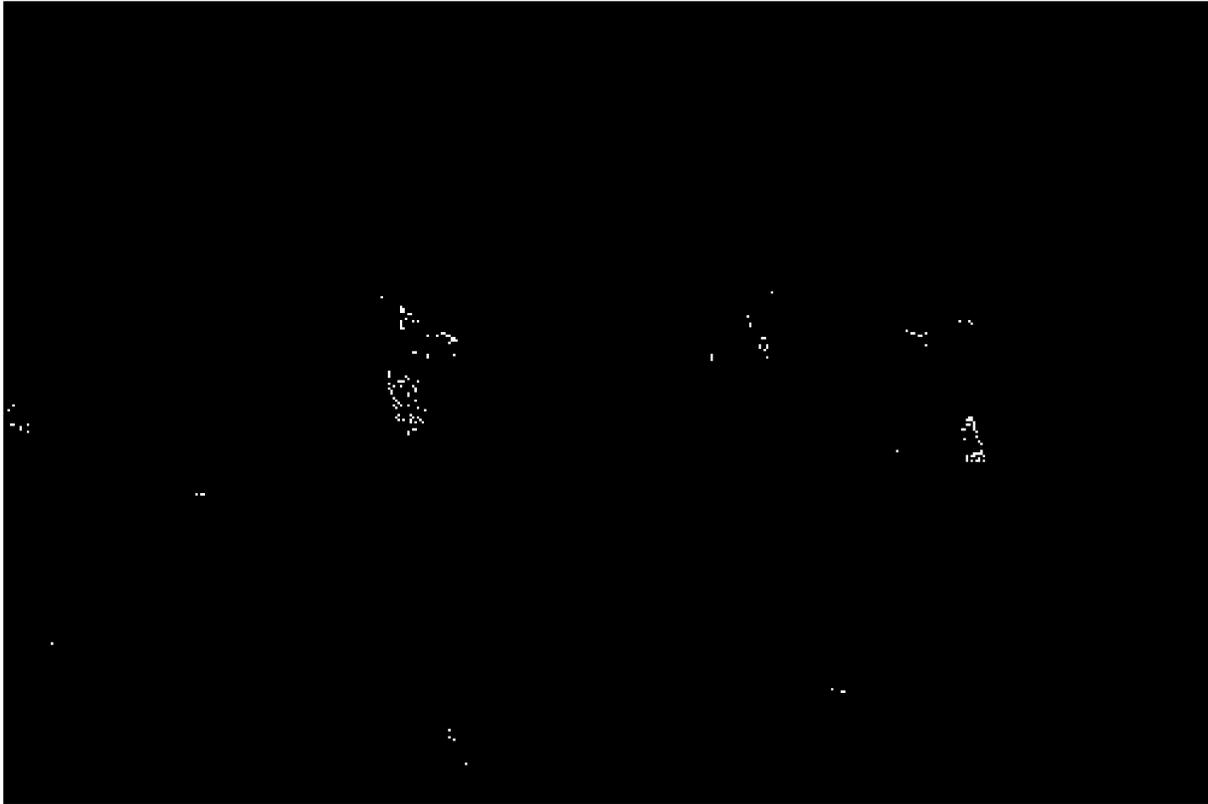




City of Saratoga



City's 50th anniversary parade
September 2006

**Comprehensive Annual
Financial Report**

**For the Fiscal Year Ended
June 30, 2006**

City of Saratoga
Comprehensive Annual Financial Report
For the year ended June 30, 2006

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Incorporated October 22, 1956

CITY of SARATOGA

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

COUNCIL MEMBERS:

Aileen Kao
Kathleen King
Chuck Page
Jill Hunter
Ann Waltonsmith

December 6, 2006

Honorable Mayor and City Council:

The Comprehensive Annual Financial Report (CAFR) of the City of Saratoga for the year ended June 30, 2006 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, 2006, 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 and the Government Finance Officers Association's (GFOA's) of the United States and Canada Certificate of Achievement for Excellence in Financial Reporting to the City of Saratoga for its CAFR for the fiscal year ending June 30, 2006.
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. This information has been updated in accordance with the new GASB 44.

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 30,835 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 eight 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, Arts Commission and Youth Commission. The Commission process is expected to be reviewed by the City Council and improvements are expected to be enacted by the City Council during the coming fiscal year.

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 four years the City and the nation faced an economy in recession, triggering significant City 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.

During 2005-06 the City of Saratoga's revenue picture was eased somewhat by long overdue actions at the State level. Proposition 1A affords some protection to City revenues and it halts State takeaways by specifying how and when the State can take future funding. The measure also provided for repayment of the VLF Backfill Gap Loan of \$516,000 which was repaid to the City in 2005-06. These additional funds were treated as one time revenues and appropriated separately from on-going expenditures in the 2005-06 budget.

In September, 2006 the City received a significant increase in new property tax revenues on an annual basis due to the passage of Assembly Bill 117. This legislation effective with the 2006-07 fiscal year increases the amount of property taxes allocated to the City as a result of the TEA (Tax Equity Allocation formula). Assembly Member Cohn sponsored the bill which resulted from a joint effort of the City of Saratoga, Santa Clara County and the 3 other affected cities – Cupertino, Monte Sereno and Los Altos Hills. These cities are referred to as “no/low tax cities” and will have restored a proportionate share of the property taxes which they lost to special legislation in 1989. This will result in a permanent increase in general fund property taxes of \$785,777.

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 are multiple-year projects. However, outstanding encumbrances of a material nature are reviewed by the responsible department and in some cases a recommendation is made to the City Council to take action by Resolution to re-appropriate 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 2005-2006 audit.

Awards. The City was awarded a certificate for its early implementation of GASB 34. Additionally, the Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement to the City for its Excellence in Financial Reporting on the CAFR for the fiscal year ended June 30, 2005. 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, Karen Caselli and Rey Foronda. Furthermore, we would like to thank Caporicci & Larson, CPA's for their

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



Sandra Sato
Interim Finance and 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, 2005

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.



Carla E. Perry

President

Jeffrey R. Emery

Executive Director

CITY OF SARATOGA

**ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL**

As of June 30, 2006

CITY COUNCIL *

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

CITY STAFF

Dave Anderson - City Manager
Barbara Powell - Assistant City Manager
Cathleen Boyer - City Clerk
Michele Braucht - Administrative Services Director
John Livingstone - Community Development Director
John Cherbone - Public Works Director
Joan Pisani - Recreation Director

CITY ATTORNEY

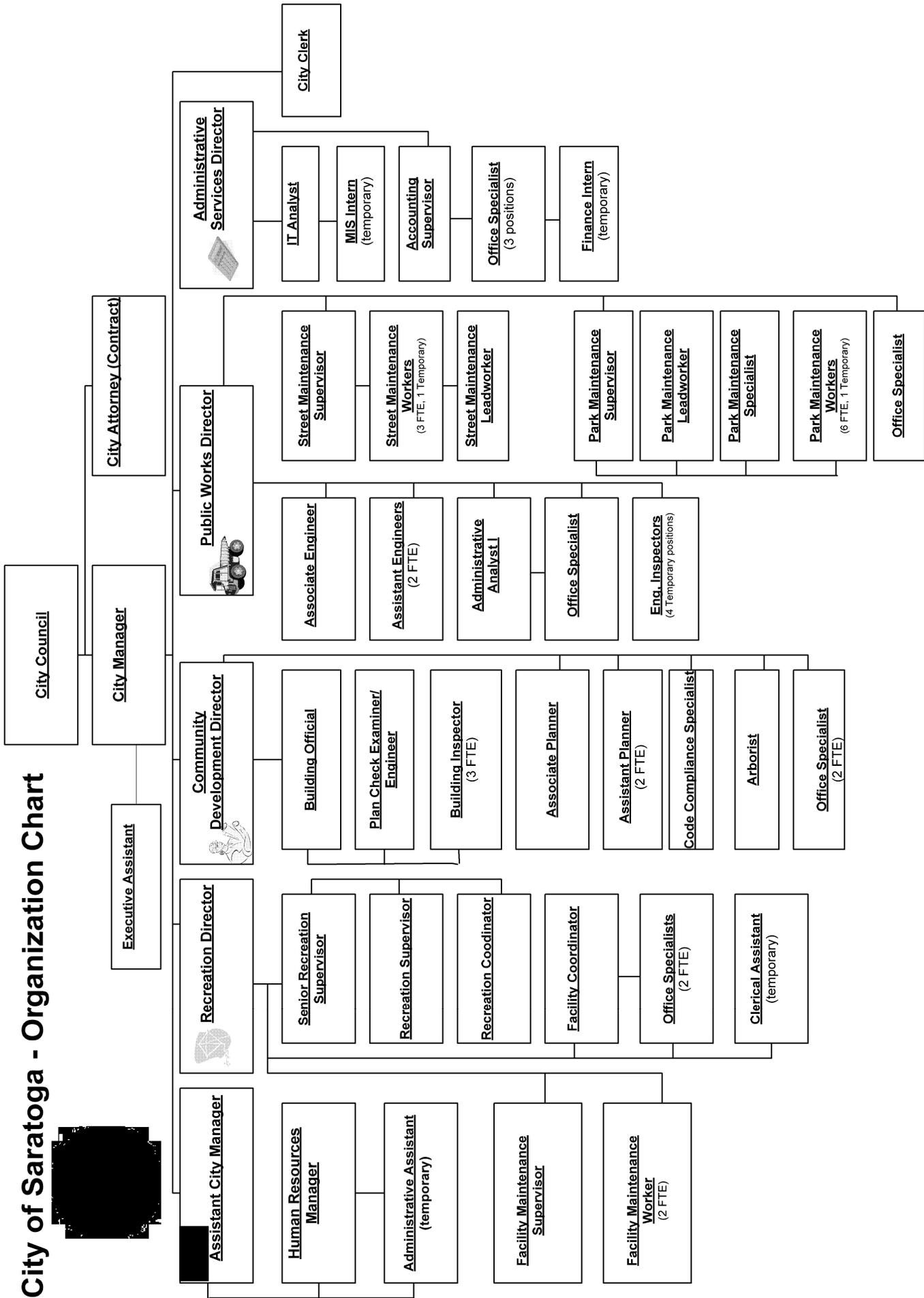
Richard S. Taylor - Shute, Mihaly & Weinberger

INDEPENDENT AUDITOR

Caporicci & Larson, CPAs

*Council reorganization was completed on December 6, 2006

City of Saratoga - Organization Chart





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, 2006, 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 opinion.

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, 2006, 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 basic financial statements, the City adopted the Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, No. 44, *Economic Condition Reporting: The Statistical Section* (an amendment of NCGA Statement 1), No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*.

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

Our audit was conducted for the purpose of forming an opinion 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

Irvine, California
October 13, 2006

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Toll Free Fax: (866) 436-0927

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180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County
9 Corporate Park, Suite 100
Irvine, California 92606

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4858 Mercury, Suite 106
San Diego, California 92111

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City of Saratoga
Management's Discussion and Analysis
June 30, 2006

Introduction

The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2006 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 2005-2006 Financial Highlights

- The City's total net assets were \$122,425,495 (reference pg #19).
- Total City revenues, including program and general revenues were \$19,389,877 (reference pg #20 & 21), while total expenses were \$ 16,026,590 (reference pg #20 & 21).
- Governmental program revenues were \$7,464,152 (reference pg #20), while Governmental program expenses were \$16,026,590 (reference pg #20 & 21).
- General Fund revenues were \$ 15,349,927 (reference pg #28), while General Fund expenditures were \$ 12,058,792 (reference pg #28).

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, 2006.

The Fund Financial Statements report the City's operations in more detail than the government-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:

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

Governmental activities - All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, transportation, and, culture 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 users based on the amount of services they use. The City of Saratoga does not have any business-type activities at this time.

Government-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.

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 had no internal service funds as of June 30, 2006.

Enterprise Funds - the City had no enterprise funds as of June 30, 2006.

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 organizations, 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 District #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

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

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 by \$3,363,287 or 2.8% to \$122,425,495 in FY 2005-06 from \$119,062,208 in FY 2004-05.

The most significant portion of the City's net assets \$107,100,370 or 87% 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.

\$9,955,339 or 8% of the City's net assets is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

\$5,369,786 or 4% of the City's net assets are subjected to external restrictions on how they may be used. Of these restricted net assets, \$3,585,428 is restricted for capital projects, \$865,378 is for repayment of long-term debt and \$918,980 is restricted for housing activities.

Statement of Net Assets

	Governmental Activities	
	2006	2005
Current Assets	\$ 18,439,042	\$ 16,116,321
Non-Current Assets	111,670	-
Capital Assets	121,270,370	120,224,434
Total Assets	139,821,082	136,340,755
Current Liabilities	3,278,189	2,863,253
Long-term Debt	14,117,398	14,415,294
Total Liabilities	17,395,587	17,278,547
Net Assets:		
Investment in capital assets, net of related debt	107,100,370	105,784,434
Restricted for Capital Projects	3,585,428	5,321,217
Restricted for Debt Service	865,378	539,890
Restricted for Special Projects	918,980	466,619
Unrestricted	9,955,339	6,950,048
Total Net Assets	\$ 122,425,495	\$ 119,062,208

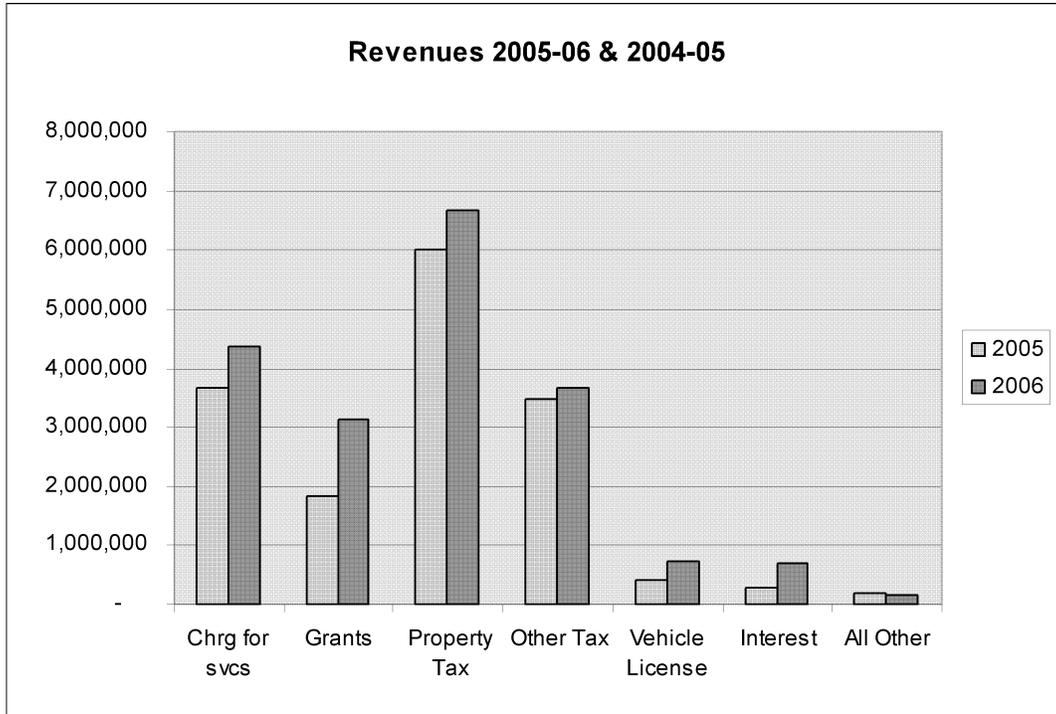
City of Saratoga
Management's Discussion and Analysis
June 30, 2006

Statement of Changes in Net Assets

Functions/Programs	Governmental Activities		Inc/(Dec)
	2006	2005	
Program Revenues			
Charge for Services	\$ 4,348,173	\$ 3,683,098	\$ 665,075
Operating Grants & Contributions	1,549,441	968,213	581,228
Capital Grants & Contributions	1,566,538	864,553	701,985
Total Program Revenues	<u>7,464,152</u>	<u>5,515,864</u>	<u>1,948,288</u>
General Revenues			
Property Taxes	5,652,244	4,841,022	811,222
Special Assessments	348,803	328,185	20,618
Voter Approved Indebtness Property Taxes	1,020,681	1,174,484	(153,803)
Sales Taxes	988,132	1,011,721	(23,589)
Local Taxes	1,287,363	1,143,089	144,274
Franchise Fees	1,040,424	994,798	45,626
Intergovernmental - Motor Vehicle In-Lieu Fees	717,737	281,625	436,112
Intergovernmental - Other Unrestricted	-	138,595	(138,595)
Investment Earnings	708,551	282,823	425,728
Other Revenues	161,790	192,607	(30,817)
Total Revenues	<u>11,925,725</u>	<u>10,388,949</u>	<u>1,536,776</u>
Expenses			
General and Intergovernmental Services	3,472,679	4,159,852	(687,173)
Public Safety Services	3,426,766	3,735,516	(308,750)
Environmental Services	464,681	378,539	86,142
Public Works	4,286,737	3,450,245	836,492
Community Services	1,395,064	1,929,480	(534,416)
Community Development Services	2,226,317	2,347,383	(121,066)
Interest on Long Term Debt (unallocated)	754,346	760,839	(6,493)
Total Expenses	<u>16,026,590</u>	<u>16,761,854</u>	<u>(735,264)</u>
Increase(Decrease) in Net Assets	<u>3,363,287</u>	<u>(857,041)</u>	
Net Assets, July 1, 2005	<u>119,062,208</u>	<u>119,919,249</u>	
Net Assets, June 30, 2006	<u>\$ 122,425,495</u>	<u>\$ 119,062,208</u>	

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

Chart of Increase or (Decrease) in Revenues by Type



The net change in revenues for governmental activities from general revenues was an increase of \$1,536,776. The net change in program revenues was an increase of \$1,948,288 for a total increase in program revenues of \$3,485,064 which is equal to an approximate 22% net increase. A brief analysis by revenue type of significant events follows:

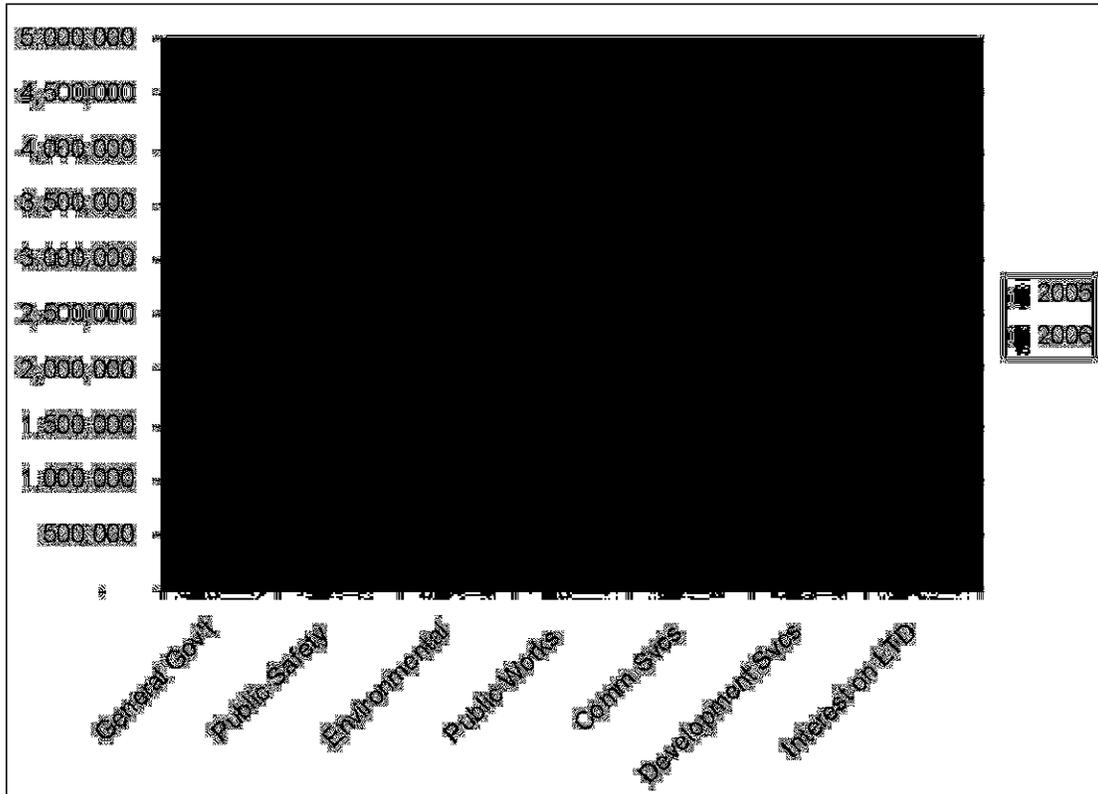
- **Increases in Revenues**
 - \$811,222 Property Taxes: There are two major components to the increase in property tax revenues. The first is a reclassification of VLF (Vehicle License Fees) fees and triple flip to property tax revenues by the State and the second is due to growth in assessed property values in the City due to new homes and remodels.
 - A \$701,985 increase in capital grants & contributions was due to the sidewalk relinquishment cooperative agreement in the Village.
 - \$665,075 in charges for services was mostly due to increased planning and arborist activity and an increase in both the building fees and the number of building permits.
 - \$581,228 of the increase in operating grants and contributions was due to the receipt a traffic congestion relief grant and a VTA (Valley Transportation Authority) grant.
 - The \$436,112 net variance of In Lieu VLF is due to two factors: the continuing impact of the reclassification of VLF fees from intergovernmental to property taxes as a consequence of actions taken by the State and the \$516,892 VLF Repayment to reimburse the City for an earlier State "take-away".
 - \$425,728 in Use of Money and Property occurred because interest rates went up and rental income (\$96,434) was received from cell phone towers.

- **Decreases in Revenues**
 - \$138,977 of the decrease in revenues from voter approved taxes resulted from a decrease in the tax rate on the library bond in order to draw down accumulated fund balance.

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

Chart of Increase or (Decrease) in Expenditures by Function

Expenditure 2005-06 & 2004-05



The net change in expenditures for Governmental Activities was a decrease of \$735,264. A brief analysis by expenditure function of significant events follows

- Increases in Expenditures
 - The \$836,492 increase in public works expenditures is due to the City's increased emphasis on pavement management. Also during 2005-06 a major portion of the Saratoga-Sunnyvale Road project was completed.
- Decreases in Expenditures
 - Expenditures decreased for general and intergovernmental services by \$687,173 due to the City Council re-prioritizing expenditures in a series of public meetings because of budgetary considerations.
 - A \$534,416 decrease in community services is due to the re-prioritization of City services such as after school teen programs and other non-revenue generating programs as a result of budgetary considerations as discussed above.
 - \$ 308,750 public safety services - This expenditure has decreased for two reasons: contract costs were lower than the previous year because the City received a credit from the Santa Clara County's Sheriff's Office against the current year's contract and animal control services (\$155,000) were placed under General Services during the last fiscal year.

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

Change in Fund Balance

Included in the Major Funds are the General Fund, the Capital Improvement Fund and the Other Governmental Funds, which are a group of seven funds. They are the Local Law Enforcement, Streets and Roads, Lighting and Landscaping Assessment District, Community Development Block Grant, Library Bond, Park Development and Library Expansion funds. The net change of the fiscal year transactions is a net increase in the ending fund balance for the Major Funds of \$2,233,499.

	Major Funds		
	General	Capital Improvement	Other Governmental Funds
Fund Balance Beginning of Year, as restated	\$ 7,358,951	\$ 4,230,848	\$ 1,925,761
Total Revenues	15,349,927	1,423,768	2,724,645
Total Expenditures	12,058,792	2,787,358	2,418,691
Transfer In	114,080	22,000	362,893
Transfer Out	(384,893)	(99,080)	(15,000)
Fund Balance End of Year	\$ 10,379,273	\$ 2,790,178	\$ 2,579,608
Net Change in Fund Balance	\$ 3,020,322	\$ (1,440,670)	\$ 653,847

General Fund - As shown in the prior table the net change in the General Fund was an increase of \$3,020,322. This occurred because revenues were more than \$3 million greater than expenditures.

Revenues are budgeted conservatively based upon the prior year experience while expenditures are adjusted to be in line with revenues. Between 2004-05 and 2005-06 revenues increased by \$2,790,652. Some of the major reasons for the increases in revenues are as follows:

- o \$817,667 over the prior year was received as a result of general increases in assessed property values for secured and unsecured property taxes and a reclassification of property tax revenues due to the State's treatment of VLF fees and the "triple flip".
- o Other local taxes increased by \$413,061. The net increase was only \$113,061 since approximately \$300,000 of this was later reclassified to business license fees. While there was some decline in sales taxes (\$56,825), other local taxes such as construction (\$69,000) increased. The net increase was \$113,061.
- o \$516,892 was due to the receipt of a one time repayment from the State to reimburse the City for an earlier State "take-away", the VLF Gap Loan.
- o Increased interest rates resulted in an additional \$75,948 overall from the use of money and property.
- o A decrease in current services charges of \$455,950 represents the net difference between a reclassification of a grant to other revenues and the increase in service charges, which was mainly attributable to more than \$600,000 in community development fees. This occurred because more planning and arborist services were provided. In addition, building fees increased as did the number of building permits.
- o The City received \$1,702,270 in other revenues which included several grants.
- o The \$253,197 decrease in franchise fees is due to the reclassification of \$300,000 in local taxes discussed above.

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

While revenues increased almost \$2.8 million over the previous year, the base level of expenditures was reduced due to the City Council re-prioritizing expenditures in a series of public meetings because of budgetary considerations. The \$991,131 increase in expenditures over the prior year was largely due to one time expenditures and the net result was expenditures of only \$12,443,685, which created a positive budget variance of \$2,805,919. After adjusting for the transfers discussed above the actual variance is \$1,636,619. Much of this positive budget variance is due to one time money that has since been re-appropriated in 2006-07.

Capital Improvement Project Fund - As shown in the table above, the net change in the Capital Improvement Fund was a decrease of \$1,440,670. Capital projects in the City of Saratoga do not have a distinct funding source, therefore as project expenditures are paid the existing fund balances are depleted. Major projects during FY 2005-06, were the Saratoga-Sunnyvale Road Gateway Project, Blaney Plaza and the De Anza Trail Project.

Other Governmental Funds - As shown in the table above there was a net increase of \$653,847 in this group of seven funds. The Streets and Roads Fund accounted for the bulk of the increase in fund balance. There was an overall decrease in expenditures from last year where much more of the existing fund balance of the Streets and Roads Fund was used to pay for capital projects. In the current year revenues exceeded expenditures in the Streets and Roads fund by \$334,509. Transfers to the Streets and Roads fund from the General Fund made up another \$270,000 of the increase in fund balance.

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 increase or decrease 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.

The following table compares the General Fund budget to actual. With respect to transfers it shows a significant negative variance. In actuality, there was a small positive variance between budget and actual. The significant negative variance is a result of restating the budgetary information to comply with generally accepted accounting principles. For budgetary purposes the "General Fund" is comprised of a number of sub funds. This includes what is popularly referred to as the "General Fund" (Fund No. 001) which is more accurately referred to as the "General Purpose Fund". In addition to the aforementioned fund, examples of other sub funds included are the "Development Services Fund" (Fund No. 250), the Environmental Services Fund (Fund No. 260) and the Recreation, Teen, Facilities and Theater Funds (Fund Nos. 290, 291, 292 and 293).

During 2005-06, \$1,169,300 in transfers between funds included within the general fund were included in the budget. However, in order to comply with generally accepted accounting principles, the City eliminated these transfers from the "actual amounts". This resulted in a budget variance for the General Fund transfers. If this eliminations had not been made the transfers would have been as follows:

	Original Budget	Final Budget	Actual Amounts	Positive (Negative) Variance
Transfers in	\$636,600	\$1,357,680	\$1,283,380	\$74,300
Transfers-out	\$ -0-	\$1,581,802	\$1,554,193	\$27,609

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

As the following table shows, the final budget revenue estimates were more than estimated due to the City's policy of budgeting revenues conservatively. In addition expenditures were all less than budgeted, many of them significantly so with the result that fund balance increased by \$3,020,322 as a result of expenditures not being made.

As shown in the column for actual financial transactions the use of fund balance was not necessary.

	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<u>Source of Funds:</u>				
Property taxes	\$ 5,216,000	\$ 5,054,800	\$ 5,652,244	\$ 597,444
Other local taxes	2,367,000	2,156,400	2,275,495	119,095
Licenses & permits	17,000	17,000	79,098	62,098
Fines & forfeitures	120,100	120,100	259,256	139,156
Intergovernmental - State	318,700	810,300	877,688	67,388
Intergovernmental - Other	-	102,500	112,587	10,087
Franchise fees	735,700	946,300	1,040,424	94,124
Use of money & property	280,400	554,400	681,805	127,405
Other revenue	15,000	15,000	1,702,270	1,687,270
Current Service Charges	3,802,100	4,056,855	2,669,060	(1,387,795)
Transfers In	638,600	1,357,680	114,080	(1,243,600)
Total Source of Funds	\$ 13,510,600	\$ 15,191,335	\$ 15,464,007	\$ 272,672
<u>Use of Funds:</u>				
General and intergovt.	\$ 3,478,800	\$ 3,840,355	\$ 3,345,474	\$ 494,881
Public safety	3,645,600	3,777,600	3,323,045	454,555
Environmental services	446,200	466,200	462,265	3,935
Public works	2,309,000	2,145,447	1,974,672	170,775
Community services	1,171,400	1,222,600	1,061,679	160,921
Community development	1,951,600	1,966,600	1,824,723	141,877
Capital outlay	47,000	249,000	66,934	182,066
Transfers out	-	1,581,802	384,893	1,196,909
Total Use of Funds	\$ 13,049,600	\$ 15,249,604	\$ 12,443,685	\$ 2,805,919

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 are met.

- 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 summarize 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, 2006

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 rated as Excellent to Good, 13% of streets are rated as "Poor", and 1% of streets are rated as "Very Poor". The City spent \$1,030,682 to maintain and preserve eligible infrastructure assets. For more detailed information on Capital Assets activity, please refer to Note F in the section entitled "Notes to the Basic Financial Statements" and "Required Supplementary Section".

As of June 30, 2006, the City had \$121,270,370 invested in a variety of capital assets, as reflected in the following schedule, which represents an increase of \$1,045,936 or less than 1% above the prior year.

Capital Assets at Year End
Net of Depreciation

	Governmental Activities	
	2006	2005
Land	\$ 9,887,095	\$ 11,118,030
Buildng & Structures	17,282,484	16,649,809
Machinery & Equipment	213,102	262,466
Infrastructure	85,366,868	86,513,324
Construction in Progress	8,520,821	5,680,805
	\$ 121,270,370	\$ 120,224,434

The following reconciliation summarizes the change in Capital Assets.

Changes in Capital Assets

	Governmental Activities	
	2006	2005
Beginning Balance	\$ 120,224,434	\$ 118,999,460
Addition:		
Land	-	-
Building and Structures	-	-
Construction in Progress	2,840,015	1,777,491
Infrastructure	-	-
Machinery & Equipment	66,933	-
Retirements:		
Construction in Progress	-	(321,164)
Inventory Adjustments	-	1,528,246
Depreciation	(1,861,012)	(1,759,599)
Ending Balance	\$ 121,270,370	\$ 120,224,434

City of Saratoga
Management's Discussion and Analysis
June 30, 2006

Debt Administration

The net change in outstanding debt for the City of Saratoga is a decrease of \$186,690. During the fiscal year, the City did not enter into any new debt structures.

Outstanding Debt, at year-end

	Governmental Activities	
	2006	2005
2001 General Obligation Bond	\$ 14,170,000	\$ 14,440,000
Claims Payable	92,957	-
Compensated Absences	235,647	245,294
Total	\$ 14,498,604	\$ 14,685,294

The current portions of long-term debt (\$280,000 and \$270,000 for 2006 and 2005, 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 \$270,000 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.

Economic Factors

In September, 2006 the City received a significant increase in new property tax revenues on an annual basis due to the passage of Assembly Bill 117. This legislation effective with FY 2006-07 increases the amount of property taxes allocated to the City as a result of the TEA (Tax Equity Allocation formula). Assembly Member Cohn sponsored the bill which resulted from a joint effort of the City of Saratoga, Santa Clara County and the 3 other affected cities - Cupertino, Monte Sereno and Los Altos Hills. These cities are referred to as "no/low tax cities" and will have restored a proportionate share of the property taxes which they lost to special legislation in 1989. This will result in a permanent increase in general fund property taxes of \$785,777.

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.

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BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



City of Saratoga
Statement of Net Assets
June 30, 2006

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 14,952,855
Restricted cash and investments	2,286,451
Receivables:	
Accounts	1,005,677
Interest	180,727
Loans	13,332
Total current assets	<u>18,439,042</u>
Noncurrent assets:	
Loans receivable	111,670
Capital assets:	
Non-depreciable	63,649,381
Depreciable, net	57,620,989
Total capital assets	<u>121,270,370</u>
Total noncurrent assets	<u>121,382,040</u>
Total assets	<u><u>139,821,082</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,276,877
Accrued payroll	208,117
Other payable	268,435
Interest payable	309,898
Deposits payable	604,909
Unearned revenue	228,747
Long-term debt - due within one year	381,206
Total current liabilities	<u>3,278,189</u>
Noncurrent liabilities:	
Long-term debt - due in more than one year	14,117,398
Total noncurrent liabilities	<u>14,117,398</u>
Total liabilities	<u><u>17,395,587</u></u>
NET ASSETS	
Investment in capital assets, net of related debt	<u>107,100,370</u>
Restricted for:	
Capital projects	3,585,428
Debt service	865,378
Special projects	918,980
Total restricted	<u>5,369,786</u>
Unrestricted	<u>9,955,339</u>
Total net assets	<u><u>\$ 122,425,495</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, 2006

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General and intergovernmental services	\$ 3,472,679	\$ 31,322	\$ -	\$ -	\$ 31,322
Public safety	3,426,766	122,899	479,815	-	602,714
Environmental services	464,681	508,574	45,503	-	554,077
Public works	4,286,737	12,003	939,896	1,485,203	2,437,102
Community services	1,395,064	1,008,157	13,000	81,335	1,102,492
Community development services	2,226,317	2,665,218	71,227	-	2,736,445
Interest on long-term debt (unallocated)	754,346	-	-	-	-
Total	\$ 16,026,590	\$ 4,348,173	\$ 1,549,441	\$ 1,566,538	\$ 7,464,152

General revenues:

Taxes:

- Property taxes
- Special assessments
- Voter approved property tax
- Sales taxes
- Local taxes
- Franchise taxes
- Motor vehicle in-lieu
- Total taxes

Investment earnings

Other revenues

Total general revenues

Change in net assets

Net assets - beginning of year, as restated

Net assets - end of year

Net (Expense)
Revenue and
Changes in
Net Assets

Primary
Government
Governmental
Activities

\$ (3,441,357)
(2,824,052)
89,396
(1,849,635)
(292,572)
510,128
(754,346)

(8,562,438)

5,652,244
348,803
1,020,681
988,132
1,287,363
1,040,424
717,737

11,055,384
708,551
161,790

11,925,725

3,363,287
119,062,208

\$ 122,425,495



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.

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, 2006

	Major Funds			Total Governmental Funds
	General	Capital Improvement	Other Governmental Funds	
ASSETS				
Cash and investments	\$ 11,829,675	\$ 3,123,180	\$ -	\$ 14,952,855
Restricted cash and investments	-	-	2,286,451	2,286,451
Receivables:				
Accounts	622,853	-	382,824	1,005,677
Interest	160,112	3,814	16,801	180,727
Loans	-	-	125,002	125,002
Total assets	\$ 12,612,640	\$ 3,126,994	\$ 2,811,078	\$ 18,550,712
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,075,273	\$ 115,295	\$ 86,309	\$ 1,276,877
Accrued payroll	190,459	-	17,658	208,117
Deposits payable	604,909	-	-	604,909
Other payable	265,934	-	2,501	268,435
Deferred revenue	96,792	221,521	125,002	443,315
Total liabilities	2,233,367	336,816	231,470	2,801,653
Fund Balances:				
Reserved for:				
Petty Cash	1,300	-	-	1,300
Debt service	-	-	865,378	865,378
Unreserved, designated for:				
Operations	2,554,150	-	-	2,554,150
Economic uncertainty	1,500,000	-	-	1,500,000
Construction in Progress	614,997	-	-	614,997
Community Development Services	1,339,563	-	-	1,339,563
Environmental Services	909,760	-	-	909,760
Equipment Replacement	247,148	-	-	247,148
Information Technology	403,520	-	-	403,520
Facility Improvement	53,546	-	-	53,546
Unreserved, undesignated, reported in:				
General fund	2,755,289	-	-	2,755,289
Special revenue funds	-	-	918,980	918,980
Capital projects funds	-	2,790,178	795,250	3,585,428
Total fund balances	10,379,273	2,790,178	2,579,608	15,749,059
Total liabilities and fund balances	\$ 12,612,640	\$ 3,126,994	\$ 2,811,078	\$ 18,550,712

See accompanying Notes to the Basic Financial Statements.

City of Saratoga
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

Total Fund Balances - Total governmental funds	\$ 15,749,059
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	63,649,381
Depreciable capital assets, net	57,620,989
Total capital assets	<u>121,270,370</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>(309,898)</u>
Long-term receivables were not current available resources and therefore, were offset by a deferred revenue amount equal to the net receivable in the governmental funds.	<u>214,568</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	(14,170,000)
Claims payables	(92,957)
Compensated absences	(235,647)
Total long-term liabilities	<u>(14,498,604)</u>
Net Assets of Governmental Activities	<u>\$ 122,425,495</u>

City of Saratoga
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement		
REVENUES:				
Property taxes	\$ 5,652,244	\$ -	\$ 1,369,484	\$ 7,021,728
Other local taxes	2,275,495	-	-	2,275,495
Licenses & permits	79,098	-	-	79,098
Fines & forfeiture	259,256	-	-	259,256
Intergovernmental - State	877,688	741,000	1,041,556	2,660,244
Intergovernmental - Other	112,587	652,878	210,341	975,806
Franchise fees	1,040,424	-	-	1,040,424
Use of money and property	681,805	12,770	57,888	752,463
Other revenue	1,702,270	17,120	-	1,719,390
Current service charges	2,669,060	-	45,376	2,714,436
Total revenues	15,349,927	1,423,768	2,724,645	19,498,340
EXPENDITURES:				
Current:				
General and intergovernmental services	3,345,474	-	-	3,345,474
Public safety	3,323,045	-	100,000	3,423,045
Environmental services	462,265	-	-	462,265
Public works	1,974,672	-	1,064,185	3,038,857
Community services	1,061,679	-	148,179	1,209,858
Community development services	1,824,723	22,596	-	1,847,319
Capital outlay	66,934	2,764,762	76,356	2,908,052
Debt service:				
Principal	-	-	270,000	270,000
Interest and fiscal charges	-	-	759,971	759,971
Total expenditures	12,058,792	2,787,358	2,418,691	17,264,841
REVENUES OVER (UNDER) EXPENDITURES	3,291,135	(1,363,590)	305,954	2,233,499
OTHER FINANCING SOURCES (USES):				
Transfers in	114,080	22,000	362,893	498,973
Transfers out	(384,893)	(99,080)	(15,000)	(498,973)
Total other financing sources (uses)	(270,813)	(77,080)	347,893	-
Net change in fund balances	3,020,322	(1,440,670)	653,847	2,233,499
FUND BALANCES:				
Beginning of year, as restated	7,358,951	4,230,848	1,925,761	13,515,560
End of year	\$ 10,379,273	\$ 2,790,178	\$ 2,579,608	\$ 15,749,059

See accompanying Notes to the Basic Financial Statements.

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, 2006

Net Change in Fund Balances - Total governmental funds	\$ 2,233,499
Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:	
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 was allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	2,906,948
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds.	(1,861,012)
Certain revenues were recorded as deferred revenue in the governmental funds because they did not meet the revenue recognition criteria of availability. However, they were included as revenue in the Governmental-Wide Statement of Activities and Changes in Net Assets under the full accrual basis.	(108,463)
Long-term compensated absences and claims payables 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 and claims payable were not reported as expenditures in governmental funds.	
Claims Payables	(92,957)
Compensated absences	9,647
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	270,000
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.	<u>5,625</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 3,363,287</u></u>

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, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 61,903
Interest Receivable	<u>689</u>
Total assets	<u>\$ 62,592</u>
LIABILITIES	
Deposits payable	<u>\$ 62,592</u>
Total liabilities	<u>\$ 62,592</u>

See accompanying Notes to the Basic Financial Statements.

City of Saratoga
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For the year ended June 30, 2006

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City of Saratoga
Notes to the Basic Financial Statements
For the year ended June 30, 2006

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 30,835 at June 30, 2006. 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, 2006, the City's staff comprised 52 full time, 10 part time, 2 contracted employees, and numerous recreation seasonal 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 27 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 8 employees.
- ◆ General Government services are provided by a total of 15 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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity, Continued

The following entities are reported as blended component units:

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 has the same Governing Board as the City.

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 has 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.

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

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

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.

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.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

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.

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.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 and special projects.

E. Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursed fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

F. 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, 2005. This condition assessment will be performed every 2 years. The next condition assessment is scheduled for March 2007. 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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Capital Assets, Continued

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'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.

G. 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.

H. Claims Payable

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

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. *Compensated Absences*

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

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

J. *Long-Term Obligations*

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

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

K. *Fund Balances*

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

City Council has designated an amount for operations, which it has defined as being equal to the greater of one-quarter of the total budgeted General Fund appropriations for the current budget year or \$2,554,149. 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 \$1,500,000 for economic uncertainty.

CIP designation is for future Capital Improvement Projects.

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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Fund Balances, Continued

Equipment Replacement is designated for the maintenance and replacement of the City's tools, equipments, and vehicles.

Information technology is designated for the support, maintenance, replacement and upgrade of existing computer network.

Facility Improvement is designated for the maintenance and improvement of City's facilities.

L. Net Assets

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

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

M. Use of Restricted/Unrestricted Net Assets

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

N. Property Tax and Special Assessments

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

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

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

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Use of Estimates

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

P. Implementation of New GASB Pronouncements

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

- GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.
- GASB Statement No. 44 *Economic Condition Reporting: The Statistical Section* (an amendment of NCGA Statement 1) guides the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government.
- GASB Statement No. 46 *Net Assets Restricted by Enabling Legislation* addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.
- GASB Statement No. 47 *Accounting for Termination Benefits* provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on average month-end cash and investment balances in these funds. The City has the following cash and investments at June 30:

	Government-Wide Statement of Net Assets <hr/> Governmental Activities	Fiduciary Funds Statement of Net Assets	Total
Cash and investments	\$ 14,952,855	\$ 61,903	\$ 15,014,758
Restricted cash and investments	2,286,451	-	2,286,451
Total	\$ 17,239,306	\$ 61,903	\$ 17,301,209

The City's Cash and Investments at June 30 in more detail:

Cash and Cash equivalents:	
Petty Cash	\$ 1,300
Demand Deposit	261,527
Total cash and cash equivalents	<u>262,827</u>
Investments:	
Local Agency Investment Fund	17,037,321
Total cash and investments	<u>17,300,148</u>
Cash and Investments with Fiscal Agents	<u>1,061</u>
Total	\$ 17,301,209

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$261,527 at June 30, 2006. Bank balances before reconciling items were \$782,842 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.

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.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

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 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*. The City's investments are recorded at fair value.

C. External Investment Pool

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2006, 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.

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

As of June 30, 2006, the City had \$17,037,321 invested in LAIF which had invested 2.567% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.998185821 was used to calculate the fair value of the investments in LAIF.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures

Interest Rate Risk - The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2006, the City had the following:

	<u>Fair Value</u>	<u>Investment Maturities in Years Less Than 1 Year</u>
External Pool:		
State of California - Local Agency Investment Fund	\$ 17,037,321	\$ 17,037,321

Credit Risk - As of June 30, 2006, the City's investments in external investment pools are unrated.

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. Of the City's investments, \$1,061 of securities is held by the investment's counterparty, the trustee for the bonds, not in the name of the City as of June 30, 2006.

3. LOANS RECEIVABLE

The City had the following loans receivable as of June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Classification</u>	
					<u>Due within one year</u>	<u>Due more than one year</u>
Housing Rehabilitation Loan Program	\$ 264,494	\$ -	\$ (139,492)	\$ 125,002	\$ 13,332	\$ 111,670

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.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

3. LOANS RECEIVABLE, Continued

At June 30, 2006, the City had outstanding SHARP loans of \$125,002. During the year ended June 30, 2006, the City transferred six existing SHARP loans to the Santa Clara County (County). The County has agreed to accepted transfer and manage the six existing SHARP loans.

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

Transfers In/Out

Transfers for the year ended June 30, 2006, were as follows:

Transfers Out	Transfers In			Total
	General Fund	Capital Improvement	Other Governmental Funds	
General Fund	\$ -	\$ 22,000	\$ 362,893	\$ 384,893
Capital Improvement	99,080	-	-	99,080
Other Governmental Funds	15,000	-	-	15,000
Total	\$ 114,080	\$ 22,000	\$ 362,893	\$ 498,973

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, 2006

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, consisted of the following:

	Primary Government				Balance June 30, 2006
	Balance July 1, 2005	Additions	Retirements	Reclassification	
Governmental Activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 11,118,030	\$ -	\$ -	\$ (1,230,935)	\$ 9,887,095
Construction in progress	5,680,806	2,840,015	-	-	8,520,821
Infrastructure:					
Street pavement system	45,241,465	-	-	-	45,241,465
Total capital assets, not being depreciated	62,040,301	2,840,015	-	(1,230,935)	63,649,381
Capital assets, being depreciated:					
Buildings and structures	19,278,447	-	-	1,223,902	20,502,349
Machinery and equipment	1,558,492	66,933	(206,149)	7,033	1,426,309
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	74,513,284	66,933	(206,149)	1,230,935	75,605,003
Accumulated depreciation:					
Buildings and structures	(2,621,607)	(598,258)	-	-	(3,219,865)
Machinery and equipment	(1,303,058)	(116,298)	206,149	-	(1,213,207)
Infrastructure:					
Bridges	(825,741)	(30,969)	-	-	(856,710)
Signs and lights	(571,992)	(31,013)	-	-	(603,005)
Drainage system	(8,092,686)	(797,118)	-	-	(8,889,804)
Sidewalks	(2,914,067)	(287,356)	-	-	(3,201,423)
Total accumulated depreciation	(16,329,151)	(1,861,012)	206,149	-	(17,984,014)
Total capital assets, being depreciated, net	58,184,133	(1,794,079)	-	1,230,935	57,620,989
Governmental activities capital assets, net	\$ 120,224,434	\$ 1,045,936	\$ -	\$ -	\$ 121,270,370

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

5. CAPITAL ASSETS, Continued

Depreciation Expense by Function:	
General Government	\$ 98,775
Public Safety	3,638
Public Works	1,223,637
Community Services	174,292
Community Development	360,670
Total	\$ 1,861,012

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

6. LONG-TERM DEBT

A summary of the City's long-term debt transactions for the year ended June 30, 2006, is presented below:

Description	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Classification	
					Amounts Due Within One Year	Amounts Due in More than One Year
General Obligation Bonds:						
2001 Library Bonds	\$ 14,440,000	\$ -	\$ (270,000)	\$ 14,170,000	\$ 280,000	\$ 13,890,000
Claims payable	-	92,957	-	92,957	30,512	62,445
Compensated absences	245,294	450,937	(460,584)	235,647	70,694	164,953
Total	\$ 14,685,294	\$ 543,894	\$ (730,584)	\$ 14,498,604	\$ 381,206	\$ 14,117,398

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, 2031, 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, 2006, the outstanding balance of the bonds was \$14,170,000.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

6. LONG-TERM DEBT, Continued

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

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

For the Year Ending June 30,	Principal	Interest	Total
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	350,000	663,156	1,013,156
2012-2016	2,070,000	2,998,380	5,068,380
2017-2021	2,430,000	2,435,196	4,865,196
2022-2026	3,125,000	1,730,533	4,855,533
2027-2031	4,040,000	798,264	4,838,264
2032	940,000	24,675	964,675
Total	\$ 14,170,000	\$ 11,494,178	\$ 25,664,178

Claims Payable

At June 30, 2006, the claims payable has been accrued. See Note 8 Risk Management for more information. The total amount of the claims payable was \$92,957 at June 30, 2006.

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to \$235,647 at June 30, 2006. 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, 2006
Leonard Road Improvement Assessment District	\$ 101,686	\$ 40,000

The City is the collecting agent for the Leonard Road Improvement District (District), but is not obligated for the repayment of debt issued by the District. As a result, the District has not been included in the basic financial statements of the City.

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

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, 2006, the City contributed \$122,610 for current year coverage and received no refund of prior year excess contributions.

The ABAG Workers' Compensation Pool Insurance Authority (ABAG POOL) covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended June 30, 2006, the City contributed \$197,298 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 \$92,957 reported at June 30, 2006, 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
2004	\$ 297,194	\$ (32,044)	\$ (34,285)	\$ 230,865
2005	230,865	(224,897)	(5,968)	-
2006	-	92,957	-	92,957

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

8. RISK MANAGEMENT, Continued

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

The following represents summary audited financial information of ABAG Plan Corporation for the fiscal year ended June 30, 2005:

Total assets	<u>\$ 41,866,497</u>
Total liabilities	<u>\$ 18,790,003</u>
Net assets	<u>\$ 23,076,494</u>
Total revenues	<u>\$ 9,534,589</u>
Total expenses	<u>\$ 15,482,622</u>
Net decrease in net assets	<u>\$ (5,948,033)</u>

The following represents summary audited financial information of ABAG Comp Shared Risk Pool for the fiscal year ended June 30, 2005:

Total assets	<u>\$ 2,003,179</u>
Total liabilities	<u>\$ 1,044,765</u>
Net assets	<u>\$ 958,414</u>
Total revenues	<u>\$ 695,187</u>
Total expenses	<u>\$ 403,224</u>
Net increase in net assets	<u>\$ 291,963</u>

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

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

9. RETIREMENT PLANS

Pension Plan

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

Funding Policy - Active plan members are required by state statute to contribute for miscellaneous employees 7% of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$253,227 for the year ended June 30, 2006. The City employer is required to contribute for fiscal year 2005-2006 at an actuarially determined rate of 10.99% of annual covered payroll for miscellaneous employees.

Annual Pension Cost - For fiscal year 2005-2006, the City's annual pension cost was \$397,304. The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% for miscellaneous employees depending on age, service, and type of employment, and (c) 3.25% per year payroll growth adjustments. Both (a) and (b) included an inflation component of 3.00%. 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, 2003, was 20 years for miscellaneous employees for prior and current service unfunded liability.

For the actuarial valuation year ended June 30, 2004, PERS established a cost sharing risk pool (Pool) for cities and other government entities that have less than 100 active members. Actuarial valuation was performed with all participants within the same Pool. Therefore, standalone information regarding Schedule of the Funding Progress for the City is no longer available.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$ -	100%	\$ -
6/30/05	151,567	100%	-
6/30/06	397,304	100%	-

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

10. NET ASSETS

A. Investment in Capital Assets, Net of Related Debt

As of June 30, 2006, the investment in capital assets, net of related debt consisted of the following:

Capital assets, net (Note 5)	\$ 121,270,370
2001 General Obligation Library Bonds (Note 6)	<u>(14,170,000)</u>
Investment in capital assets, net of related debt	<u><u>\$ 107,100,370</u></u>

B. Restricted Net Assets

As of June 30, 2006, the restricted net assets consisted of the following:

	Restricted for			Total
	Capital Projects	Debt Service	Special Projects	
Restricted net assets	<u>\$ 3,585,428</u>	<u>\$ 865,378</u>	<u>\$ 918,980</u>	<u>\$ 5,369,786</u>

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. EXCESS EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations occurred in individual funds during the fiscal year 2005-2006 as follows:

Fund	Expenditures	Appropriations	Excess Expenditures over Appropriations
Street and Roads Special Revenue Fund	\$ 766,123	\$ 658,400	\$ 107,723
Library Expansion Capital Projects Fund	76,356	75,000	1,356

City of Saratoga
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

13. 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.

C. Commitments

The City had several outstanding contracts or planned construction projects as of June 30, 2006. These projects are evidenced by contractual commitments with contractors and include:

Project	Original Commitment	Commitment Remaining
TEA Consultants	\$ 13,560	\$ 5,950
Cost Allocation Study / Fee Analysis	31,800	24,338
McWilliams House Architectural Services	20,000	4,000
City's Emergency Radio System	131,108	131,108
Haymeadow Sub-Drainage Repair Project	312,345	123,045
Trail Segment # 3 Repair Project	16,500	16,500
Lighting and Landscaping Districts	44,945	44,945
Document Imaging Software Upgrades	8,688	8,688
GIS Basemap Services	2,890	2,890
Administrative Services Financial Software Upgrades	100,000	100,000
Community Development Permit Software Upgrades	100,000	100,000
Vehicle Purchase for Field Operations	188,884	165,038
Additional TEA Funding through the Passage of AB117	14,875	14,875
Total	\$ 985,595	\$ 741,377

As of June 30, 2006, 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, 2006

14. PRIOR PERIOD ADJUSTMENTS

Government-Wide Financial Statements

The City recorded the following prior period adjustments to correct prior year:

Net Assets, as Previously Reported	Prior Period Adjustment				Net Assets, as Restated	
	Planning	TDA	Assessment	CDBG		
	Deposit Payable	Revenue	District Revenue	Expenditure		
Governmental Activities: Net assets	\$ 118,900,964	\$ 383,390	\$ (249,725)	\$ 26,515	\$ 1,064	\$ 119,062,208

Fund Financial Statements

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

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

Capital Improvement Fund - The City determined that prior year Transportation Development Act (TDA) revenue received for the Cox Avenue Railroad Crossing project should be reclassified to deferred revenue.

Lighting and Landscaping Assessment District Fund - The City determined that the fund's revenue was understated in the prior year.

Community Development Block Grant Fund - The City determined that prior year expenditures should be restated to correct grant funded expenditures.

	Major Fund		Non - Major Fund		Total
	General	Capital	Lighting and	Community	
	Fund	Improvement Fund	Landscaping Assessment District	Development Block Grant	
Fund Balances, as Previously Reported	\$ 6,975,561	\$ 4,480,573	\$ 75,892	\$ 126,233	\$ 11,658,259
Prior Period Adjustments	383,390	(249,725)	26,515	1,064	161,244
Fund Balances, as Restated	\$ 7,358,951	\$ 4,230,848	\$ 102,407	\$ 127,297	\$ 11,819,503

REQUIRED SUPPLEMENTARY INFORMATION

City of Saratoga
Required Supplementary Information
For the year ended June 30, 2006

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 the Capital Improvement Capital Projects Fund. The Capital Improvement Capital Projects Fund is budgeted on the project length basis. The City adopts an annual budget for Park Development and Library Expansion Capital Projects funds.

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, 2006

1. BUDGETARY INFORMATION, Continued

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

Budget Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund Balances - Beginning, as restated	\$ 6,975,561	\$ 7,358,951	\$ 7,358,951	\$ -
Resources (inflows):				
Property taxes	5,216,000	5,054,800	5,652,244	597,444
Other local taxes	2,367,000	2,156,400	2,275,495	119,095
Licenses and permits	17,000	17,000	79,098	62,098
Fines and forfeiture	120,100	120,100	259,256	139,156
Intergovernmental - State	318,700	810,300	877,688	67,388
Intergovernmental - Other	-	102,500	112,587	10,087
Franchise fees	735,700	946,300	1,040,424	94,124
Use of money and property	280,400	554,400	681,805	127,405
Other Revenue	15,000	15,000	1,702,270	1,687,270
Current service charges	3,802,100	4,056,855	2,669,060	(1,387,795)
Transfers in	638,600	1,357,680	114,080	(1,243,600)
Amount available for appropriations	20,486,161	22,550,286	22,822,958	272,672
Charges to Appropriations (outflows):				
Current:				
General and intergovernmental services	3,478,800	3,840,355	3,345,474	494,881
Public safety	3,645,600	3,777,600	3,323,045	454,555
Environmental services	446,200	466,200	462,265	3,935
Public works	2,309,000	2,145,447	1,974,672	170,775
Community services	1,171,400	1,222,600	1,061,679	160,921
Community development services	1,951,600	1,966,600	1,824,723	141,877
Capital outlay	47,000	249,000	66,934	182,066
Transfers out	-	1,581,802	384,893	1,196,909
Total charges to appropriations	13,049,600	15,249,604	12,443,685	2,805,919
Fund Balances - Ending	\$ 7,436,561	\$ 7,300,682	\$ 10,379,273	\$ 3,078,591

City of Saratoga
Required Supplementary Information, Continued
For the year ended June 30, 2006

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.

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.

City of Saratoga
Required Supplementary Information, Continued
For the year ended June 30, 2006

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

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's policy is to achieve an average rating of 70 for all streets, which is a very 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%

The City expended \$1,030,682 on street maintenance for the year ended June 30, 2006. 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, 2007, 2008, and 2009.)

A schedule of 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
2005-06	1,156,547	1,030,382	353,652	676,730	1,030,382	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.



SUPPLEMENTAL INFORMATION



NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Streets and Roads - 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.

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

Community Development Block Grant - 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.

Debt Service Fund

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

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, 2006

	Special Revenue				Debt Service
	Local Law Enforcement	Streets and Roads	Lighting and Landscaping Assessment District	Community Development Block Grant	Library Bond
ASSETS					
Restricted cash and investments	\$ -	\$ 340,402	\$ 264,687	\$ 11,658	\$ 854,155
Receivables:					
Accounts	-	321,877	927	53,581	6,439
Interest	-	3,730	2,085	811	4,784
Loans	-	-	-	125,002	-
Total assets	\$ -	\$ 666,009	\$ 267,699	\$ 191,052	\$ 865,378
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 41,341	\$ 17,378	\$ 1,900	\$ -
Accrued payroll	-	17,658	-	-	-
Other payable	-	2,501	-	-	-
Deferred Revenue	-	-	-	125,002	-
Total liabilities	-	61,500	17,378	126,902	-
Fund Balances:					
Reserved for:					
Debt service	-	-	-	-	865,378
Unreserved, undesignated, reported in:					
Special revenues funds	-	604,509	250,321	64,150	-
Capital projects funds	-	-	-	-	-
Total fund balances	-	604,509	250,321	64,150	865,378
Total liabilities and fund balances	\$ -	\$ 666,009	\$ 267,699	\$ 191,052	\$ 865,378

Capital Projects		
Park Development	Library Expansion	Total Other Governmental Funds
\$ 115,606	\$ 699,943	\$ 2,286,451
-	-	382,824
1,330	4,061	16,801
-	-	125,002
<u>\$ 116,936</u>	<u>\$ 704,004</u>	<u>\$ 2,811,078</u>

\$ 25,690	\$ -	\$ 86,309
-	-	17,658
-	-	2,501
-	-	125,002
<u>25,690</u>	<u>-</u>	<u>231,470</u>

-	-	865,378
-	-	918,980
91,246	704,004	795,250
<u>91,246</u>	<u>704,004</u>	<u>2,579,608</u>
<u>\$ 116,936</u>	<u>\$ 704,004</u>	<u>\$ 2,811,078</u>

City of Saratoga
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2006

	Special Revenue			Debt Service	
	Local Law Enforcement	Streets and Roads	Lighting and Landscaping Assessment District	Community Development Block Grant	Library Bond
REVENUES:					
Property taxes	\$ -	\$ -	\$ 348,803	\$ -	\$ 1,020,681
Intergovernmental - State	100,000	933,573	1,236	-	6,747
Intergovernmental - Other	-	156,760	-	53,581	-
Use of money and property	-	6,323	3,044	17,646	12,508
Current service charges	-	3,976	-	-	-
Total revenues	100,000	1,100,632	353,083	71,227	1,039,936
EXPENDITURES:					
Current:					
Public safety	100,000	-	-	-	-
Public works	-	766,123	298,062	-	-
Community services	-	-	-	119,374	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	270,000
Interest and fiscal charges	-	-	-	-	759,971
Total expenditures	100,000	766,123	298,062	119,374	1,029,971
REVENUES OVER (UNDER) EXPENDITURES	-	334,509	55,021	(48,147)	9,965
OTHER FINANCING SOURCES (USES):					
Transfers in	-	270,000	92,893	-	-
Transfers out	-	-	-	(15,000)	-
Total other financing sources (uses)	-	270,000	92,893	(15,000)	-
Net change in fund balances	-	604,509	147,914	(63,147)	9,965
FUND BALANCES:					
Beginning of year, as restated	-	-	102,407	127,297	855,413
End of year	\$ -	\$ 604,509	\$ 250,321	\$ 64,150	\$ 865,378

Capital Projects		
Park Development	Library Expansion	Total Other Governmental Funds
\$ -	\$ -	\$ 1,369,484
-	-	1,041,556
-	-	210,341
4,152	14,215	57,888
41,400	-	45,376
45,552	14,215	2,724,645
-	-	100,000
-	-	1,064,185
28,805	-	148,179
-	76,356	76,356
-	-	270,000
-	-	759,971
28,805	76,356	2,418,691
16,747	(62,141)	305,954
-	-	362,893
-	-	(15,000)
-	-	347,893
16,747	(62,141)	653,847
74,499	766,145	1,925,761
\$ 91,246	\$ 704,004	\$ 2,579,608

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ -	\$ -	\$ -	\$ -
RESOURCES (INFLOWS):				
Intergovernmental - State	100,000	100,000	100,000	-
Amount available for appropriation	100,000	100,000	100,000	-
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Public safety	100,000	100,000	100,000	-
Total charges to appropriations	100,000	100,000	100,000	-
FUND BALANCES - ENDING	\$ -	\$ -	\$ -	\$ -

City of Saratoga

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

Streets and Roads Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ -	\$ -	\$ -	\$ -
RESOURCES (INFLOWS):				
Intergovernmental - State	611,100	611,100	933,573	322,473
Intergovernmental - Other	-	-	156,760	156,760
Use of money and property	-	-	6,323	6,323
Current service charges	-	-	3,976	3,976
Transfer in	-	270,000	270,000	-
Amount available for appropriation	611,100	881,100	1,370,632	489,532
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Public works	607,200	658,400	766,123	(107,723)
Total charges to appropriations	607,200	658,400	766,123	(107,723)
FUND BALANCES - ENDING	\$ 3,900	\$ 222,700	\$ 604,509	\$ 381,809

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING, as restated	\$ 44,200	\$ 102,407	\$ 102,407	\$ -
RESOURCES (INFLOWS):				
Property taxes	356,500	351,700	348,803	(2,897)
Intergovernmental - State	-	-	1,236	1,236
Use of money and property	1,700	1,700	3,044	1,344
Transfer in	-	-	92,893	92,893
Amount available for appropriation	402,400	455,807	548,383	92,576
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Public works	290,100	290,100	298,062	(7,962)
Transfer out	43,700	43,700	-	43,700
Total charges to appropriations	333,800	333,800	298,062	35,738
FUND BALANCES - ENDING	\$ 68,600	\$ 122,007	\$ 250,321	\$ 128,314

City of Saratoga

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

Community Development Block Grant Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING, as restated	\$ 92,000	\$ 127,297	\$ 127,297	\$ -
RESOURCES (INFLOWS):				
Intergovernmental - Other	217,500	427,411	53,581	(373,830)
Use of money and property	2,300	2,300	17,646	15,346
Amount available for appropriation	311,800	557,008	198,524	(358,484)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
Community Services	202,491	412,402	119,374	293,028
Transfer out	15,000	15,000	15,000	-
Total charges to appropriations	217,491	427,402	134,374	293,028
FUND BALANCES - ENDING	\$ 94,309	\$ 129,606	\$ 64,150	\$ (65,456)

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 766,500	\$ 855,413	\$ 855,413	\$ -
RESOURCES (INFLOWS):				
Property taxes	912,400	912,400	1,020,681	108,281
Intergovernmental - State	-	-	6,747	6,747
Use of money and property	8,200	8,200	12,508	4,308
Amount available for appropriation	1,687,100	1,776,013	1,895,349	108,281
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Debt service:				
Principal	270,000	270,000	270,000	-
Interest and fiscal charges	762,400	762,400	759,971	2,429
Total charges to appropriations	1,032,400	1,032,400	1,029,971	2,429
FUND BALANCES - ENDING	\$ 654,700	\$ 743,613	\$ 865,378	\$ 121,765

City of Saratoga

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

Park Development Capital Projects Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 10,100	\$ 74,499	\$ 74,499	\$ -
RESOURCES (INFLOWS):				
Use of money and property	-	-	4,152	4,152
Current service charges	62,100	124,200	41,400	(82,800)
Amount available for appropriation	72,200	198,699	120,051	4,152
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Community services	-	192,200	28,805	163,395
Total charges to appropriations	-	192,200	28,805	163,395
FUND BALANCES - ENDING	\$ 72,200	\$ 6,499	\$ 91,246	\$ 84,747

City of Saratoga

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

Library Expansion Capital Projects Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCES - BEGINNING	\$ 859,300	\$ 766,145	\$ 766,145	\$ -
RESOURCES (INFLOWS):				
Use of money and property	28,900	28,900	14,215	(14,685)
Amount available for appropriation	888,200	795,045	780,360	(14,685)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Capital outlay	75,000	75,000	76,356	(1,356)
Total charges to appropriations	75,000	75,000	76,356	(1,356)
FUND BALANCES - ENDING	\$ 813,200	\$ 720,045	\$ 704,004	\$ (16,041)

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, 2006

	Cable T.V. Trust	Assessment District Bonds	Total Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 60,842	\$ 1,061	\$ 61,903
Interest Receivable	689	-	689
Total assets	<u>\$ 61,531</u>	<u>\$ 1,061</u>	<u>\$ 62,592</u>
LIABILITIES			
Deposits payable	\$ 61,531	\$ 1,061	\$ 62,592
Total liabilities	<u>\$ 61,531</u>	<u>\$ 1,061</u>	<u>\$ 62,592</u>

City of Saratoga
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Cable T.V. Trust</u>				
Assets:				
Cash and investments	\$ 73,540	\$ 2,302	\$ (15,000)	\$ 60,842
Interest Receivable	524	689	(524)	689
Total assets	\$ 74,064	\$ 2,991	\$ (15,524)	\$ 61,531
Liabilities:				
Deposits payable	\$ 74,064	\$ 2,991	\$ (15,524)	\$ 61,531
 <u>Assessment District Bonds</u>				
Assets:				
Cash and investments	\$ -	\$ 1,061	\$ -	\$ 1,061
Restricted cash and investments	192,122	192,195	(384,317)	-
Interest Receivable	274	-	(274)	-
Accounts receivable	42,946	-	(42,946)	-
Total assets	\$ 235,342	\$ 193,256	\$ (427,537)	\$ 1,061
Liabilities:				
Deposits payables	\$ -	\$ 1,061	\$ -	\$ 1,061
Due to assessment district bondholders	235,342	193,256	(428,598)	-
Total liabilities	\$ 235,342	\$ 194,317	\$ (428,598)	\$ 1,061
 <u>Total Agency Funds</u>				
Assets:				
Cash and investments	\$ 73,540	\$ 3,363	\$ (15,000)	\$ 61,903
Restricted cash and investments	192,122	192,195	(384,317)	-
Interest Receivable	798	689	(798)	689
Accounts receivable	42,946	-	(42,946)	-
Total assets	\$ 309,406	\$ 196,247	\$ (443,061)	\$ 62,592
Liabilities:				
Deposits payable	\$ 74,064	\$ 4,052	\$ (15,524)	\$ 62,592
Due to assessment district bondholders	235,342	193,256	(428,598)	-
Total liabilities	\$ 309,406	\$ 197,308	\$ (444,122)	\$ 62,592



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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land and land improvements	\$ 9,887,095	\$ 11,118,030
Buildings and structures	20,502,349	19,278,447
Machinery and equipment	1,426,309	1,558,492
Infrastructure	98,917,810	98,917,810
Construction in progress	<u>8,520,821</u>	<u>5,680,806</u>
Total governmental funds capital assets	139,254,384	136,553,585
Accumulated depreciation	<u>(17,984,014)</u>	<u>(16,329,151)</u>
Total governmental funds capital assets, net	<u><u>\$ 121,270,370</u></u>	<u><u>\$ 120,224,434</u></u>
INVESTMENTS IN GOVERNMENTAL FUNDS		
CAPITAL ASSETS BY SOURCE:		
General Fund	\$ 109,636,671	\$ 109,760,888
Special revenue funds	1,418,730	1,479,663
Capital projects funds	28,101,635	25,261,619
Donations	97,348	51,415
Accumulated depreciation	<u>(17,984,014)</u>	<u>(16,329,151)</u>
Total governmental funds capital assets	<u><u>\$ 121,270,370</u></u>	<u><u>\$ 120,224,434</u></u>

City of Saratoga
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2006

	Land and Land Improvements	Buildings and Structures	Machinery and Equipment	Infrastructure	Construction in Progress	Total
FUNCTION AND ACTIVITY						
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	-	-	22,548	-	-	22,548
Total public safety	-	-	50,361	-	-	50,361
Public works:						
Streets and sidewalks	134,695	30,628	606,115	98,917,810	5,016,146	104,705,394
Parks/open space	2,529,529	92,622	338,913	-	-	2,961,064
Total public works	2,664,224	123,250	945,028	98,917,810	5,016,146	107,666,458
Community services	5,362,223	2,543,198	227,811	-	2,635,068	10,768,300
Community development services	1,742,464	14,299,899	43,662	-	826,870	16,912,895
Total governmental funds capital assets	9,887,095	20,502,349	1,426,309	98,917,810	8,520,821	139,254,384
Accumulated depreciation	-	(3,219,865)	(1,213,207)	(13,550,942)	-	(17,984,014)
Total governmental funds capital assets, net	\$ 9,887,095	\$ 17,282,484	\$ 213,102	\$ 85,366,868	\$ 8,520,821	\$ 121,270,370

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, 2006

	Governmental Funds Capital Assets July 1, 2005	Additions	Deletions	Governmental Funds Capital Assets June 30, 2006
FUNCTION AND ACTIVITY				
General and intergovernmental services:				
Management services	\$ 362,205	\$ -	\$ -	\$ 362,205
Administrative services	211,589	-	-	211,589
Intergovernmental services	3,282,576	-	-	3,282,576
Total general and intergovernmental services	3,856,370	-	-	3,856,370
Public safety:				
Police services	27,813	-	-	27,813
Code enforcement	37,548	-	(15,000)	22,548
Total public safety	65,361	-	(15,000)	50,361
Public works:				
Streets and sidewalks	102,123,681	2,460,631	121,084	104,705,396
Parks/open space	3,061,212	-	(100,148)	2,961,064
Total public works	105,184,893	2,460,631	20,936	107,666,460
Community services	10,409,526	359,874	(1,100)	10,768,300
Community development services	17,037,435	87,543	(212,085)	16,912,893
Total governmental funds capital assets	136,553,585	2,908,048	(207,249)	139,254,384
Accumulated depreciation	(16,329,151)	(1,861,012)	206,149	(17,984,014)
Total governmental funds capital assets, net	\$ 120,224,434	\$ 1,047,036	\$ (1,100)	\$ 121,270,370

STATISTICAL SECTION (Unaudited)

This part of the City of Saratoga's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

City of Saratoga
Net Assets by Component
Last Two Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year	
	2005	2006
Primary government		
Governmental activities		
Invested in capital assets, net of related debt	\$ 105,784	\$ 107,100
Restricted	6,328	5,370
Unrestricted	6,789	9,955
Total primary government	<u>\$ 118,901</u>	<u>\$ 122,425</u>

Source: CAFR

City of Saratoga
Changes in Net Assets
Last Two Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year	
	2005	2006
Expenses		
Governmental Activities:		
General government	\$ 4,160	\$ 3,473
Public safety	3,736	3,427
Environmental	379	465
Public works	3,450	4,287
Community services	1,929	1,395
Community development services	2,349	2,226
Interest on long-term debt (Unallocated)	760	754
Depreciation Expense (Unallocated)	-	-
Total Governmental Activities Expenses	<u>\$ 16,763</u>	<u>\$ 16,027</u>
Program Revenues		
Governmental activities:		
Charges for services		
General government	\$ -	\$ 31
Public safety	141	122
Environmental	504	509
Public works	8	12
Community services	757	1,008
Community development services	1,890	2,665
Operating grants and contributions	1,218	1,549
Capital grants and contributions	865	1,568
Total governmental activities program revenues	<u>5,383</u>	<u>7,464</u>
Total primary government program revenues	<u>\$ (11,380)</u>	<u>\$ (8,563)</u>
Net (expense)/revenue:		
Governmental activities	<u>\$ (11,380)</u>	<u>\$ (8,563)</u>
Total primary government net expense	<u>\$ (11,380)</u>	<u>\$ (8,563)</u>
General Revenue and Other Changes in Net Assets		
Governmental activities:		
Property taxes	\$ 4,841	\$ 5,652
Special assessments	302	348
Voter approved property taxes	1,174	1,021
Sales taxes	1,011	988
Local taxes	1,143	1,288
Franchise taxes	995	1,040
Motor vehicle in-lieu	420	718
Total taxes	<u>9,886</u>	<u>11,055</u>
Investment earnings	283	709
Other revenues	193	162
Total Governmental activities	<u>10,362</u>	<u>11,926</u>
Total primary government	<u>10,362</u>	<u>11,926</u>
Change in Net Assets		
Governmental activities	(1,018)	3,363
Total primary government	<u>\$ (1,018)</u>	<u>\$ 3,363</u>

Source: CAFR

City of Saratoga
Governmental Activities Tax Revenues by Source
Last Two Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year	
	2005	2006
Property Taxes	\$ 4,841	\$ 5,652
Special Assessment	302	348
Voters Approved Property Taxes	1,174	1,021
Sales Taxes	1,011	988
Local Taxes	1,143	1,288
Motor Vehicle In-lieu	420	718
Franchise Tax	995	1,040
Total	\$ 9,886	\$ 11,055

Source: City of Saratoga

City of Saratoga
Fund Balances of Governmental Funds
Last Two Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year	
	2005	2006
General Fund		
Reserved	\$ -	\$ 1
Unreserved	6,976	10,378
Total General Fund	<u>\$ 6,976</u>	<u>\$ 10,379</u>
All other governmental funds		
Reserved	\$ 855	\$ 865
Unreserved, reported in:		
Special revenue funds	201	919
Debt service funds	-	-
Capital Project funds	5,322	3,586
Total all other governmental funds	<u>\$ 6,378</u>	<u>\$ 5,370</u>

Source: CAFR

City of Saratoga
Changes in Fund Balances of governmental funds
Last Two Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Years	
	2005	2006
Revenues		
Property Taxes	\$ 6,304	\$ 7,022
Other Local Taxes	1,862	2,275
Licenses and permits	100	79
Fines and forfeitures	162	259
Intergovernmental-State	1,375	2,660
Intergovernmental-Federal	90	-
Intergovernmental-Other	671	976
Franchise Fees	1,294	1,041
Use of money and property	664	752
Other Revenues	153	1,719
Current Service Charge	3,093	2,715
Total Revenues	15,768	19,498
Expenditures		
General Government	3,238	3,346
Public Safety	3,731	3,423
Environmental Services	379	462
Public Works	2,220	3,039
Community Services	1,875	1,210
Community Development	1,990	1,847
Capital Outlay	1,777	2,908
Debt Service		
Principal	255	270
Interest	766	760
Bond Issuance Cost		
Total Expenditures	16,231	17,265
Excess of revenues over (under) expenditures	(463)	2,233
Other financing sources (uses)		
Transfers in	2,492	499
Transfers out	(2,492)	(499)
Total other financing sources (uses)	-	-
Net change in fund balances	\$ (463)	\$ 2,233
 Debt as a percentage of noncapital expenditures	 7.06%	 7.17%

Source: CAFR

City of Saratoga
Governmental Activities Tax Revenues by Source
Last Two Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year	
	2005	2006
Property Taxes	\$ 4,841	\$ 5,652
Special Assessment	302	348
Voters Approved Property Taxes	1,174	1,021
Sales Taxes	1,011	988
Local Taxes	1,143	1,288
Motor Vehicle In-lieu	420	718
Franchise Tax	995	1,040
Total	<u>\$ 9,886</u>	<u>\$ 11,055</u>

Source: City of Saratoga

City of Saratoga
Assessed Value and Estimated Actual Value of Taxable Property
Last Two Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30	Residential Property	Commerical Property	Industrial Property	Institu- tional	Vacant Land	Other Property	Unsecured Property	Total Assessed Value	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate
2005	\$ 7,114,095	\$ 166,071	\$ 8,746	\$ 33,509	\$ 70,276	\$ 35,127	\$ 42,965	\$ 7,470,789	\$ (76,932)	\$ 7,393,857	1.0560
2006	7,883,965	177,149	8,921	38,027	90,611	32,858	46,874	8,278,405	(133,951)	8,144,454	1.0529

Source: HdL Coren & Cone, Santa Clara County Assessor 2005/2006 Combined Tax Rolls

Other Property includes: Irrigated, Dry Farm, Recreational, Government, SBE Nonunitary, Unknown & Miscellaneous

City of Saratoga
Property Tax Rates
Direct and Overlapping Governments
Last Two Fiscal Years

	Fiscal Year	
	2005	2006
Direct Rates		
County	1.04120	1.04120
City	0.01484	0.01170
Special District		
Santa Clara Valley Water District - State Water Project	0.00860	0.00690
Santa Clara Valley Water District - Zone W-1	0.00060	0.00090
Saratoga Fire Protection District	0.00170	0.00520
Overlapping Rates		
Campbell School District	0.05290	0.05120
Cupertino Elementary School District	0.03600	0.03500
Moreland Elementary School District	0.06120	0.05610
Saratoga School District	0.03610	0.03560
Campbell Union High School District	0.01970	0.02240
Fremont Union High School District	0.02680	0.02600
Los Gatos-Saratoga Joint Union High School District	0.04090	0.03710
Foothill-DeAnza Community College District	0.01290	0.01190
West Valley-Mission Community College District	-	0.14000

Source: California Municipal Statistics, Inc

City of Saratoga
Principal Property Taxpayers
June 30, 2006

(amounts expressed in thousands)

Taxpayer	Primary Use	2005			2006		
		Taxable Assessed Value	Rank	% of Total Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value
Cupertino Village Associates LLC	Commercial						
Quito Village Group LLC	Commercial	\$ 16,640	2	0.23%	16,973	2	0.21%
John M. Sobrato	Residential				16,299	3	0.20%
Gregpenn Property	Residential				14,280	4	0.18%
San Jose Water Works	Miscellaneous	9,904	4	0.13%	10,778	5	0.13%
Coyote Properties LLC	Vacant Land				10,197	6	0.13%
David L. House	Vacant Land	8,872	9	0.12%	9,773	7	0.12%
Argonaut Associates LLV	Commercial	11,427	3	0.15%	9,710	8	0.12%
Ashok Krishnamurthi, Et.Al.	Residential				9,644	9	0.12%
David J. & Terri E. Morrison	Commercial	9,606	5	0.13%	9,791	10	0.12%
Public Storage Props IX Inc	Commercial	8,530	10	0.12%			
Saratoga Office Center Partners LLC	Commercial	19,300	1	0.26%			
David C. & Roxanne N. Peterschmidt	Residential	9,173	7	0.12%			
Deloise A. Jordan	Residential	9,020	8	0.12%			
Total		102,472			127,295		
Assessed value		7,393,858			8,144,454		

Source: HdL Coren & Cone, Santa Clara County Assessor 2005/2006 Combined Tax Rolls

City of Saratoga
Property Tax Levies and Collections
Last Two Fiscal Years

(amounts expressed in thousands)

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy ¹		Collections in Subsequent Years ¹	Total Collections to Date	
		Amount	Percentage		Amount	Percentage
2005	\$ 4,972,875	\$ 4,839,668	97%	133,207	\$ 4,972,875	3%
2006	5,243,038	5,112,766	98%	130,272	5,243,038	2%

Source: County of Santa Clara Assessor Office

Note: 1 Information presented differs from the information required per GASB 44.
 Data for delinquent tax collections by levy year is not available from the County of Santa Clara Assessor's Office.
 Data for the collections in subsequent years represents total delinquent amount received during the fiscal year. It does not reflect the actual fiscal year of the tax levy.

City of Saratoga
Ratios of Outstanding Debt by Type
Last Two Fiscal Years

(amounts expressed in thousands, except per capita amount)

	Fiscal Year	
	2005	2006
Governmental Activities		
General Obligation Bonds	\$ 14,440	\$ 14,170
Special Assessment Bonds	-	-
Capital Leases	-	-
Total Primary Government	<u>\$ 14,440</u>	<u>\$ 14,170</u>
Percentage of Personal Income	N/A	N/A
Per Capita	468	460

Source: CAFR

Note: 1. Information for the City of Saratoga not available

City of Saratoga
Ratios of General Bonded Debt Outstanding
Last Two Fiscal Years
 (amounts expressed in thousands, except per capita amount)

	Fiscal Year	
	2005	2006
General Obligation Bonds	\$ 14,440	\$ 14,170
Less Amount Available in Debt Service Fund	(855)	(865)
Total	<u>\$ 13,585</u>	<u>\$ 13,305</u>
Percentage of Estimated Actual Taxable Value of Property	0.18%	0.16%
Per Capita	440	431

Source: CAFR & California Municipal Statistics, Inc

City of Saratoga
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006

(amounts expressed in thousands)

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping Tax and Assessment Debt:			
Foothill-De Anza Community College District	\$ 240,260	1.809%	\$ 4,346
West Valley Community College District	100,000	11.919%	11,919
Campbell Union High School District	92,240	5.813%	5,362
Fremont Union High School District	138,590	3.851%	5,337
Los Gatos-Saratoga Joint Union High School District	70,355	41.204%	28,989
Campbell Union School District	92,135	7.501%	6,911
Cupertino Union School District	124,045	6.397%	7,935
Moreland School District	104,521	12.984%	13,571
Saratoga Union School District	54,495	85.598%	47,036
Saratoga Fire Protection District	5,684	97.509%	5,542
City of Saratoga	14,170	100.000%	14,170
City of Saratoga 1915 Act Bonds	40	100.000%	40
Santa Clara Valley Water District Benefit Assessment District	183,850	3.767%	6,926
Total Overlapping Tax and Assessment Debt	\$ 1,220,385		\$ 158,085
Direct and Overlapping General Fund Debt:			
Santa Clara County General Fund Obligations	\$ 920,595	3.767%	\$ 34,679
Santa Clara County Board of Education Certificates of Participation	17,170	3.767%	647
Foothill-DeAnza Community College District Certificates of Participation	20,440	1.809%	370
West Valley Community College District Certificates of Participation	35,910	11.919%	4,280
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	4,170	41.204%	1,718
Cupertino Union School District Certificates of Participation	4,520	6.397%	289
Saratoga Union School District Certificates of Participation	7,360	85.598%	6,300
Midpeninsula Regional Open Space Park District General Fund Obligations	111,690	6.608%	7,380
Total Direct and Overlapping General Fund Debt	\$ 1,121,855		\$ 55,663
Combined Total Debt	\$ 2,342,240		\$ 213,748

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

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Saratoga. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc.

City of Saratoga
Legal Debt Margin Information
Last Two Fiscal Years

(amounts expressed in thousands)

	Fiscal Year	
	2005	2006
Debt Limit	\$ 1,120,618.4	\$ 1,241,760.8
Total net debt applicable to limit	13,585	13,305
Legal debt margin	1,107,033	1,228,456
Total net debt applicable to the limit as a percentage of debt limit	1.21%	1.07%
 Legal Debt Margin Calculation		
Assessed value ¹	7,393,857	8,144,454
Add back: exempt real property ¹	<u>76,932</u>	<u>133,951</u>
Total assessed value ¹	7,470,789	8,278,405
Debt limit (15% of total assessed value)	1,120,618	1,241,761
Debt applicable to limit:		
General obligation bonds	14,440	14,170
Less: Amount set aside for repayment of general obligation debt	<u>(855)</u>	<u>(865)</u>
Total net debt applicable to limit	13,585	13,305
Legal debt margin	<u>\$ 1,107,033.4</u>	<u>\$ 1,228,455.8</u>

Note: Under state finance law, the City's outstanding debt should not exceed 15 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

¹Source: Santa Clara County

City of Saratoga
Demographic and Economic Statistics
Last Two Fiscal Years

Fiscal Year	City Population	Personal Income (in thousands)	Per Capita Personal Income	Labor Force	Unemployment Rate
2005	30,850	88,404	50,373	12,600	2.5%
2006	30,835	N/A	N/A	12,700	2.1%

Notes:

¹ Source: State of California Department of Finance

² Information for the City of Saratoga information not available.

Personal income and per Capita Personal Income for the San Jose-Sunnyvale-Santa Clara Metropolitan area

Source :<http://www.bea.gov/bea>

³ Annual Average. Source is EDD

<http://www.labormarketinfo.edd.ca.gov>

**City of Saratoga
Principal Employers
Last Two Fiscal Year**

Employer	2005			2006		
	Employees	Rank	Percentage of Total City Employment ¹	Employees	Rank	Percentage of Total City Employment
Gene's Fine Foods	85	1	1.39%	85	1	1.39%
Safeway	65	2	1.06%	65	2	1.06%
Saratoga Country Club	65	3	1.06%	65	3	1.06%
24 Hour Fitness	30	4	0.49%	30	4	0.49%
Windemere SVP	27	5	0.44%	27	5	0.44%
Longs Drugs	20	6	0.33%	20	6	0.33%
Classic Car Wash	20	7	0.33%	20	7	0.33%
Harmonie European Day Spa	20	8	0.33%	20	8	0.33%
Hinshaw, Draa & Marsh	20	9	0.33%	20	9	0.33%
Bella Saratoga	20	10	0.33%	20	10	0.33%
Jakes of Saratoga	20	11	0.33%	20	11	0.33%
La Fondue	20	12	0.33%	20	12	0.33%
The Plumed Horse	20	13	0.33%	20	13	0.33%
Viaggio	20	14	0.33%	20	14	0.33%

Source:

California Employment Development Department, Labor Market Information Division
www.labormarketinfo.edd.ca.gov

Per Janice at EDD-Total average employment 3rd Qtr. 2005

6129

City of Saratoga Business License database

City of Saratoga
Full-Time Equivalent City Government Employees by Function
Last Two Fiscal Years

Function	Fiscal Year	
	2005	2006
General Government	12.65	10.75
Public Works	20.80	20.75
Community Development	13.00	13
Parks And Recreation	10.30	10.35
Total	56.75	54.85

Source: City of Saratoga Budget Document

City of Saratoga
Operating Indicators by Function
Last Two Fiscal Years

Function	Fiscal Year	
	2005	2006
Public Safety		
Part 1 crimes ¹	463	426
Total Incidents	42,011	40,567
Police reports	1,767	1,659
Public Works		
Street resurfacing (miles)	N/A	5
Street lights repaired	2	3
Potholes filled (sq. ft.)	N/A	5,000
Community Development		
Total permit valuation ³ (\$000)	74,668	94,485
Parks and Recreation		
Classes, Trips (enrollment) Community events	6,579	6,458
Sports Programs (e.g. basketball, softball)	470	473
Child Care programs (Enrollment)	189	163
Day/Summer Camps (Enrollment)	301	287
Teen/Youth Council (Enrollment)	2,506	3,798
Danc3e Program (Four quarters)	432	452
Senior Center (Enrollment/attendance days)	22,312	22,591

Notes: Indicators are not available for the general government function.

¹Part 1 Crimes are the following as reported to DOJ: homicide, rape, robbery, burglary, assault, theft, auto theft, and arson.

Source: City of Saratoga various records

City of Saratoga
Capital Asset Statistics by Function
as of June 30, 2006

Function	2005	2006
Public Safety		
Police Station	1	1
Fire Station		
Saratoga Fire District	1	1
Central Fire District	1	1
Public Works		
Streets Miles - Private	13	13
Streets Miles - Public	137	137
West Valley Sanitation District		
Number of Connections	8601	8621
Length of Sewer Lines	20	20
Cupertino Sanitation District		
Number of Connections	2118	2118
Length of Sewer Lines	36	36
Parks and Recreation		
Parks acreage	81	81
Parks	15	15

Source: City of Saratoga various records

Note: No capital asset indicators are available for the general government or community development functions.