue Fund Street and Roads	Capital Projects Fund Capital Improvement	
General Fund	\$ 1,155,302	\$ 898,733	\$ 50,000	\$ 2,104,035
Street and Roads	-	-	308,002	308,002
Community Development Block Grant	15,000	-	-	15,000
Other Governmental Funds	65,176	-	-	65,176
<b>Total</b>	<b>\$ 1,235,478</b>	<b>\$ 898,733</b>	<b>\$ 358,002</b>	<b>\$ 2,492,213</b>

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005, consisted of the following:

	Primary Government				Balance June 30, 2005
	Balance July 1, 2004	Additions	Retirements	Adjustments	
<b>Governmental Activities:</b>					
Capital assets, not being depreciated:					
Land and land improvements	\$ 11,118,030	\$ -	\$ -	\$ -	\$ 11,118,030
Construction in progress	4,224,479	1,777,491	(321,164)	-	5,680,806
Infrastructure:					
Street pavement system	45,241,465	-	-	-	45,241,465
Total capital assets not being depreciated	60,583,974	1,777,491	(321,164)	-	62,040,301
Capital assets, being depreciated:					
Buildings and structures	19,278,447	-	-	-	19,278,447
Machinery and equipment	2,061,857	-	(503,365)	-	1,558,492
Infrastructure:					
Bridges	1,563,654	-	-	-	1,563,654
Signs and lights	762,527	-	-	-	762,527
Drainage system	39,855,914	-	-	-	39,855,914
Sidewalks	11,494,250	-	-	-	11,494,250
Total capital assets being depreciated	75,016,649	-	(503,365)	-	74,513,284
Accumulated depreciation	(16,601,165)	(1,759,599)	-	2,031,613	(16,329,151)
Total capital assets being depreciated, net	58,415,484	(1,759,599)	(503,365)	2,031,613	58,184,133
<b>Governmental activities capital assets, net</b>	<b>\$ 118,999,458</b>	<b>\$ 17,892</b>	<b>\$ (824,529)</b>	<b>\$ 2,031,613</b>	<b>\$ 120,224,434</b>

Depreciation Expense by Function:

General Government	\$ 101,914
Public Safety	5,563
Public Works	1,234,652
Community Services	56,800
Community Development	360,670
<b>Total</b>	<b>\$ 1,759,599</b>

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**6. LONG-TERM DEBT**

A summary of the City's long-term debt transactions for the year ended June 30, 2005, is presented below:

Description	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Classification	
					Amounts Due Within One Year	Amounts Due in More than One Year
General Obligation Bonds:						
2001 Library Bonds	\$ 14,695,000	\$ -	\$ (255,000)	\$ 14,440,000	\$ 270,000	\$ 14,170,000
Claims payable	180,865	-	(180,865)	-	-	\$ -
Compensated absences	259,478	-	(14,184)	245,294	-	\$ 245,294
<b>Total</b>	<b>\$ 15,135,343</b>	<b>\$ -</b>	<b>\$ (450,049)</b>	<b>\$ 14,685,294</b>	<b>\$ 270,000</b>	<b>\$ 14,415,294</b>

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

On May 1, 2001, the City issued General Obligation Bonds Series 2001 in the amount of \$15,000,000. The proceeds of the bonds were used to improve, renovate, and expand the Saratoga Community Library. The bonds are payable from and secured by certain property taxes within the City. Interest on the bonds ranges from 5% to 6% and is payable on February 1 and August 1 of each year, commencing February 1, 2002. Principal is due annually beginning on August 1, 2002, in amounts ranging from \$60,000 to \$940,000. The bonds mature on August 1, 2032 and are subject to redemption prior to maturity at redemption prices ranging from 100% to 101% of par. The bonds may be called for redemption beginning on or after August 1, 2011, at the option of the City. At June 30, 2005, the outstanding balance of the bonds was \$14,440,000.

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

For the Year Ending June 30,	Principal	Interest	Total
2006	\$ 270,000	\$ 750,506	\$ 1,020,506
2007	280,000	736,756	1,016,756
2008	295,000	720,906	1,015,906
2009	310,000	702,756	1,012,756
2010	330,000	683,556	1,013,556
2011 - 2015	1,965,000	3,104,705	5,069,705
2016 - 2020	2,350,000	2,555,030	4,905,030
2021 - 2025	2,970,000	1,887,967	4,857,967
2026 - 2030	3,840,000	1,005,114	4,845,114
2031 - 2032	1,830,000	97,388	1,927,388
<b>Total</b>	<b>\$ 14,440,000</b>	<b>\$ 12,244,684</b>	<b>\$ 26,684,684</b>

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**6. LONG-TERM DEBT, Continued**

**Claims Payable**

At June 30, 2005, the City was fully insured and had no deductible and therefore the City did not record any liability relating to claims.

**Compensated Absences**

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to \$245,294 at June 30, 2005.

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

**7. NON-CITY OBLIGATIONS**

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

	Original Amount	Outstanding at June 30, 2005
Parking Assessment Districts #2 and #3	\$ 1,244,900	\$ -
Leonard Road Improvement Assessment District	101,686	45,000
Saratoga Public Financing Authority 1993 Revenue Bonds	1,600,000	205,000

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

**8. RISK MANAGEMENT**

The City participates in the following public entity risk pools:

ABAG Plan Corporation (ABAG PLAN) covers general liability claims in an amount up to \$7,000,000. The City has a deductible or uninsured liability of up to \$25,000 per claim. Once the City's deductible is met ABAG PLAN becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2005, the City contributed \$120,393 for current year coverage and received no refund of prior year excess contributions.

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**8. RISK MANAGEMENT, Continued**

The ABAG Workers' Compensation Pool Insurance Authority (ABAG POOL) covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended June 30, 2005, the City contributed \$209,860 for current year coverage.

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

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

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

The workers' compensation and general liability claims payable of \$0 reported at June 30, 2005, are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the basic financial statements indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amounts were as follows:

Year Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2003	\$ 100,000	\$ 214,052	\$ (16,858)	\$ 297,194
2004	297,194	(32,044)	(34,285)	230,865
2005	230,865	(224,897)	(5,968)	-

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**8. RISK MANAGEMENT, Continued**

The following represents summary audited financial information of ABAG Plan Corporation for the fiscal year ended June 30, 2004:

Total assets	<u>\$ 43,172,685</u>
Total liabilities	<u>\$ 14,147,158</u>
Fund equity	<u>\$ 29,025,527</u>
Total revenues	<u>\$ 7,501,487</u>
Total expenses	<u>\$ 8,500,073</u>
Net increase in fund equity	<u>\$ (998,586)</u>

The following represents summary audited financial information of ABAG Comp Shared Risk Pool for the fiscal year ended June 30, 2004:

Total assets	<u>\$ 1,600,719</u>
Total liabilities	<u>\$ 934,268</u>
Fund equity	<u>\$ 666,451</u>
Total revenues	<u>\$ 736,559</u>
Total expenses	<u>\$ 302,982</u>
Net increase in fund equity	<u>\$ 433,577</u>

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

**9. RETIREMENT PLANS**

**Pension Plan**

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

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**9. RETIREMENT PLANS, Continued**

**Pension Plan, Continued**

*Funding Policy* - Active plan members are required by state statute to contribute for miscellaneous employees 7% of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$243,844 for the year ended June 30, 2005. The City employer is required to contribute for fiscal year 2004-2005 at an actuarially determined rate of 4.35% of annual covered payroll for miscellaneous employees.

*Annual Pension Cost* - For fiscal year 2004-2005, the City's annual pension cost was \$151,567. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.75% to 14.20% for miscellaneous employees depending on age, service, and type of employment, and (c) 3.75% per year payroll growth adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2002, was 22 years for miscellaneous employees.

**THREE-YEAR TREND INFORMATION FOR PERS**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ -	100%	\$ -
6/30/04	-	100%	-
6/30/05	151,567	100%	-

**10. NET ASSETS**

**A. Investment in Capital Assets, Net of Related Debt**

As of June 30, 2005, the investment in capital assets, net of related debt consisted of the following:

Capital assets, net (Note 5)	\$ 120,224,434
2001 General Obligation Library Bonds (Note 6)	<u>(14,440,000)</u>
<b>Investment in capital assets, net of related debt</b>	<b><u><u>\$ 105,784,434</u></u></b>

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**10. NET ASSETS, Continued**

**B. Restricted Net Assets**

As of June 30, 2005, the restricted net assets consisted of the following:

	Restricted for			Total
	Capital Projects	Debt Service	Special Projects	
Restricted cash and investments	\$ 5,321,217	\$ 539,890	\$ 466,619	\$ 6,327,726

**11. JOINT POWERS AGREEMENTS**

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

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

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

**12. COMMITMENTS AND CONTINGENCIES**

**A. Lawsuits**

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

**B. Federal and State Grant Programs**

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

As of June 30, 2005, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the City.

**City of Saratoga**  
**Notes to the Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**13. PRIOR PERIOD ADJUSTMENTS**

**Government-Wide Financial Statements**

The City recorded the following prior period adjustments to correct prior year Capital Assets as part of GASB Statement No. 34 implementation, remove claims payable since the City is fully insured with no deductible amount and to correct some accounting errors. Accordingly, the net assets as of July 1, 2004 have been restated as follows:

	Net Assets, as Previously Reported	GASB 34 Capital Assets	Prior Period Adjustments		Net Assets, as Restated
			Claims Payable	Errors Corrections	
Government-Wide Activities:					
Net assets	\$ 117,899,126	\$ 2,031,613	\$ 180,865	\$ (192,355)	\$ 119,919,249
<b>Total government-wide activities</b>	<b>\$ 117,899,126</b>	<b>\$ 2,031,613</b>	<b>\$ 180,865</b>	<b>\$ (192,355)</b>	<b>\$ 119,919,249</b>

**Fund Financial Statements**

The City recorded the following reclassifications to City funds to more accurately reflect certain transactions in the prior years:

General Fund - The City determined that the prior year balance of deposits payable was incorrect and needed to be adjusted.

Library Bond Debt Service Fund - The City recorded a prior period adjustment to correct some accounting errors.

Library Expansion Fund - The City determined that prior year expenditures should be classified from General Fund to Library Expansion Fund.

	Fund Balances, as Previously Reported	Prior Period Adjustment Reclassification of Funds	Fund Balances, as Restated
Major Fund:			
General Fund	\$ 6,506,115	(153,611)	\$ 6,352,504
Library Bond Debt Service Fund	701,976	104	702,080
Library Expansion Fund	1,179,492	(38,848)	1,140,644
<b>Total</b>	<b>\$ 8,387,583</b>	<b>\$ (192,355)</b>	<b>\$ 8,195,228</b>



**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Saratoga**  
**Required Supplementary Information**  
**For the year ended June 30, 2005**

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**1. BUDGETARY INFORMATION**

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

The Annual Budget serves from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the City's performance. The City does not adopt an annual budget for all capital projects funds. All capital projects funds are budgeted on the project length basis.

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

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General, special revenue and capital projects funds. Unexpended and unencumbered appropriations of these governmental funds automatically lapse at the end of the fiscal year.

**City of Saratoga**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

**1. BUDGETARY INFORMATION, Continued**

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

**Budget Comparison Schedule, General Fund**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>Fund Balances - Beginning, as restated</b>	\$ 6,506,115	\$ 6,506,115	\$ 6,352,504	\$ (153,611)
<b>Resources (inflows):</b>				
Property taxes	4,743,415	4,743,415	4,834,577	91,162
Other local taxes	1,865,425	1,865,425	1,862,434	(2,991)
Licenses and permits	16,950	16,950	100,459	83,509
Fines and forfeiture	110,055	110,055	161,721	51,666
Intergovernmental - State	508,190	508,190	575,596	67,406
Franchise fees	1,260,030	1,260,030	1,293,621	33,591
Use of money and property	467,074	467,074	605,857	138,783
Current service charges	3,455,070	3,455,070	3,125,010	(330,060)
Transfers in	1,176,532	1,210,151	1,235,478	25,327
Amount available for appropriations	20,108,856	20,142,475	20,147,257	4,782
<b>Charges to Appropriations (outflows):</b>				
Current:				
General and intergovernmental services	3,419,640	3,489,106	3,238,277	250,829
Public safety	2,672,097	3,725,141	3,630,146	94,995
Environmental services	655,701	655,701	379,120	276,581
Community services	2,094,849	2,240,738	1,830,475	410,263
Community development services	2,695,560	2,652,715	1,989,643	663,072
Transfers out	1,376,128	1,376,128	2,104,035	(727,907)
Total charges to appropriations	12,913,975	14,139,529	13,171,696	967,833
<b>Fund Balances - Ending</b>	\$ 7,194,881	\$ 6,002,946	\$ 6,975,561	\$ 972,615

**City of Saratoga**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

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**1. BUDGETARY INFORMATION, Continued**

**Budgetary Comparison Schedule, Community Development Block Grant Special Revenue Fund**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>Fund Balances - Beginning, as restated</b>	<u>\$ 84,000</u>	<u>\$ 84,000</u>	<u>\$ 84,000</u>	<u>\$ -</u>
<b>Resources (inflows):</b>				
Intergovernmental - Federal	170,406	170,406	58,702	(111,704)
Use of money and property	<u>3,030</u>	<u>3,030</u>	<u>43,298</u>	<u>40,268</u>
Amount available for appropriations	<u>257,436</u>	<u>257,436</u>	<u>186,000</u>	<u>(71,436)</u>
<b>Charges to Appropriations (outflows):</b>				
Community services	177,078	273,903	44,767	229,136
Transfer out	<u>-</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Total charges to appropriations	<u>177,078</u>	<u>288,903</u>	<u>59,767</u>	<u>229,136</u>
<b>Fund Balances - Ending</b>	<u>\$ 80,358</u>	<u>\$ (31,467)</u>	<u>\$ 126,233</u>	<u>\$ 157,700</u>

**City of Saratoga**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

**1. BUDGETARY INFORMATION, Continued**

**Budgetary Comparison Schedule, Street and Roads Special Revenue Fund**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>Fund Balances - Beginning</b>	\$ 551,771	\$ 551,771	\$ 551,771	\$ -
<b>Resources (inflows):</b>				
Intergovernmental - State	591,445	591,445	657,668	66,223
Intergovernmental - Other	-	331,674	175,921	(155,753)
Current service charges	10,000	10,000	7,906	(2,094)
Transfers in	1,716,786	1,168,186	898,733	(269,453)
Amount available for appropriations	2,870,002	2,653,076	2,291,999	(361,077)
<b>Charges to Appropriations (outflows):</b>				
Current:				
Public works	2,318,231	2,402,059	1,983,997	418,062
Transfer out	-	308,002	308,002	-
Total charges to appropriations	2,318,231	2,710,061	2,291,999	418,062
<b>Fund Balances - Ending</b>	\$ 551,771	\$ (56,985)	\$ -	\$ 56,985

**2. MODIFIED APPROACH FOR CITY STREETS INFRASTRUCTURE CAPITAL ASSETS**

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

**City of Saratoga**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

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

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

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

The City commissioned a physical assessment of the streets conditions as of June 30, 2005. The study assists the City by providing current inspection data used to evaluate current pavement condition. This helps to maintain a City-defined desirable level of pavement performance while optimizing the expenditure of limited fiscal resources. The entire pavement network within the City is composed of approximately 139 centerline miles of pave surfaces. The City’s road system can be grouped by function class and includes 23.2 centerline miles of arterial, 23.3 centerline miles of collector, and 92.6 miles as residential.

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

The following conditions were defined:

<u>Condition</u>	<u>Rating</u>
Excellent	80-100
Very Good	70-79
Good	50-69
Poor	25-49
Very Poor	0-24

The City Policy is to achieve an average rating of 70 for all streets, which is a good rating. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. As of June 30, 2005, the City’s street system was rated at a PCI index of 70 on the average with the detail condition as follows:

<u>Condition</u>	<u>% of Streets</u>
Excellent to Good	86%
Poor	13%
Very Poor	1%

**City of Saratoga**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

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

The City expended \$2,609,648 on street maintenance for the year ended June 30, 2005. These routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the year 2007 is a minimum of \$5,400,000. (\$1,800,000 projected budget each year for the years ending June 30, 2005, 2006, and 2007.)

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

<u>Fiscal Year</u>	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Funded by General Fund</u>	<u>Funded by Gas Tax Fund</u>	<u>Total Funded</u>	<u>PCI Index</u>
2000-01	\$ 2,520,255	\$ 801,160	\$ 205,309	\$ 595,851	\$ 801,160	-
2001-02	3,529,420	2,214,717	1,631,855	582,862	2,214,717	-
2002-03	2,207,922	1,553,674	974,514	579,160	1,553,674	-
2003-04	1,961,844	1,489,667	907,327	582,340	1,489,667	70
2004-05	1,800,000	2,609,648	1,478,216	1,131,432	2,609,648	70

As of June 30, 2005, approximately 14% of the City's streets were rated below the average standard of 70. The City will continue to rehabilitate these segments of the streets. Total deficiencies (deferred maintenance) identified in the Pavement Management System amounted to approximately \$9,583,411 for all streets with an expected annual budget of \$650,000.

**3. DEFINED PENSION PLAN**

A schedule of funding progress for the past three actuarial valuations is presented below.

**Miscellaneous Employees**

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Actuarial Liability as Percentage of Covered Payroll</u>
6/30/2002	\$ 18,292,349	\$ 15,889,904	\$ (2,402,445)	115.1%	\$ 3,620,470	(66.4)%
6/30/2003	18,610,291	18,707,057	96,766	99.5%	3,814,553	2.5%
<b>CalPERS Risk Pool Information (See Note Below)</b>						
6/30/2004	2,460,944,656	2,746,095,668	285,151,012	89.6%	743,691,970	38.3%

In 2004, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuation was performed with other participants within the same risk pool. Therefore, standalone information of the Schedule of the Funding Progress for the City is no longer available.



## **SUPPLEMENTAL INFORMATION**



**City of Saratoga**

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

**Library Expansion Fund**

**For the year ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCES - BEGINNING</b>	\$ 1,140,644	\$ 1,140,644	\$ 1,140,644	\$ -
<b>RESOURCES (INFLOWS):</b>				
Use of money and property	5,846	5,846	6,454	608
<b>Amount available for appropriation</b>	<b>1,146,490</b>	<b>1,146,490</b>	<b>1,147,098</b>	<b>608</b>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
Capital outlay	68,065	68,065	380,953	(312,888)
<b>Total charges to appropriations</b>	<b>68,065</b>	<b>68,065</b>	<b>380,953</b>	<b>(312,888)</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 1,078,425</b>	<b>\$ 1,078,425</b>	<b>\$ 766,145</b>	<b>\$ (312,280)</b>



## NON-MAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

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

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

### Debt Service Fund

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

### Capital Projects Funds

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

*Library Expansion* - This fund accounts for resources used for the construction of the City's library.



**City of Saratoga**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2005**

	Special Revenue		Debt Service	Capital Projects		Total
	Local Law	Lighting and		Park		Other
	Enforcement	Assessment	Library	Development		Governmental
		District	Bond			Funds
<b>ASSETS</b>						
Restricted cash and investments	\$ -	\$ 91,555	\$ 846,130	\$ 73,972		\$ 1,011,657
Accounts receivable	-	791	5,623	-		6,414
Interest receivable	-	280	3,660	527		4,467
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 92,626</b>	<b>\$ 855,413</b>	<b>\$ 74,499</b>		<b>\$ 1,022,538</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ -	\$ 15,032	\$ -	\$ -		\$ 15,032
Accrued payroll	-	1,702	-	-		1,702
<b>Total liabilities</b>	<b>-</b>	<b>16,734</b>	<b>-</b>	<b>-</b>		<b>16,734</b>
<b>Fund Balances:</b>						
Reserved for:						
Debt service	-	-	855,413	-		855,413
Unreserved, undesignated, reported in:						
Special revenues funds	-	75,892	-	-		75,892
Capital projects funds	-	-	-	74,499		74,499
<b>Total fund balances</b>	<b>-</b>	<b>75,892</b>	<b>855,413</b>	<b>74,499</b>		<b>1,005,804</b>
<b>Total liabilities and fund balances</b>	<b>\$ -</b>	<b>\$ 92,626</b>	<b>\$ 855,413</b>	<b>\$ 74,499</b>		<b>\$ 1,022,538</b>

# City of Saratoga

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

### Nonmajor Governmental Funds

For the year ended June 30, 2005

	Special Revenue		Debt Service	Capital Projects	Total
	Local Law	Lighting and	Library	Park	Other
	Enforcement	Assessment	Bond	Development	Governmental
		District			Funds
<b>REVENUES:</b>					
Property taxes	\$ -	\$ 301,052	\$ 1,168,220	\$ -	\$ 1,469,272
Intergovernmental - State	100,000	-	-	-	100,000
Use of money and property	-	617	6,265	1,084	7,966
Current service charges	-	-	-	112,815	112,815
<b>Total revenues</b>	<b>100,000</b>	<b>301,669</b>	<b>1,174,485</b>	<b>113,899</b>	<b>1,690,053</b>
<b>EXPENDITURES:</b>					
Current:					
Public safety	100,000	-	-	-	100,000
Public works	-	235,710	-	-	235,710
Capital outlay	-	-	-	1,100	1,100
Debt service:					
Principal	-	-	255,000	-	255,000
Interest and fiscal charges	-	-	766,152	-	766,152
<b>Total expenditures</b>	<b>100,000</b>	<b>235,710</b>	<b>1,021,152</b>	<b>1,100</b>	<b>1,357,962</b>
<b>REVENUES OVER</b>					
<b>(UNDER) EXPENDITURES</b>	<b>-</b>	<b>65,959</b>	<b>153,333</b>	<b>112,799</b>	<b>332,091</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers out	-	(26,676)	-	(38,500)	(65,176)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(26,676)</b>	<b>-</b>	<b>(38,500)</b>	<b>(65,176)</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>39,283</b>	<b>153,333</b>	<b>74,299</b>	<b>266,915</b>
<b>FUND BALANCES:</b>					
Beginning of year	-	36,609	702,080	200	738,889
End of year	\$ -	\$ 75,892	\$ 855,413	\$ 74,499	\$ 1,005,804

**City of Saratoga**

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

**Local Law Enforcement Special Revenue Fund**

**For the year ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCES - BEGINNING</b>	\$ -	\$ -	\$ -	\$ -
<b>RESOURCES (INFLOWS):</b>				
Intergovernmental - State	100,000	100,000	100,000	-
Use of money and property	-	-	-	-
<b>Amount available for appropriation</b>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
Public safety	100,000	100,000	100,000	-
Transfers out	-	-	-	-
<b>Total charges to appropriations</b>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# City of Saratoga

## Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Lighting and Landscaping Assessment District Special Revenue Fund For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCES - BEGINNING</b>	\$ 36,609	\$ 36,609	\$ 36,609	\$ -
<b>RESOURCES (INFLOWS):</b>				
Property taxes	302,818	302,818	301,052	(1,766)
Use of money and property	405	405	617	212
<b>Amount available for appropriation</b>	<b>339,832</b>	<b>339,832</b>	<b>338,278</b>	<b>(1,554)</b>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
Public works	265,985	265,985	235,710	30,275
Transfer out	26,076	26,676	26,676	-
<b>Total charges to appropriations</b>	<b>292,061</b>	<b>292,661</b>	<b>262,386</b>	<b>30,275</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 47,771</b>	<b>\$ 47,171</b>	<b>\$ 75,892</b>	<b>\$ 28,721</b>

**City of Saratoga**

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

**Library Bond Debt Service Fund**

**For the year ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCES - BEGINNING</b>	\$ 701,976	\$ 701,976	\$ 702,080	\$ 104
<b>RESOURCES (INFLOWS):</b>				
Property taxes	1,022,135	1,022,135	1,168,220	146,085
Use of money and property	-	-	6,265	6,265
<b>Amount available for appropriation</b>	<u>1,724,111</u>	<u>1,724,111</u>	<u>1,876,565</u>	<u>146,189</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Debt service:				
Principal	255,000	255,000	255,000	-
Interest and fiscal charges	767,135	767,135	766,152	983
<b>Total charges to appropriations</b>	<u>1,022,135</u>	<u>1,022,135</u>	<u>1,021,152</u>	<u>983</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 701,976</u>	<u>\$ 701,976</u>	<u>\$ 855,413</u>	<u>\$ 153,437</u>

# City of Saratoga

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

### Park Development Capital Project Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCES - BEGINNING</b>	\$ 200	\$ 200	\$ 200	\$ -
<b>RESOURCES (INFLOWS):</b>				
Use of money and property	-	-	1,084	1,084
Current service charges	82,800	82,800	112,815	30,015
<b>Amount available for appropriation</b>	<u>83,000</u>	<u>83,000</u>	<u>114,099</u>	<u>1,084</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Capital outlay	-	1,000	1,100	(100)
Transfer out	-	92,500	38,500	54,000
<b>Total charges to appropriations</b>	<u>-</u>	<u>93,500</u>	<u>39,600</u>	<u>53,900</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 83,000</u>	<u>\$ (10,500)</u>	<u>\$ 74,499</u>	<u>\$ 84,999</u>

## FIDUCIARY FUND FINANCIAL STATEMENTS

### Agency Funds

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

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

**City of Saratoga**  
**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2005**

	Cable T.V. Trust	Assessment District Bonds	Total Agency Funds
<b>ASSETS</b>			
Cash and investments	\$ 73,540	\$ -	73,540
Restricted cash and investments	-	192,122	192,122
Interest Receivable	524	274	798
Accounts receivable	-	42,946	42,946
<b>Total assets</b>	<b>\$ 74,064</b>	<b>\$ 235,342</b>	<b>\$ 309,406</b>
<b>LIABILITIES</b>			
Deposits payable	\$ 74,064	\$ -	\$ 74,064
Due to assessment district bondholders	-	235,342	235,342
<b>Total liabilities</b>	<b>\$ 74,064</b>	<b>\$ 235,342</b>	<b>\$ 309,406</b>

**City of Saratoga**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the year ended June 30, 2005**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b><u>Cable T.V. Trust</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 87,376	\$ 17,453	\$ (31,289)	\$ 73,540
Interest Receivable	-	524	-	524
<b>Total assets</b>	<b>\$ 87,376</b>	<b>\$ 17,977</b>	<b>\$ (31,289)</b>	<b>\$ 74,064</b>
<b>Liabilities:</b>				
Deposits payable	\$ 87,376	\$ 17,977	\$ (31,289)	\$ 74,064
 <b><u>Assessment District Bonds</u></b>				
<b>Assets:</b>				
Restricted cash and investments	\$ 364,057	\$ 12,317	\$ (184,252)	\$ 192,122
Interest Receivable	-	274	-	274
Accounts receivable	42,946	-	-	42,946
<b>Total assets</b>	<b>\$ 407,003</b>	<b>\$ 12,591</b>	<b>\$ (184,252)</b>	<b>\$ 235,342</b>
<b>Liabilities:</b>				
Due to assessment district bondholders	\$ 407,003	\$ 12,591	\$ (184,252)	\$ 235,342
<b>Total liabilities</b>	<b>\$ 407,003</b>	<b>\$ 12,591</b>	<b>\$ (184,252)</b>	<b>\$ 235,342</b>
 <b><u>Total Agency Funds</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 87,376	\$ 17,453	\$ (31,289)	\$ 73,540
Restricted cash and investments	364,057	12,317	(184,252)	192,122
Interest Receivable	-	798	-	798
Accounts receivable	42,946	-	-	42,946
<b>Total assets</b>	<b>\$ 494,379</b>	<b>\$ 30,568</b>	<b>\$ (215,541)</b>	<b>\$ 309,406</b>
<b>Liabilities:</b>				
Deposits payable	\$ 87,376	\$ 17,977	\$ (31,289)	\$ 74,064
Due to assessment district bondholders	407,003	12,591	(184,252)	235,342
<b>Total liabilities</b>	<b>\$ 494,379</b>	<b>\$ 30,568</b>	<b>\$ (215,541)</b>	<b>\$ 309,406</b>



**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**

**City of Saratoga**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Comparative Schedules by Source**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>GOVERNMENTAL FUNDS CAPITAL ASSETS:</b>		
Land and land improvements	\$ 11,118,030	\$ 11,118,030
Buildings and structures	19,278,447	19,278,447
Machinery and equipment	1,558,492	2,061,856
Infrastructure	98,917,810	98,917,810
Construction in progress	<u>5,680,806</u>	<u>4,224,480</u>
<b>Total governmental funds capital assets</b>	136,553,585	135,600,623
Accumulated depreciation	<u>(16,329,151)</u>	<u>(16,601,165)</u>
<b>Total governmental funds capital assets, net</b>	<u><u>\$ 120,224,434</u></u>	<u><u>\$ 118,999,458</u></u>
<b>INVESTMENTS IN GOVERNMENTAL FUNDS</b>		
<b>CAPITAL ASSETS BY SOURCE:</b>		
General Fund	\$ 109,760,885	\$ 109,656,766
Special revenue funds	1,479,663	1,570,614
Capital projects funds	25,261,619	24,321,828
Donations	51,415	51,415
Accumulated depreciation	<u>(16,329,150)</u>	<u>(16,601,165)</u>
<b>Total governmental funds capital assets</b>	<u><u>\$ 120,224,432</u></u>	<u><u>\$ 118,999,458</u></u>

**City of Saratoga**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule by Function and Activity**  
**June 30, 2005**

	Land and Land Improvements	Buildings and Structures	Machinery and Equipment	Infrastructure	Construction in Progress	Total
<b>FUNCTION AND ACTIVITY</b>						
General and intergovernmental services:						
Management services	\$ -	\$ 271,631	\$ 47,837	\$ -	\$ 42,737	\$ 362,205
Administrative services	-	167,585	44,004	-	-	211,589
Intergovernmental services	118,184	3,096,786	67,606	-	-	3,282,576
Total general and intergovernmental services	118,184	3,536,002	159,447	-	42,737	3,856,370
Public safety:						
Police services	-	-	27,813	-	-	27,813
Code enforcement	-	-	37,548	-	-	37,548
Total public safety	-	-	65,361	-	-	65,361
Public works:						
Streets and sidewalks	134,695	30,628	630,181	98,917,810	2,410,367	102,123,681
Parks/open space	2,529,529	92,622	439,061	-	-	3,061,212
Total public works	2,664,224	123,250	1,069,242	98,917,810	2,410,367	105,184,893
Community services	6,593,157	1,312,265	227,810	-	2,276,294	10,409,526
Community development services	1,742,465	14,306,930	36,632	-	951,408	17,037,435
Total governmental funds capital assets	11,118,030	19,278,447	1,558,492	98,917,810	5,680,806	136,553,585
Accumulated depreciation	-	(2,621,608)	(1,303,057)	(12,404,486)	-	(16,329,151)
<b>Total governmental funds capital assets, net</b>	<b>\$ 11,118,030</b>	<b>\$ 16,656,839</b>	<b>\$ 255,435</b>	<b>\$ 86,513,324</b>	<b>\$ 5,680,806</b>	<b>\$ 120,224,434</b>

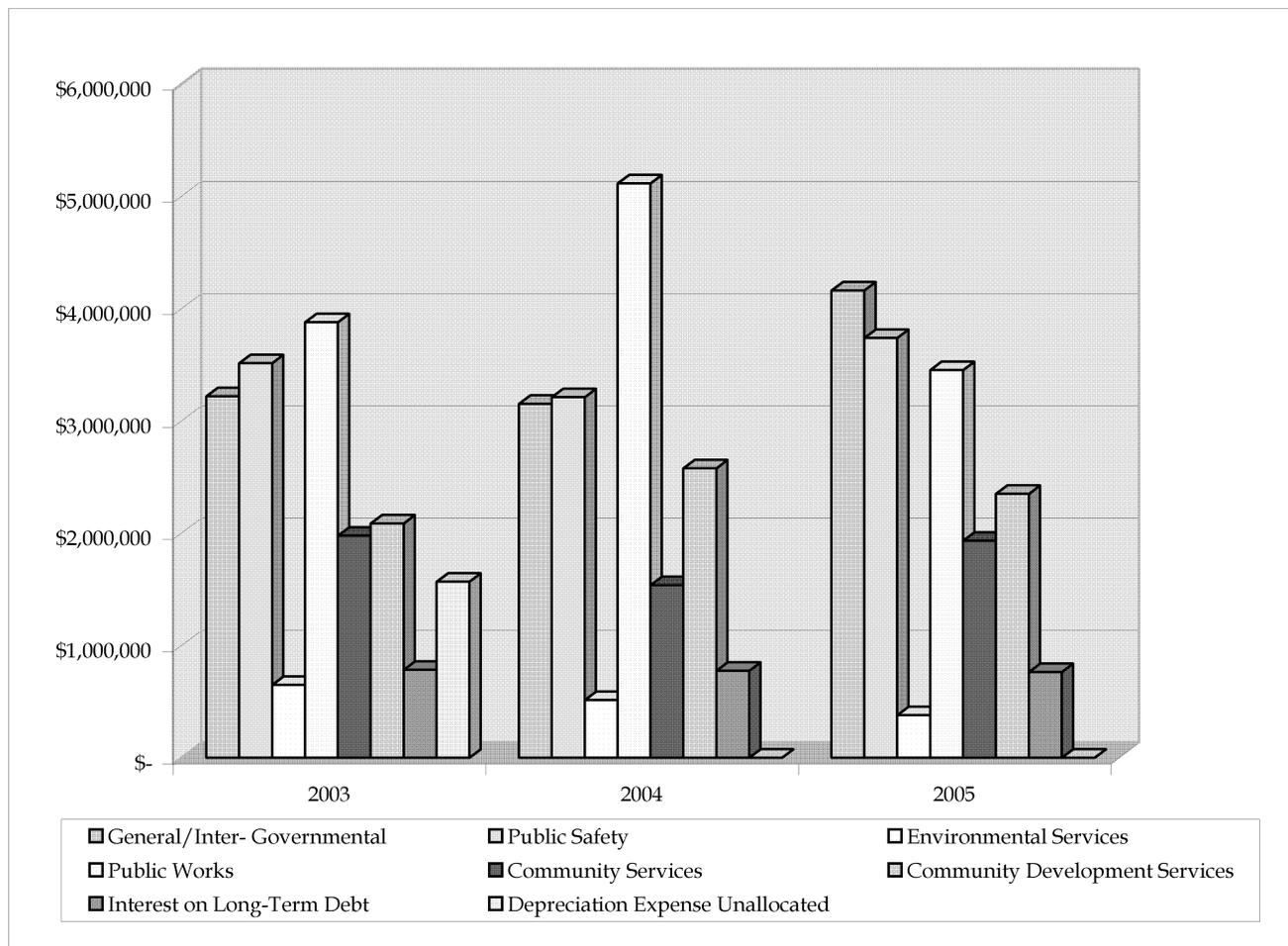
**City of Saratoga**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule of Changes by Function and Activity**  
**For the year ended June 30, 2005**

	Governmental Funds Capital Assets July 1, 2004	Additions	Deletions	Governmental Funds Capital Assets June 30, 2005
<b>FUNCTION AND ACTIVITY</b>				
General and intergovernmental services:				
Management services	\$ 417,484	\$ -	\$ (55,279)	\$ 362,205
Administrative services	309,363	-	(97,774)	211,589
Intergovernmental services	3,304,126	-	(21,550)	3,282,576
Total general and intergovernmental services	<u>4,030,973</u>	<u>-</u>	<u>(174,603)</u>	<u>3,856,370</u>
Public safety:				
Police services	70,305	-	(42,492)	27,813
Code enforcement	69,412	-	(31,864)	37,548
Total public safety	<u>139,717</u>	<u>-</u>	<u>(74,356)</u>	<u>65,361</u>
Public works:				
Streets and sidewalks	101,518,827	651,582	(46,728)	102,123,681
Parks/open space	3,101,053	-	(39,841)	3,061,212
Total public works	<u>104,619,880</u>	<u>651,582</u>	<u>(86,569)</u>	<u>105,184,893</u>
Community services	10,200,581	312,413	(103,468)	10,409,526
Community development services	16,609,472	492,330	(64,367)	17,037,435
Total governmental funds capital assets	135,600,623	1,456,325	(503,363)	136,553,585
Accumulated depreciation	<u>(16,601,165)</u>	<u>(1,759,600)</u>	<u>2,031,614</u>	<u>(16,329,151)</u>
<b>Total governmental funds capital assets, net</b>	<u><u>\$ 118,999,458</u></u>	<u><u>\$ (303,275)</u></u>	<u><u>\$ 1,528,251</u></u>	<u><u>\$ 120,224,434</u></u>

**STATISTICAL SECTION  
(Unaudited)**

# City of Saratoga

## Government-Wide Expense - By Function



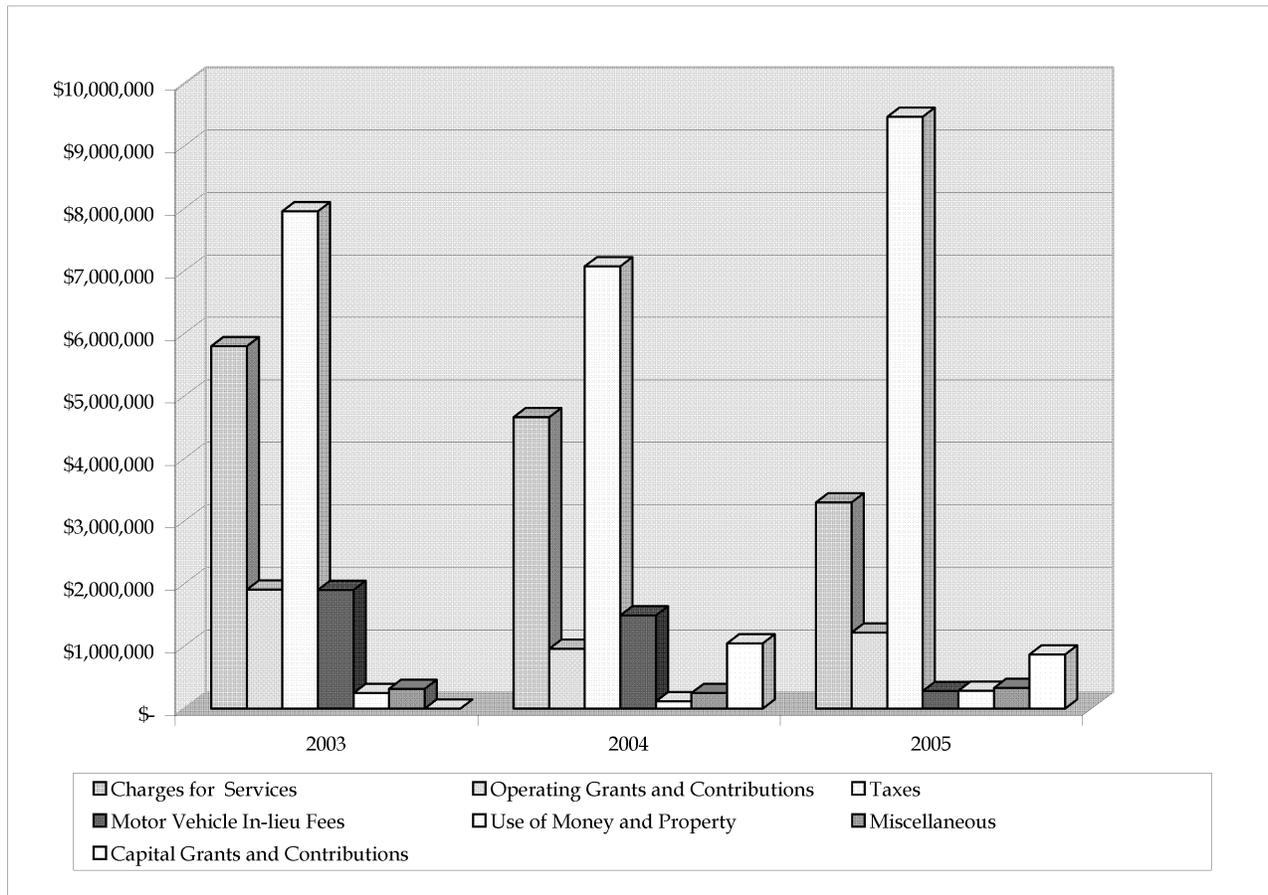
Fiscal Year	General/Inter-Governmental	Public Safety	Environmental Services	Public Works	Community Services	Community Development Services	Interest on Long-Term Debt	Depreciation Expense Unallocated	Totals
2003	\$ 3,218,231	\$ 3,512,550	\$ 647,935	\$ 3,874,717	\$ 1,975,659	\$ 2,086,160	\$ 782,506	\$ 1,566,931	\$ 17,664,689
2004	3,149,593	3,208,027	513,539	5,113,509	1,535,575	2,575,621	771,670	-	16,867,534
2005	4,159,852	3,735,516	378,539	3,450,245	1,929,480	2,348,447	760,839	-	16,762,918

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

Source: City of Saratoga Annual Financial Report

# City of Saratoga

## Government-Wide Revenues - By Sources



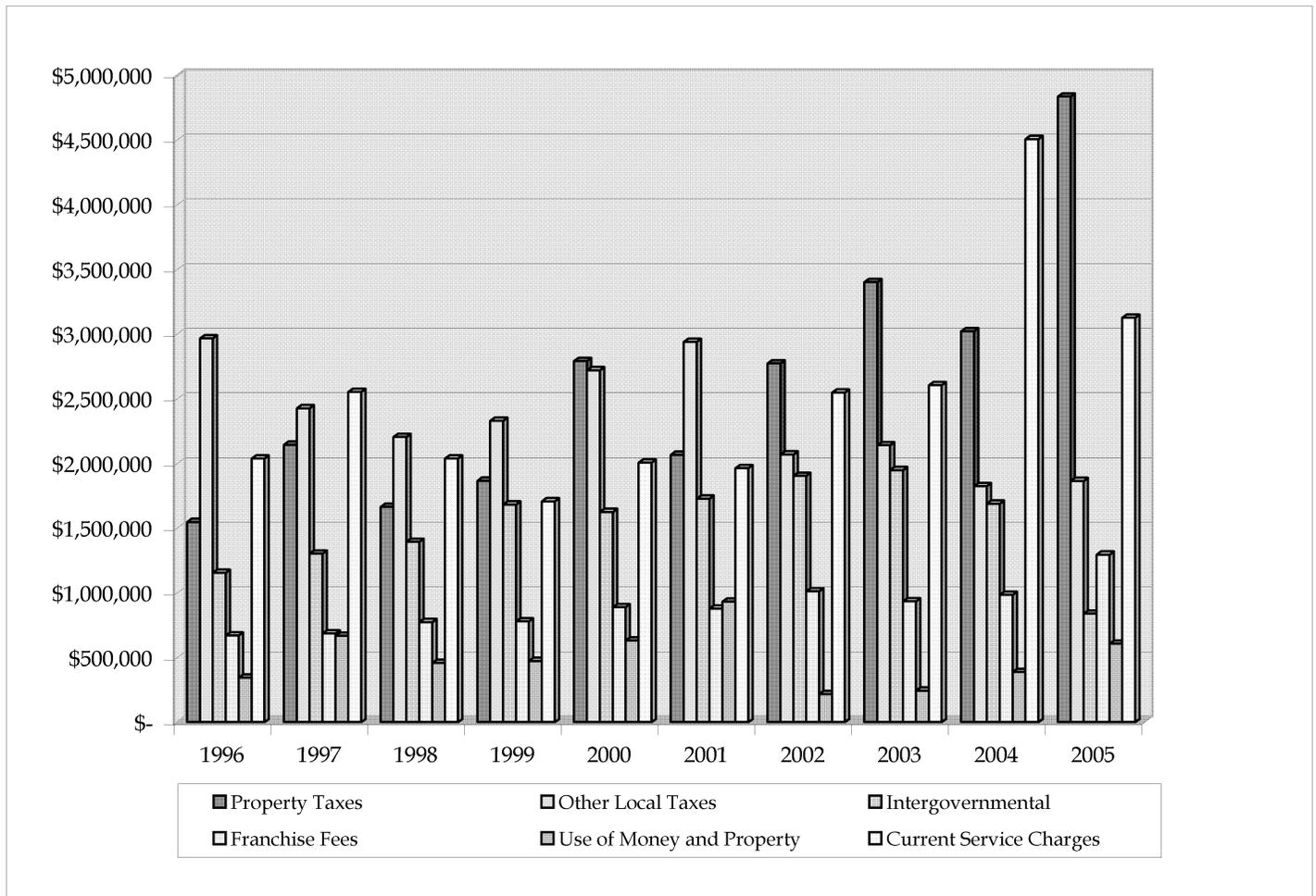
### Program Revenues

Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Motor Vehicle In-lieu Fees	Use of Money and Property	Miscellaneous	Totals
2003	\$ 5,796,502	\$ 1,901,933	\$ -	\$ 7,952,843	\$ 1,896,606	\$ 246,671	\$ 315,165	\$ 18,109,720
2004	4,663,950	953,962	1,044,971	7,075,307	1,488,954	114,537	248,121	15,589,802
2005	3,299,708	1,217,938	864,553	9,466,784	281,625	282,823	331,202	15,744,633

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

Source: City of Saratoga Annual Financial Report

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

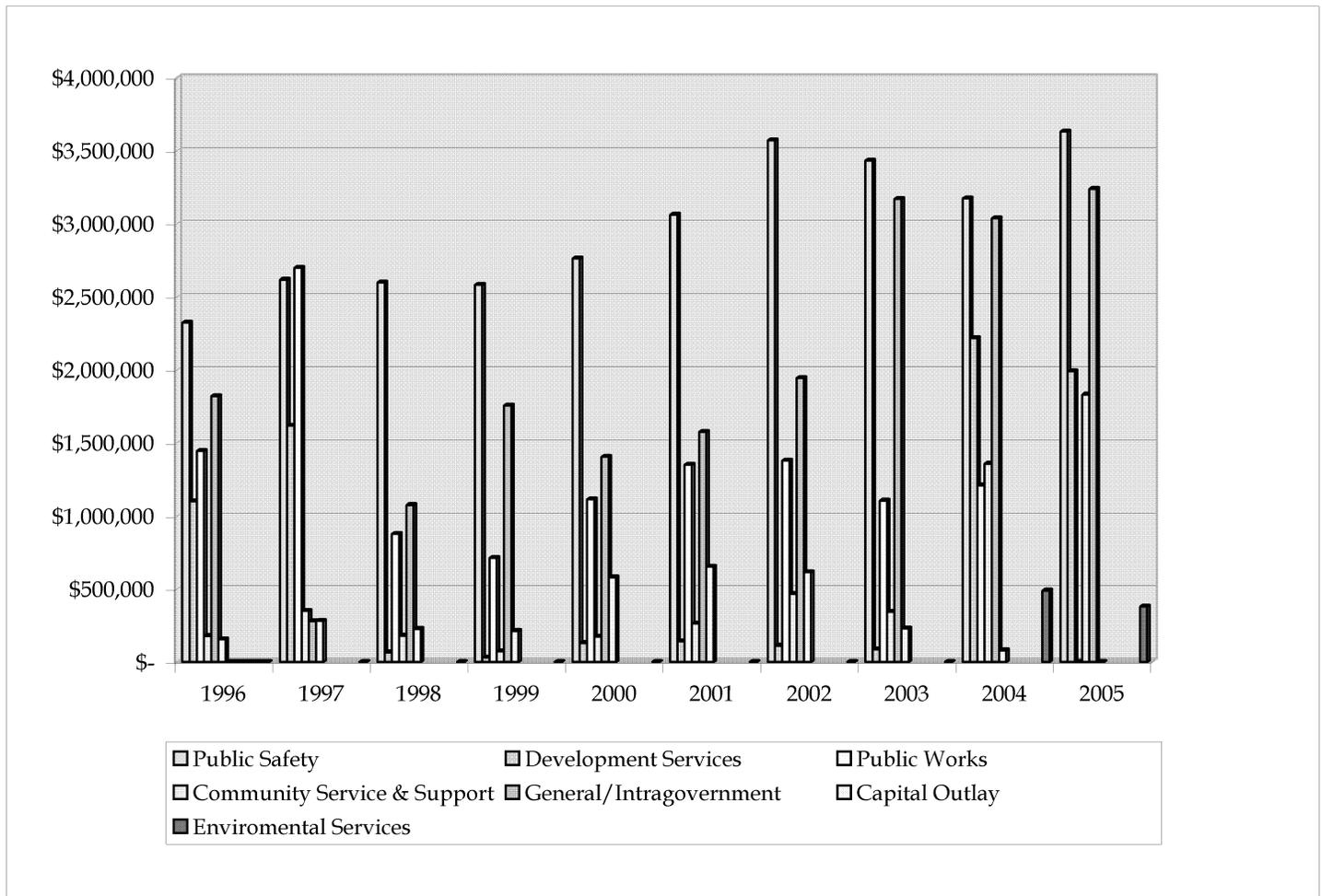


Fiscal Year	Property Taxes	Other Local Taxes	Inter-governmental	Franchise Fees	Use of Money and Property	Current Services Charges	Totals
1996	\$ 1,546,162	\$ 2,965,069	\$ 1,152,968	\$ 669,467	\$ 343,295	\$ 2,036,854	\$ 8,713,815
1997	2,142,454	2,424,825	1,301,443	685,083	665,966	2,552,050	9,771,821
1998	1,664,144	2,202,826	1,392,591	772,258	457,382	2,037,182	8,526,383
1999	1,864,766	2,328,071	1,680,670	777,560	472,198	1,705,692	8,828,957
2000	2,790,294	2,718,358	1,623,583	886,618	630,833	2,005,183	10,654,869
2001	2,065,051	2,938,209	1,725,765	876,652	930,430	1,962,122	10,498,229
2002	2,772,021	2,067,288	1,901,892	1,010,609	216,562	2,546,937	10,515,309
2003	3,400,228	2,138,618	1,947,205	932,808	242,228	2,602,924	11,264,011
2004	3,020,515	1,822,785	1,687,387	983,621	386,450	4,505,317	12,406,075
2005	4,834,577	1,862,434	837,777	1,293,621	605,856	3,125,010	12,559,275

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

Source: City of Saratoga Annual Financial Report

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

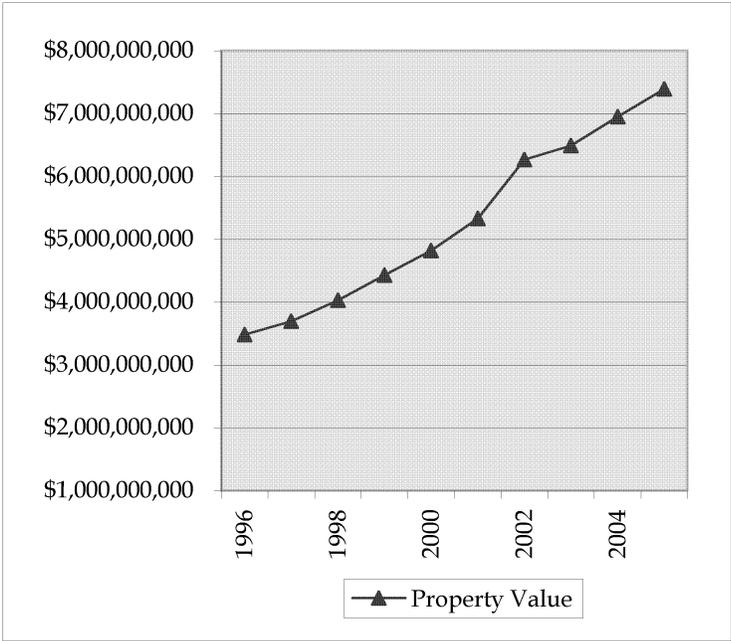
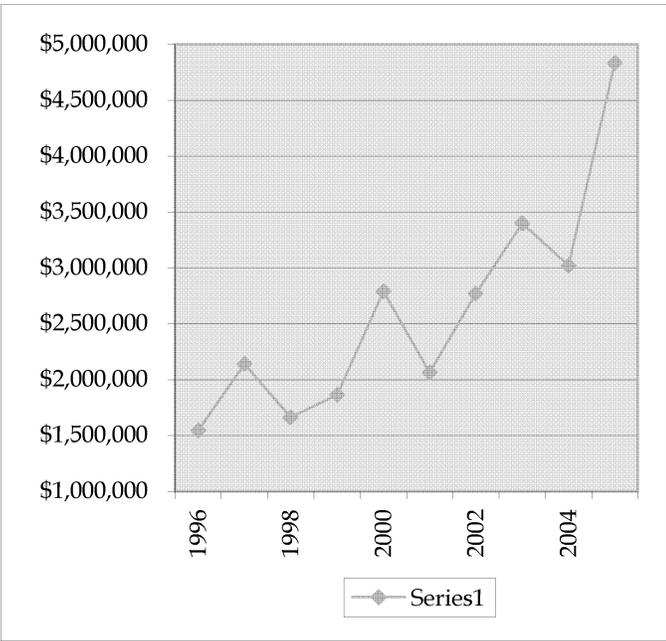


Fiscal Year	General / Inter-Governmental	Public Safety	Enviromental Services	Development Services	Public Works	Community Services	Capital Outlay	Totals
1996	\$ 1,819,188	\$ 2,322,425	\$ -	\$ 1,098,931	\$ 1,444,155	\$ 177,837	\$ 154,695	\$ 7,017,231
1997	279,737	2,616,973	-	1,616,532	2,697,413	349,019	280,500	7,840,174
1998	1,074,696	2,598,233	-	65,502	877,204	179,928	226,310	5,021,873
1999	1,754,995	2,581,940	-	30,947	712,822	72,880	212,223	5,365,807
2000	1,404,530	2,761,741	-	129,849	1,113,870	172,549	578,612	6,161,151
2001	1,574,597	3,062,160	-	140,883	1,349,838	262,696	651,814	7,041,988
2002	1,943,301	3,570,910	-	111,520	1,378,334	465,241	614,171	8,083,477
2003	3,168,878	3,431,591	-	85,994	1,104,505	343,864	228,607	8,363,439
2004	3,037,062	3,172,922	488,495	2,216,151	1,208,717	1,357,048	79,358	11,559,753
2005	3,238,277	3,630,146	379,120	1,989,643	-	1,830,475	-	11,067,661

Source: City of Saratoga Annual Financial Report

Note: Year 2005 Engineering program was reclassification to Development Services; Park and Open Space program was reclassified to Community Serv

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

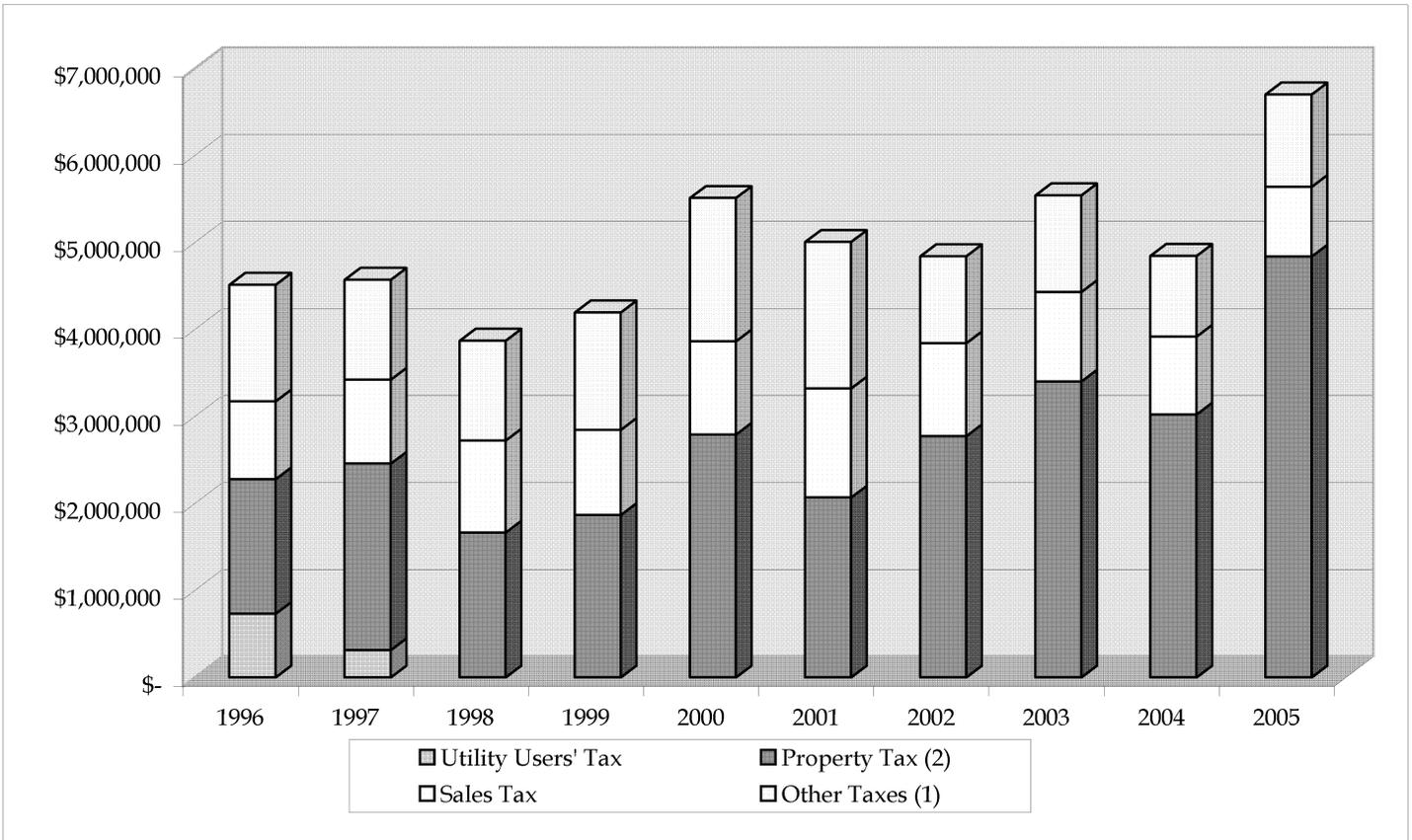


<u>Fiscal Year</u>	<u>Property Tax Levies and Collections</u>	<u>Value of Property Subject to Local Tax Rate</u>
1996	\$ 1,546,162	\$ 3,486,766,121
1997	2,142,454	3,697,799,273
1998	1,664,144	4,029,366,672
1999	1,864,766	4,432,643,052
2000	2,790,294	4,823,743,087
2001	2,065,051	5,331,749,683
2002	2,772,021	6,271,461,110
2003	3,400,228	6,489,250,969
2004	3,020,515	6,953,969,775
2005	4,834,577	7,393,857,738

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

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

**City of Saratoga**  
**General Fund Tax Revenue**  
**Last ten fiscal years**



Fiscal Year	Utility User's Tax	Property Tax (2)	Sales Tax	Other Taxes (1)	Totals
1996	\$ 729,468	\$ 1,546,162	\$ 896,799	\$ 1,338,802	\$ 4,511,231
1997	312,464	2,142,454	966,900	1,145,461	4,567,279
1998	-	1,664,144	1,057,677	1,145,149	3,866,970
1999	-	1,864,766	979,192	1,348,879	4,192,837
2000	-	2,790,294	1,071,122	1,647,236	5,508,652
2001	-	2,065,051	1,255,726	1,682,483	5,003,260
2002	-	2,772,021	1,066,607	1,000,681	4,839,309
2003	-	3,400,228	1,028,329	1,110,289	5,538,846
2004	-	3,020,515	895,028	927,757	4,843,300
2005	-	4,834,577	803,581	1,058,853	6,697,011

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

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

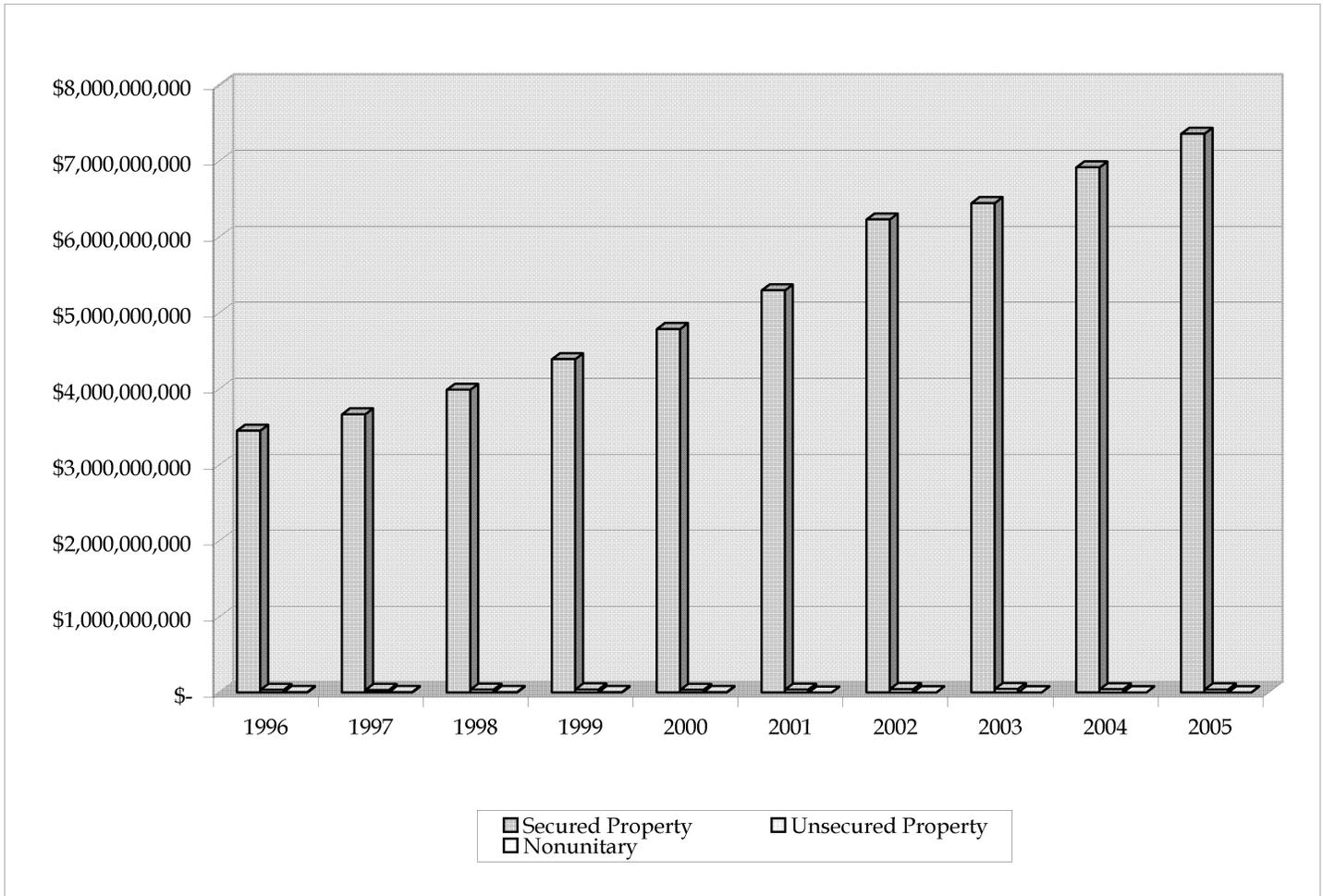
Year 2000 property tax receipts include settlement proceeds, Year 2003 property tax receipts include one time Special Assessment.

Source: City of Saratoga Finance Department

# City of Saratoga

## Assessed and Estimated Actual Market Value of Taxable Property

Last ten fiscal years



Fiscal Year	Secured Property	Unsecured Property	Nonunitary	Total Assessed	Estimated Market
1996	\$ 3,447,233,348	\$ 34,271,545	\$ 5,271,228	\$ 3,486,776,121	\$ 3,486,776,121
1997	3,660,513,753	31,869,856	5,415,664	3,697,799,273	3,697,799,273
1998	3,985,335,053	38,624,678	5,406,941	4,029,366,672	4,029,366,672
1999	4,387,050,479	40,186,229	5,406,344	4,432,643,052	4,432,643,052
2000	4,784,312,421	34,417,462	5,013,204	4,823,743,087	4,823,743,087
2001	5,292,676,050	38,957,115	116,518	5,331,749,683	5,331,749,683
2002	6,227,826,411	42,904,985	729,714	6,271,461,110	6,271,461,110
2003	6,441,614,970	46,485,308	1,150,691	6,489,250,969	6,489,250,969
2004	6,912,443,373	41,386,146	140,256	6,953,969,775	6,953,969,775
2005	7,353,900,797	39,781,926	175,015	7,393,857,738	7,393,857,738

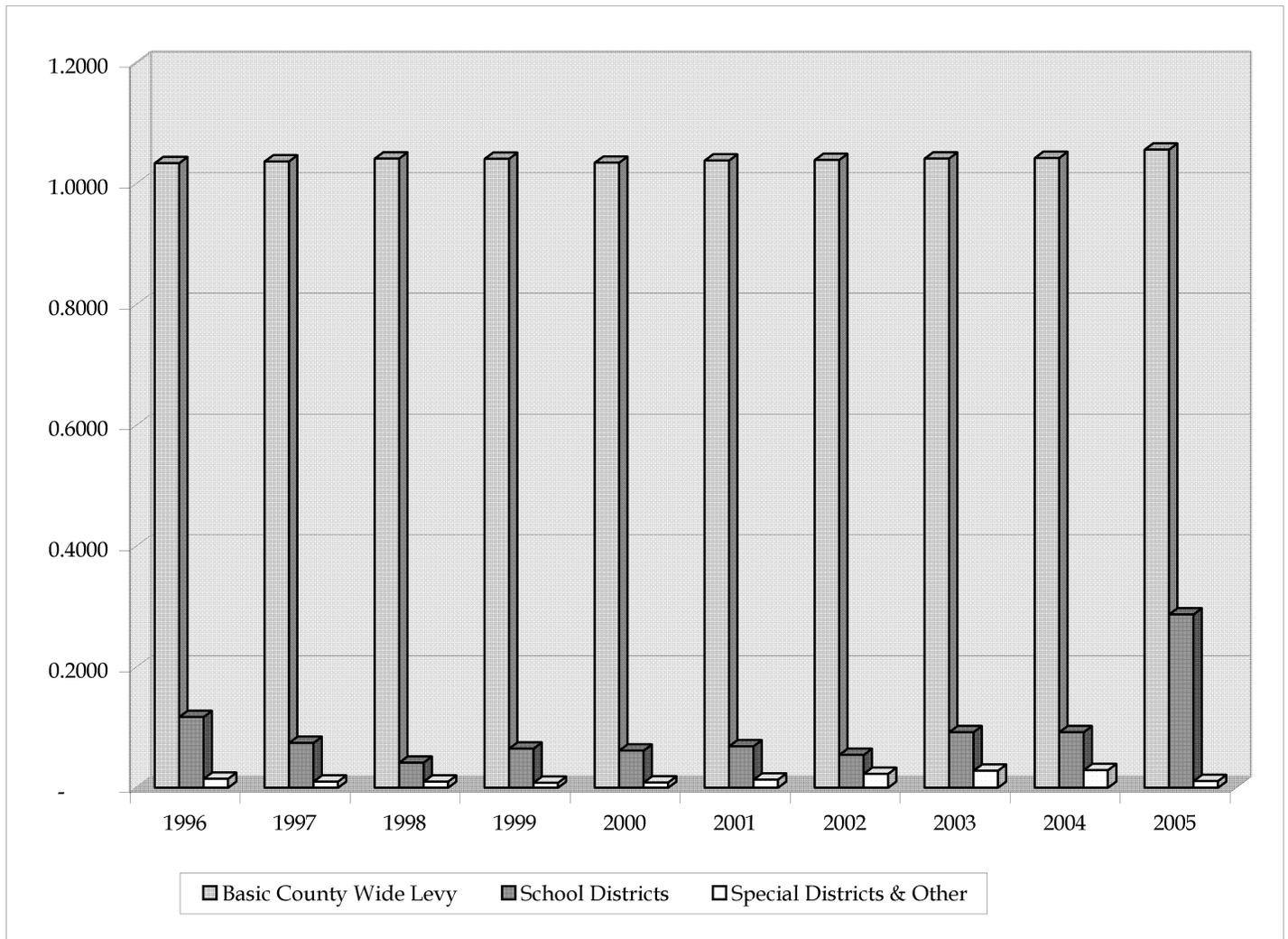
Note: The California Constitution requires properties to be assessed at full market value on the date of purchase but limits increases in assessed valuation to 2% annually.

Source: California Municipal Statistics, Inc.

# City of Saratoga

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

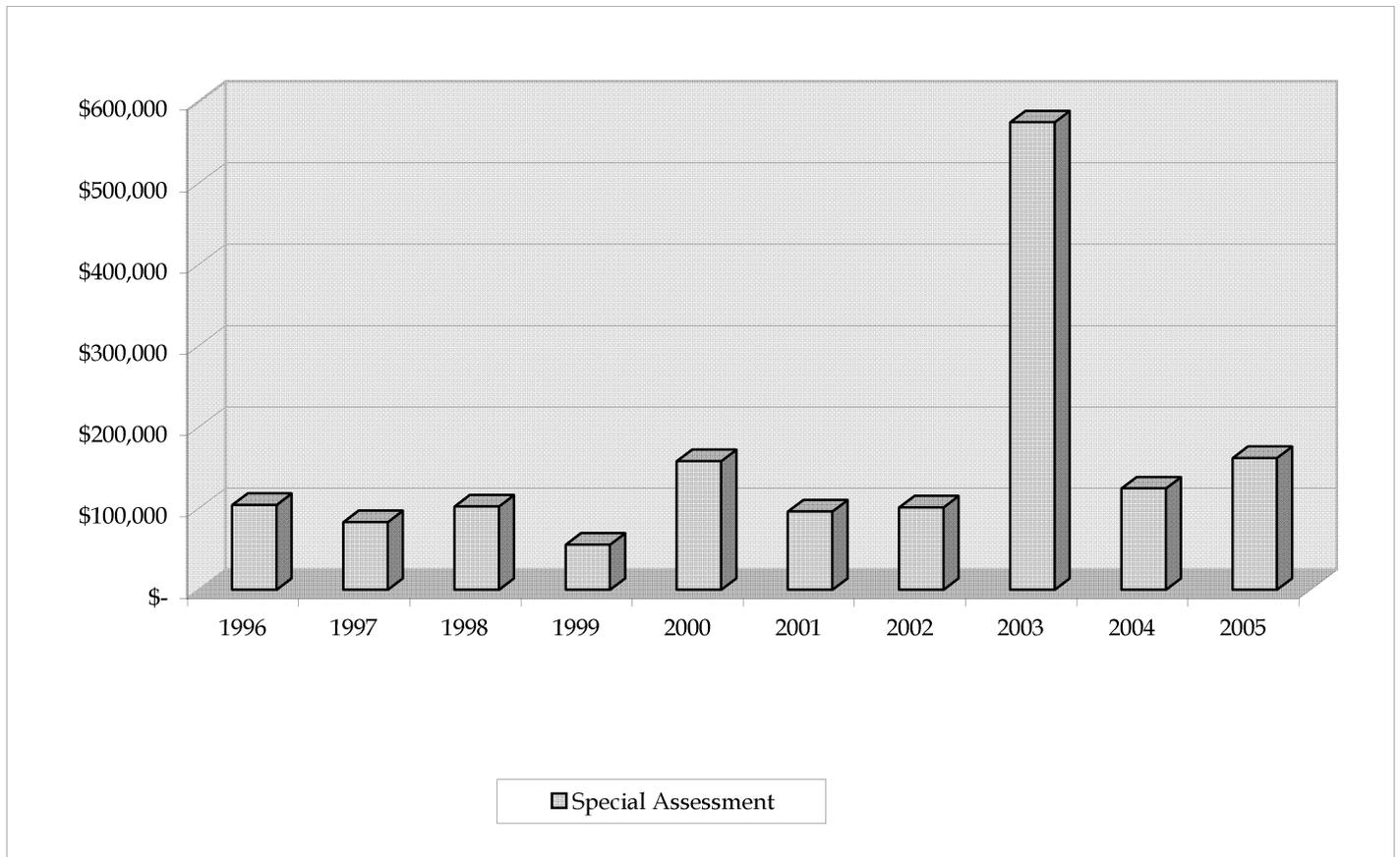
Last ten fiscal years



<u>Fiscal Year</u>	<u>Basic County Wide Levy</u>	<u>School Districts</u>	<u>Special Districts and Other</u>
1996	1.0338	0.1170	0.0147
1997	1.0365	0.0743	0.0102
1998	1.0412	0.0415	0.0098
1999	1.0405	0.0647	0.0082
2000	1.0343	0.0612	0.0085
2001	1.0380	0.0685	0.0135
2002	1.0388	0.0544	0.0229
2003	1.0412	0.0917	0.0282
2004	1.0421	0.0918	0.0288
2005	1.0560	0.2865	0.0109

Source: California Municipal Statistics Inc.

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

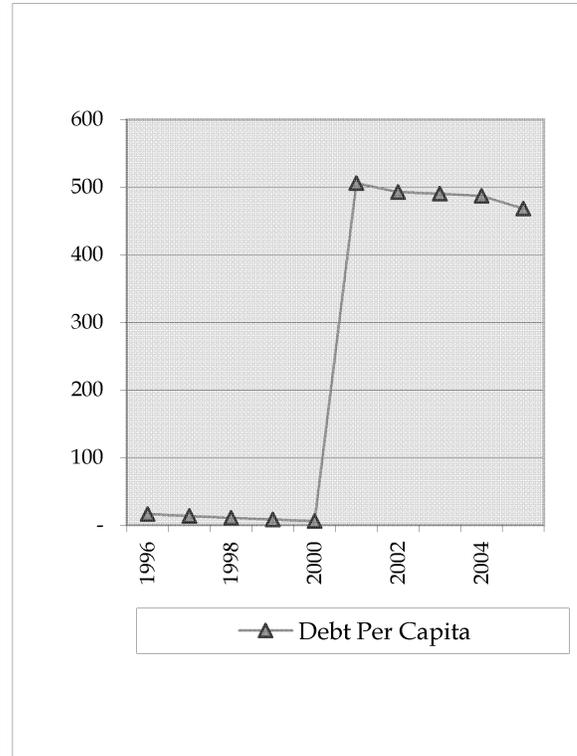
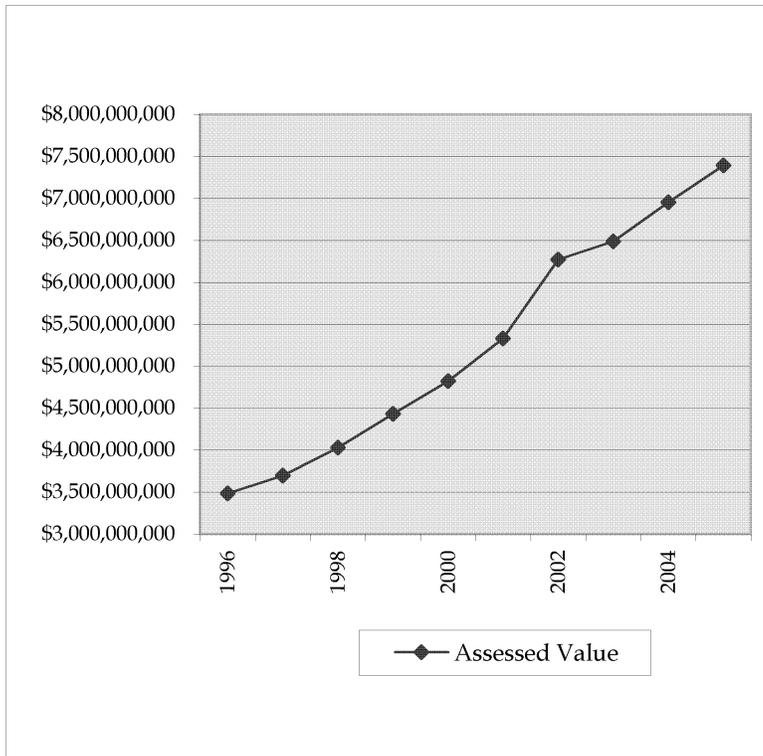


Fiscal Year	Special Assessment Billings and Collections
1996	\$ 104,292
1997	83,101
1998	102,164
1999	55,505
2000	157,936
2001	95,973
2002	101,162
2003	574,469
2004	124,365
2005	161,814

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

# City of Saratoga

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

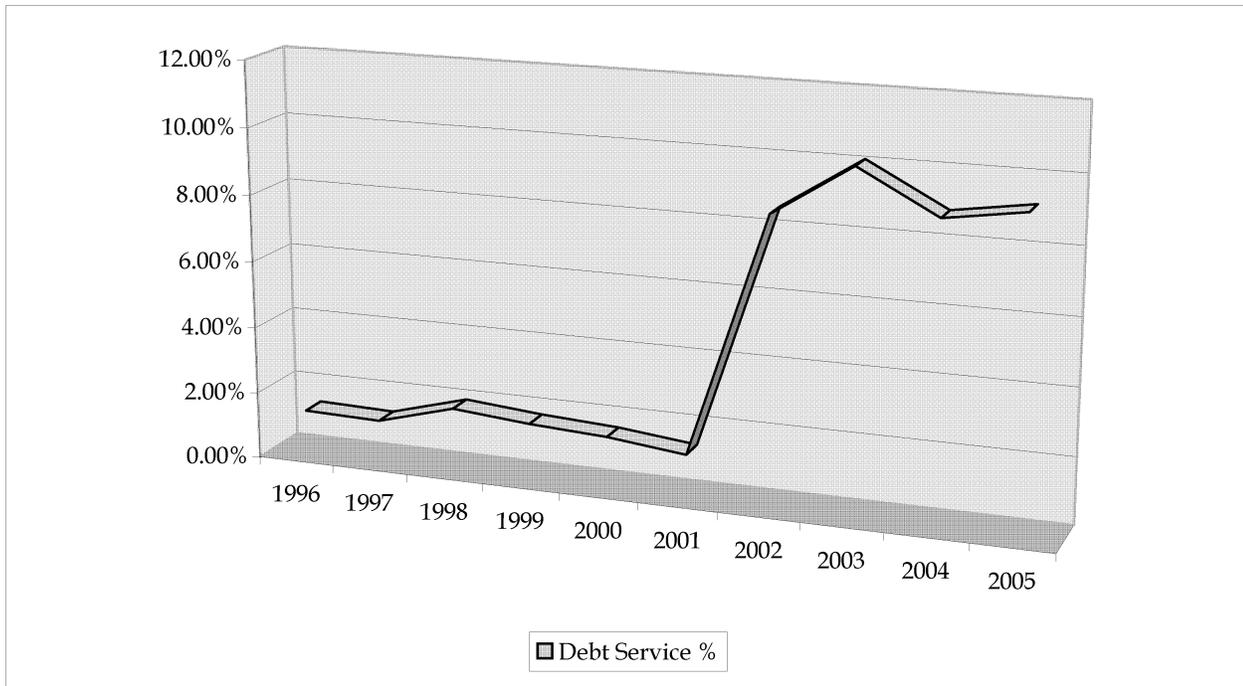


Fiscal Year	Population	Assessed Value	Bonded Debt	Debt Per Capita
1996	29,579	\$ 3,486,776,121	\$ 490,000	17
1997	30,591	3,697,799,273	415,000	14
1998	31,097	4,029,366,672	340,000	11
1999	31,255	4,432,643,052	265,000	8
2000	31,320	4,823,743,087	185,000	6
2001	29,843	5,331,749,683	15,100,000	506
2002	30,444	6,271,461,110	15,000,000	493
2003	30,482	6,489,250,969	14,940,000	490
2004	30,300	6,953,969,775	14,755,000	487
2005	30,850	7,393,857,738	14,440,000	468

Note: Includes Library General Obligation Bonds only  
 Sources: County of Santa Clara Tax Rate and Information Publication  
 California Municipal Statistics Inc.

# City of Saratoga

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

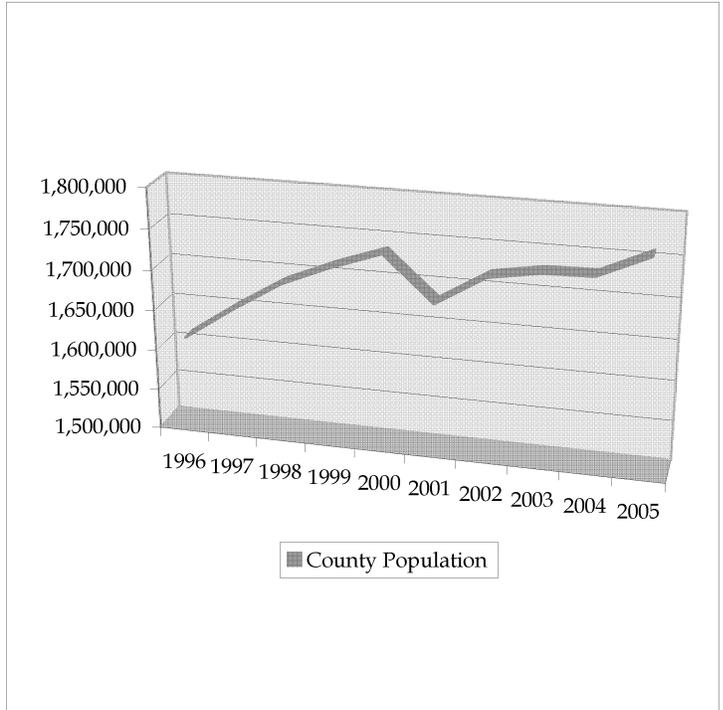
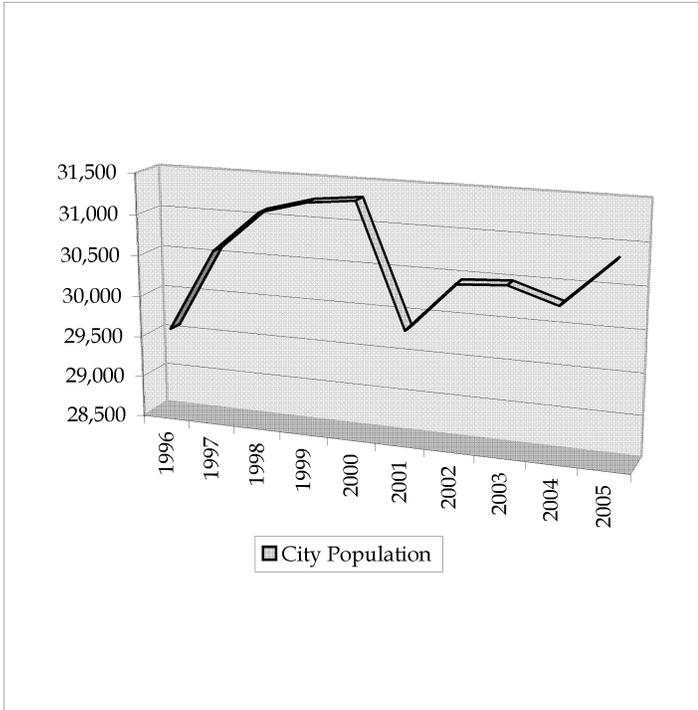


Fiscal Year	Principal	Interest	Total Debt Service	Total General Fund Expenditures	Percent of Debt Service to General Fund Expenditures
1996	\$ 65,000	\$ 30,307	\$ 95,307	\$ 7,017,231	1.36%
1997	75,000	26,700	101,700	7,840,174	1.30%
1998	75,000	22,178	97,178	5,021,873	1.94%
1999	75,000	18,071	93,071	5,365,807	1.73%
2000	80,000	18,783	98,783	6,161,151	1.60%
2001	85,000	9,774	94,774	7,041,988	1.35%
2002	99,973	592,462	692,435	8,083,477	8.57%
2003	60,000	783,756	843,756	8,363,439	10.09%
2004	245,000	777,112	1,022,112	11,559,753	8.84%
2005	255,000	763,631	1,018,631	11,067,661	9.20%

Note: Includes General Obligation Bonds

Source: City of Saratoga Finance Department

**City of Saratoga**  
**Demographic Statistics**  
**Last ten fiscal years**



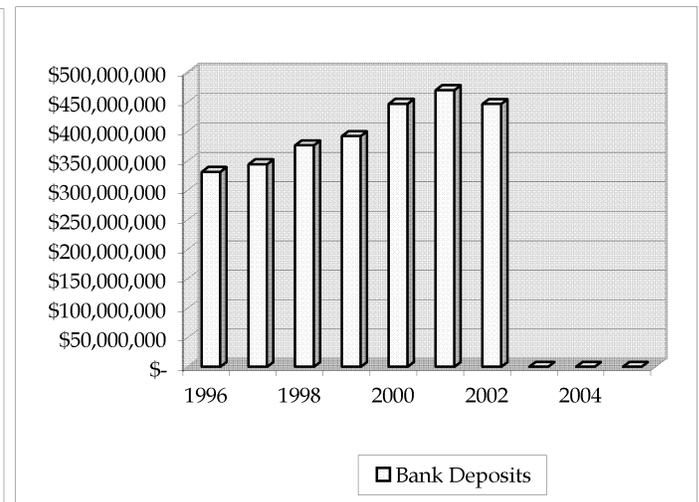
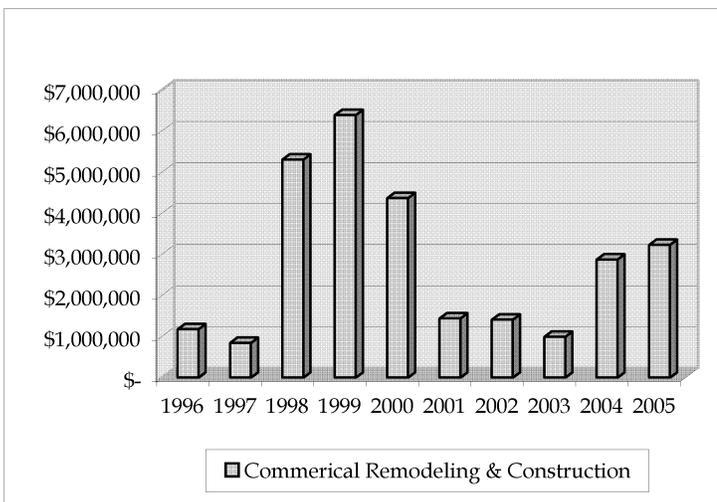
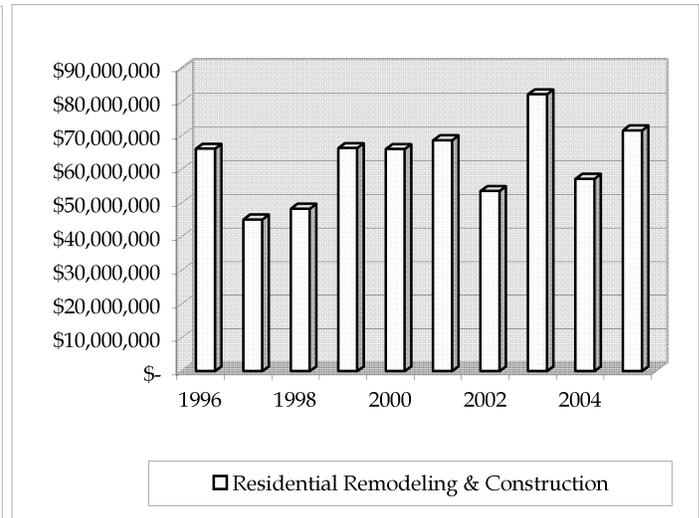
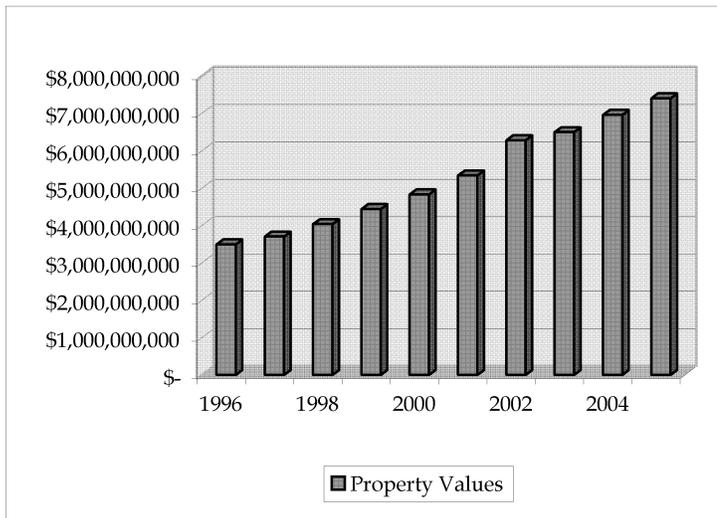
<u>Fiscal Year</u>	<u>City Population</u>	<u>County Population</u>	<u>Population % of County</u>
1996	29,579	1,612,258	1.83%
1997	30,591	1,653,061	1.85%
1998	31,097	1,689,908	1.84%
1999	31,255	1,715,374	1.82%
2000	31,320	1,736,722	1.80%
2001	29,843	1,682,585	1.77%
2002	30,444	1,719,565	1.77%
2003	30,482	1,729,917	1.76%
2004	30,300	1,731,400	1.75%
2005	30,850	1,759,585	1.75%

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

# City of Saratoga

## Property Values, Remodeling and Construction

### Last ten fiscal years



Fiscal Year	Property Values	Commercial Remodeling and Construction		Residential Remodeling and Construction		Bank Deposits
		Number of Permits	Value	Number of Permits	Value	
1996	\$ 3,486,776,121	69	\$ 1,171,533	2,535	\$ 66,013,893	\$ 331,014,000
1997	3,697,799,273	52	843,020	1,834	44,982,977	343,982,200
1998	4,029,366,672	47	5,300,593	1,844	48,230,194	376,130,000
1999	4,432,643,052	66	6,383,068	1,916	66,218,156	391,733,000
2000	4,823,743,087	57	4,362,875	1,960	65,901,107	446,758,000
2001	5,331,749,683	61	1,438,538	1,631	68,500,341	469,940,000
2002	6,271,461,110	42	1,405,295	1,685	53,474,165	446,251,000
2003	6,489,250,969	41	987,768	1,346	82,162,747	N/A
2004	6,953,969,775	43	2,865,523	1,554	57,079,206	N/A
2005	7,393,857,738	51	3,227,345	1,427	71,439,379	N/A

Source: City of Saratoga Finance Department

Bank deposits from Findley Reports and Sheshenoff Information Services

**City of Saratoga**  
**Computation of Legal Debt Margin**  
**June 30, 2005**

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<b>Assessed value</b>	<b>\$ 7,393,857,738</b>
Bonded debt limit (15% of assessed value)	\$ 1,109,078,661
Amount of debt subject to limit:	
Total long-term debt	14,440,000
<b>Legal debt margin</b>	<b>\$ 1,123,518,661</b>

Source: City of Saratoga Finance Department

**City of Saratoga**  
**Computation of Legal Debt Margin**  
**June 30, 2005**

	Percentage Applicable to City of Saratoga	Amount Applicable to City of Saratoga
<b><u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>		
Santa Clara Valley Water District, Zone W-1	3.989%	\$ 149,986
Foothill-De Anza Community College District	1.8050	3,345,118
Campbell Union High School District	5.8190	5,466,078
Fremont Union High School District	3.8490	5,519,466
Los Gatos-Saratoga Joint Union High School District	41.0460	30,029,254
Campbell Union School District	7.4240	6,396,022
Cupertino Union School District	6.4220	8,106,173
Moreland School District	13.3160	9,743,219
Saratoga Union School District	85.8860	48,014,396
Saratoga Fire Protection District	97.5200	5,635,424
City of Saratoga	100.0000	14,440,000
City of Saratoga 1915 Act Bonds	100.0000	45,000
Santa Clara Valley Water District Benefit Assessment District	3.7280	7,107,805
<b>Total Direct And Overlapping Tax And Assessment Debt</b>		<b>\$ 143,997,941</b>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u></b>		
Santa Clara County General Fund Obligations	3.728%	\$ 30,018,974
Santa Clara County Board of Education Certificates of Participation	3.728	670,481
Foothill-DeAnza Community College District Certificates of Participation	1.805	405,132
West Valley Community College District Certificates of Participation	11.725	2,636,953
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	41.046	1,783,449
Cupertino Union School District Certificates of Participation	6.422	354,173
Saratoga Union School District Certificates of Participation	85.886	6,510,159
Midpeninsula Regional Open Space Park District General Fund Obligations	6.498	7,430,476
<b>Total Direct And Overlapping General Fund Obligation Debt</b>		<b>\$ 49,809,797</b>
<b>Combined Total Debt</b>		<b>\$ 193,807,738 (1)</b>
(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.		
<b><u>Ratios to Assessed Valuation:</u></b>		
Direct Debt (\$14,440,000)	0.20%	
Total Direct and Overlapping Tax and Assessment Debt	1.95%	
Combined Total Debt	2.62%	
<b><u>STATE SCHOOL BUILDING REPAYABLE AS 6/30/2005:</u></b>		<b>\$0</b>

**City of Saratoga**  
**Principal Taxpayers**  
**June 30, 2005**

Assessee	Use	Assessed Value	Percent of Total Assessed Value
Odd Fellows Home of California	Residential Properties	\$ 22,325,000	0.53%
Saratoga Office Center Partners LLC	Commerical Properties	13,543,440	0.26%
Quito Village Group LLC	Commerical Properties	12,900,960	0.22%
Argonaut Associates LLC	Commerical Properties	12,004,998	0.15%
San Jose Water Works	Commerical Properties	9,900,550	0.13%
David J & Terri E. Morrison	Commerical Properties	9,423,067	0.13%
Ashok Kirshnamurthi, Et.Al.	Residential Properties	9,281,800	0.13%
David C. & Roxanne N. Peterschmidt	Residential Properties	9,240,526	0.12%
Deloise A. Jordan	Residential Properties	8,918,193	0.12%
David L. House	Vacant Land	8,800,000	0.12%
<b>Totals</b>		<b>\$ 116,338,534</b>	<b>1.91%</b>
<b>Total assessed valuation</b>		<b>\$ 7,393,857,738</b>	

Source: HDL Coren & Cone

**City of Saratoga**  
**Miscellaneous Statistics**  
**June 30, 2005**

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<b>Date of Incorporation</b>	1956
<b>Form of Government</b>	Council-Manager
<b>Employees:</b>	
Public Safety	1
City manger's office	5
Recreation	11
Public works / maintenance	21
Community development	12
Administrative services	7
<b>Total employees</b>	<u>57</u>
<b>Area</b>	12.25 square miles
<b>Miles of Streets</b>	150 137 public; 13 private
<b>Length of Storm Drains</b>	45 miles
<b>Fire Protection:</b>	
Saratoga Fire District:	
Number of stations	1
Number of firefighters	6-8
Number of reserve firefighters	20
Central Fire District:	
Number of stations	1
Number of firefighters	3
Number of reserve firefighters	40
<b>Police Protection:</b>	
Number of stations	1
Number of police officers	79
Number of support personnel	6
<b>Water Utility:</b>	
San Jose Water Company:	
Number of meters	10,102
Average daily consumption	9,926 gallons
Length of water mains	177 miles
<b>Sewer:</b>	
West Valley Sanitation District:	
Number of connections	8,601
Length of sewer lines	20 miles
Cupertino Sanitation District:	
Number of connections	2,118
Length of sewer lines	36 miles
<b>Culture and Recreation:</b>	
Parks	15
Acres in parks	81 acres
<b>Taxable Sales</b>	\$ 80,358,100
<b>Registered Voters</b>	19,282
<b>Population</b>	30,850

Sources: Various City records