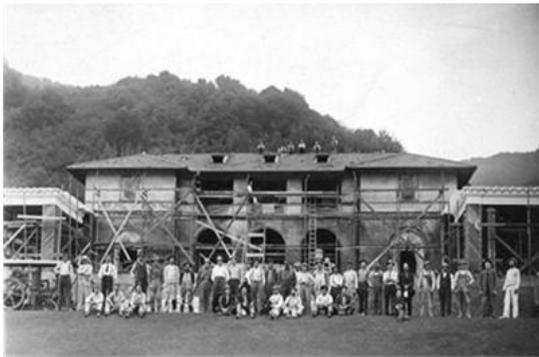




CITY OF SARATOGA

C A L I F O R N I A



CELEBRATING VILLA MONTALVO'S 100TH ANNIVERSARY

FISCAL YEAR 2012/13
COMPREHENSIVE ANNUAL FINANCIAL REPORT

This page is intentionally blank.



Saratoga, California

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2013

City Council

Jill Hunter..... Mayor
Emily Lo Vice Mayor
Howard Miller..... Council Member
Chuck Page Council Member
Manny Cappello..... Council Member

Presented under the direction of:
Dave Anderson, City Manager
Finance & Administrative Services Department

This page is intentionally blank.

**CITY OF SARATOGA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal..... 1
 GFOA Certificate of Achievement for Excellence in Financial Reporting..... 7
 Principal Officers of the City 8
 Organization Chart 9

FINANCIAL SECTION

Independent Auditors’ Report 11

Management’s Discussion and Analysis (Required Supplementary Information) 13

Basic Financial Statements:

Government-Wide Financial Statements

Statement of Net Position 27
 Statement of Activities and Changes in Net Position 28

Fund Financial Statements

Governmental Funds:

Balance Sheet 29
 Reconciliation of the Government Funds Balance Sheet
 to the Government-Wide Financial Statement of Net Position 30
 Statement of Revenues, Expenditures and Changes in Fund Balances 31
 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 Position 32

Proprietary Funds:

Statement of Net Position 33
 Statement of Revenues, Expenses, and Changes in Fund Net Position..... 34
 Statement of Cash Flows 35

Basic Financial Statement Notes:

Notes to the Basic Financial Statements 36

Required Supplementary Information

Budgetary Information 59
 Modified Approach for City Streets Infrastructure Capital Assets 61

**CITY OF SARATOGA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS CONTINUED

SUPPLEMENTARY INFORMATION:

Non-Major Governmental Funds

Combining Balance Sheets 66
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances 67
 Schedule of Revenues, Exp and Changes in Fund Balances – Budget and Actual:
 Capital Improvements 68
 Lighting & Landscape Assessment Districts Special Revenue Funds 69
 Library Bond Debt Service Fund 70

Internal Service Funds

Combining Statement of Net Position 72
 Combining Statement of Revenues, Expenses, and Change in Fund Balance 74
 Combining Statement of Cash Flows 76

Capital Assets Used in the Operation of Governmental Funds

Comparative Schedule by Source 81
 Schedule by Function and Activity 82
 Schedule of Changes by Function and Activity 84

Statistical Section (Unaudited)

Net Position by Component 86
 Changes in Net Position 88
 Fund Balance of Governmental Funds 90
 Governmental Activities Tax Revenues by Source 92
 Changes in Fund Balances of Governmental Funds 94
 Direct and Overlapping Governments 96
 Assessed Value of Taxable Property 98
 Principal Property Taxpayers 100
 Property Tax Levies and Collections 101
 Ratios of Outstanding Debt by Type 102
 Ratios of General Bonded Debt Outstanding 104
 Legal Debt Margin Information 106
 Direct and Overlapping Governmental Activities Debt 108
 Demographic and Economic Statistics 109
 Principal Employers 110
 Full-Time Equivalent City Government Employees by Function 112
 Operating Indicators by Function 114
 Capital Asset Statistics by Function 116



INTRODUCTORY SECTION

This page is intentionally blank.



CITY OF SARATOGA

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

November 12, 2013

Honorable Mayor, City Council, and Citizens of the City of Saratoga, California

The Comprehensive Annual Financial Report (CAFR) of the City of Saratoga for the year ended June 30, 2013 is hereby submitted in accordance with mandated statutes. These statutes require the City of Saratoga to annually issue a report on its financial position and activity, and that an independent firm of certified public accountants audits this report. This annual report was prepared in accordance with accounting principles generally accepted in the United States of America. City Management is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

To provide a reasonable basis for making these representations, the City has established internal controls to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. Information contained 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, 2013, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the City's financial activities.

The report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments. To facilitate the general public's understanding and usefulness of the City of Saratoga's financial statements, GASB Statement 34 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 formal letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The CAFR is presented in the following three sections:

1. **Introductory Section** – The Introductory Section, which is unaudited, includes this letter of transmittal, the Government Finance Officers Association's (GFOA's) Certificate of Achievement for Excellence in Financial Reporting to the City, a list of the City of Saratoga's elected officials and administrative personnel, and an organization chart.
2. **Financial Section** – This section includes the Independent Auditor's Report on the financial statements and schedules, Management's Discussion and Analysis on fiscal operations, and the Basic Financial Statements which include Government-Wide and Fund Financial statements, the Basic Financial Statement Notes, and Required Supplementary Information.
3. **Supplementary Information Section** – The Supplementary Information section includes Non-Major Governmental Fund statements, Internal Service Fund Statements, and Capital Asset Statements, and the Statistical Section with selected financial and demographic information generally presented on a multi-year basis, is unaudited.

Unaudited sections of this document are presented to supplement the basic financial statements. While not audited, the supplemental information is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for operational, economic and historical context.

THE REPORTING ENTITY AND ITS SERVICES

The City of Saratoga (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 contained a population of 30,706 at January 1, 2013, as reported by the Department of Finance. The City is a general law city of the State of California and operates under a council-manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor, Vice Mayor and three additional council members. City Council members are elected at-large for staggered four-year terms. The Mayor is selected annually by the City Council. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing members to the City's seven advisory commissions and hiring the City Manager and City Attorney. The City Manager is responsible for implementing the policies and ordinances of the City Council, overseeing the daily operations of the City, and recommending appointments of the City's department directors to the City Council.

The City provides a limited range of services including public safety, development regulation, public works, community and recreation activities and events, and general administrative functions. As a minimal service city, activities are supplemented 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 act in an advisory capacity to the City Council, and are comprised of the Heritage Preservation Commission, Library Commission, Parks and Recreation Commission, Planning Commission, Public Safety Commission, and Youth Commission.

The financial reporting entity (the City) includes all the fund activity of the primary government, as well as all of its component units. Component units are legally separated entities for which the City is fully accountable. The City's Saratoga Public Financing Authority (PFA) component unit which provided financial oversight of local bond obligations was finalized in fiscal year 2005/06. The Authority's final financial report was issued for fiscal year 2006/07. 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 Districts are reported in the City's financial statements.

ECONOMIC CONDITIONS AND OUTLOOK

Within close proximity to many businesses associated with the high technology industry, Saratoga is viewed as a desirable place to live and serves primarily as a residential community to the Silicon Valley. There is limited commercial or industrial activity within city boundaries.

Due to its highly rated schools and beautiful neighborhoods nestled within the foothills at the edge of the valley, Saratoga has grown into an affluent residential city and in general is fiscally protected by the stability of its' tax and development fee revenues. As is typical for California cities, the City of Saratoga's largest funding sources are property tax, franchise fees, sales tax, and development fees and

permits. It should be noted however, that while development fees are a significant funding source; expenses related to the intake of this fee-based revenue more than offsets the revenue received.

Property Tax

Effective with the 2006/07 fiscal year, the City began receiving a significant increase in property tax revenues due to the passage of Assembly Bill 117. This legislation increased the property tax percentage allocated to the City under the Tax Equity Allocation (TEA) formula.

Allocation inequality originally arose from the passage of Proposition 13 in 1978, which froze property taxes at their current level for all cities across the State. This action created significant problems for cities with low property tax rates. Subsequently, Section 98 of the California Revenue and Taxation Code was passed establishing a minimum tax equity allocation of 7% of the 1.0% ad valorem tax to those cities below the average rate as a condition for Counties to receive trial court funding. Impacts to ERAF created by the shift were backfilled by the State. Because Santa Clara County determined it would receive less from trial court funding than from the additional tax moneys flowing to the four low tax cities (Saratoga, Cupertino, Los Altos Hills, and Monte Sereno), additional legislation was enacted which limited the four low property tax cities in Santa Clara County to just 55% of the 7% minimum allocation.

In 2006, Assembly Bill 117 repealed the 55% limit, however the four cities were required to continue to remit the County's ERAF rate on these funds so that the bill would have no effect on the State Budget, and therefore avoid the Appropriations Committee. Unfortunately, the ERAF rate the County remits to the State is much higher at 47.7% than the four city's ERAF rates ranging from 7.53% to 17.37 %.) Although made partially whole, these four cities continue to be treated differently than the State's other TEA cities. For Saratoga, the 2006 legislative adjustments increased revenues from 3.85% to 5.46% of the 1.0% property tax paid by residents; however it remains below the minimum 7.0%. Due to this difference in treatment, efforts to bring the four cities up to the full tax rate continue.

Franchise Fees

Franchise Fees are assessments on a number of homeowner based utility services, including gas, electricity, water, cable, and solid waste. These assessments are integrated into the utility agreements, to be collected and remitted by the service companies. The assessments are determined by easement formulas or a percentage of service costs and are a pass-through fee on their billings. With most of these services considered necessities in an urban setting, there is little fluctuation in most of the revenues stream. Cable revenue has increased due to growth in the use of enhanced cable services. And, over the last several years, solid waste franchise fee revenue has increased with the rise in service charges. Both of these fees are expected to remain fairly flat in the future.

Sales Tax

With Saratoga primarily a residential community with limited retail sources, Sales Tax is small in comparison to other cities of similar size. In an average year, the City receives approximately \$1 million in Sales Tax, which is derived primarily from restaurants, grocery and drug stores, and gas stations. These revenue categories have remained fairly consistent over time as they provide a good balance to meet local needs. Revenue is not expected to grow significantly in the future as spending habits are migrating to online purchases, nor is it expected to decrease significantly as the Sales Tax comes from basic services and goods the community requires.

Development Fees

Development Fees revenue is derived from services related to planning reviews, planning applications, building plan reviews, engineering reviews, building inspections, and all permits, fees and costs associated with performing these activities. These services are regulatory to ensure compliance with all applicable laws, and to ensure health and safety of the community. Although the entire community benefits from an enforced

regulatory program, the service requestor initiates the development change and benefits the most from it, and therefore should pay most if not all of the costs. While in the past, the financial strength of the Saratoga community has insulated this revenue source from minor economic fluctuations, the last few years have proven that development activity does correlate with the stronger economic highs and lows.

Fiscal Outlook

For Saratoga, these main funding sources are considered to be stable and reliable most of the time. In comparison to other cities, Saratoga suffered only a minor decline in property tax and sales tax revenues with the economic downturn of 2008. However, the backlash impact on planning fees, building permits and interest revenues combined with this downturn created a substantial revenue reduction overall, prompting the City's response for reductions in staffing and operations. This economic low, known as the 'Great Recession', was much more severe than normal and the impacts were considered unusual.

In the spring of 2012, signs of recovery began to emerge. Property Tax revenues began to pick up, with total General Fund Property Tax revenues increasing by more than 8% in FY 2012/13. A trend in Transfer Tax fee increases showcased this upturn in the housing market. While Property Tax revenues continue to grow, there are signs that the housing market has tempered its pace, prompting conservative Property Tax revenue projections of 3% for the following budget year and into the near future.

Franchise Fee revenue remained stable throughout the recession due to the nature of the revenue. With no expectation for growth, minimal revenue increases are projected each year, in line with service fee increases.

FY 2012/13 Sales Tax revenue fell slightly from the prior year, but as the decrease was due to corrections in the State's payment estimates and allocations, it was clear the overall strength of the economy remained strong. While encouraging, minimal actual growth is expected in future years as the City's land use structure consists primarily of built-out residential neighborhoods and a small number of commercial developments, thereby limiting large Sales Tax revenue generating sources.

During the downturn, annual Development Fees dropped by more than \$700,000 in two years' time as a result of the decreasing housing prices and credit tightening. While revenues are not yet back up to pre-recession levels, FY 2012/13 revenues demonstrated a healthy resurgence in construction activity in alignment with other strengthening revenues.

California's overall economy is slowly improving, with Saratoga and the rest of the San Francisco Bay Area cities at the forefront of this swell. Even the State's finances appear to have stabilized. However, ongoing reduced funding levels continue to have cities concerned that any unprotected State or County-based funding is still at risk, even with Proposition 1A protecting cities from unrestrained State takeaways. With this continuing fiscal uncertainty and with the anticipation of ever-increasing operating and pension costs, Saratoga plans to continue operations at basic service levels in preparation for funding impacts as the new normal of government emerges. The Capital Improvement Program continues to be funded through dedicated funding sources, grant money, and residual funding from prior year operations.

FINANCIAL INFORMATION AND MAJOR INITIATIVES

Financial Controls

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 is 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.

For Cash Management, the City practices 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. Cash management is tracked by fund and reconciled monthly.

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. On occasion, outstanding encumbrances of a material nature are reviewed by the responsible department at year end, and if deemed critical, a recommendation is made to the City Council to take action by Resolution to re-appropriate these funds into the following year's budget.

Major Initiatives

The fiscal year 2012/13 Budget was developed with a focus on attaining a sustainable operating structure which maintained service levels under expectations of continued revenue reductions. With the ongoing potential for takeaways due to the State's fiscal struggles, departmental budgets were held to basic service levels and staffing costs were lowered through salary and benefit reductions attained during the prior year's labor negotiations.

The Operating Budget focused on maintaining core services. A small amount of funding was provided to encourage business development through a Chamber of Commerce subgroup which focused on promoting the Village as a destination to increase business activity. The City also sought to improve communications and involve citizens in City activities through enhancements to the City's radio station control system, improvements in the Community Events process, and Social Media Outreach tools.

With limited funding available for new Capital Projects in FY 2012/13, staff concentrated on completing existing projects already budgeted and standard ongoing maintenance projects for storm drain and sidewalk repairs, and traffic safety. Available City funding was used primarily to leverage grant funding for Street projects and for two safety projects. In conjunction with promoting Saratoga businesses, funding was also allocated for a new Business Development project to promote City businesses.

INDEPENDENT AUDIT

The City engaged Chavan & Associates, LLP to express an opinion on the financial statements based on their audit. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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 City's Annual Financial Report received an unqualified (clean) opinion from the auditors. The independent auditors' report is presented as the first component of the financial section of this report.

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 A-133, Audits of States, Local Governments, and Non-Profit Organizations. The City's federal financial assistance program also received an unqualified (clean) opinion from the auditors.

Awards

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, 2012. 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 Finance & Administrative Services Department. In particular, we would like to express our appreciation to Robert Edris, Sr. Accountant for his preparation of this annual financial report, and to our supporting staff members: Glenda Cracknell, Sr. Accountant; Ann Xu, Accountant; Julie Ingraham, Karen Caselli, and Gina Fitch, Accounting Technicians for their assistance with the audit and exemplary services throughout the year. Furthermore, we would like to thank Chavan & Associates, LLP Certified Public Accountants for their helpful assistance in the preparation of this report. Finally, we would like to give credit to the City Council for their ongoing interest and support in planning, conducting and advising on the operations of the City in a responsible and representative manner.

Respectfully submitted,


Dave Anderson
City Manager


Mary Furey
Finance and Administrative Services Director



Government Finance Officers Association

**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, 2012

Executive Director/CEO

**CITY OF SARATOGA
ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL**

As of June 30, 2013

CITY COUNCIL

Jill Hunter - Mayor
Emily Lo – Vice Mayor
Howard Miller
Chuck Page
Manny Cappello

CITY STAFF

Dave Anderson – City Manager
Crystal Morrow – City Clerk
Mary Furey – Finance & Administrative Services Director
James Lindsay – Community Development Director
John Cherbone – Public Works Director
Michael Taylor – Recreation & Facilities Director

CITY ATTORNEY

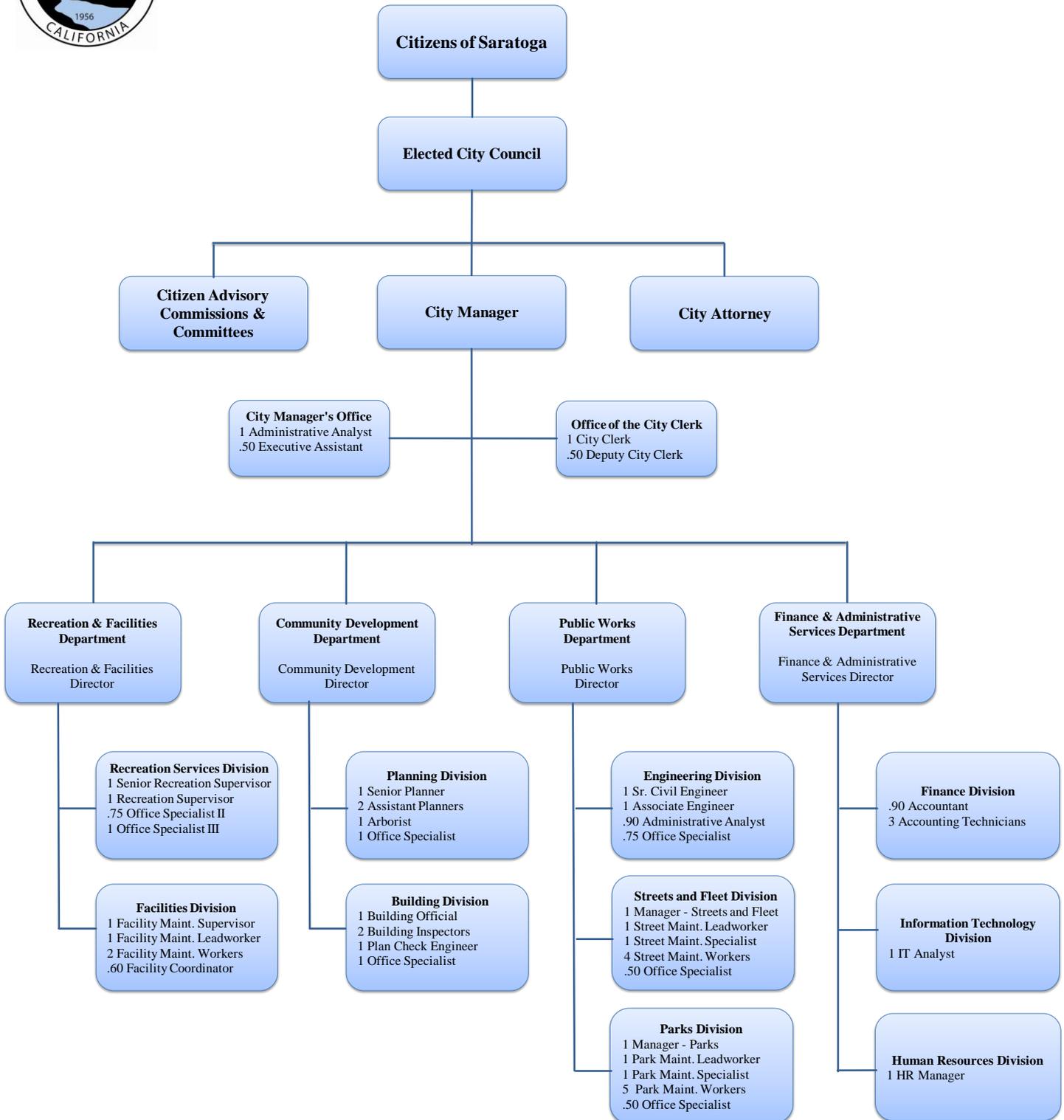
Richard S. Taylor – Shute, Mihaly & Weinberger

INDEPENDENT AUDITORS

Chavan & Associates, LLP Certified Public Accountants



City of Saratoga - Organization Chart



This page is intentionally blank



FINANCIAL SECTION

This page is intentionally blank



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Saratoga, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining individual non-major fund statements and schedules, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining individual non-major fund statements and schedules have 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 do not express an opinion or provide any assurance on them.

Other Information

As discussed in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

C & A LLP

October 18, 2013
San Jose, California

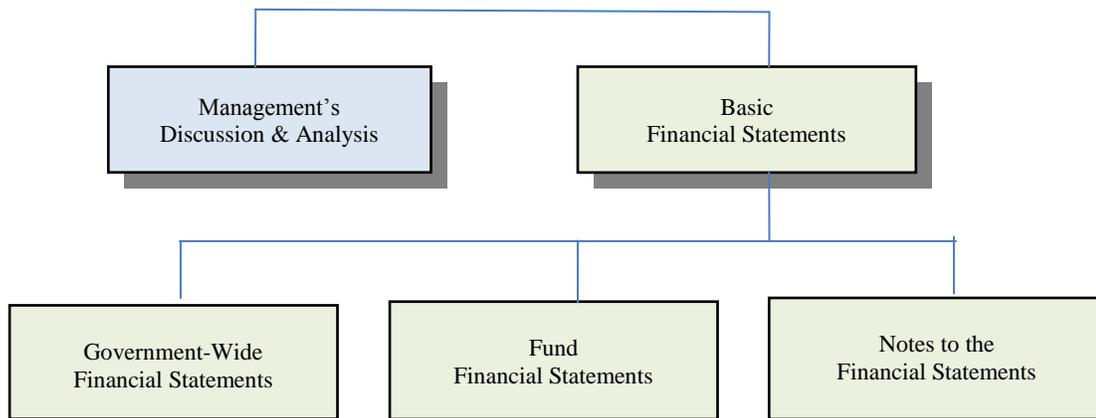
**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

INTRODUCTION

The Management’s Discussion and Analysis (MD&A) is a required section of the City’s Comprehensive Annual Financial Report (CAFR), as shown in the overview below. The purpose of the MD&A is to presents discussion and analysis of the City’s financial performance during the fiscal year that ended on June 30, 2013. This report will (1) focus on significant financial issues, (2) provide an overview of the City’s financial activity, (3) identify changes in the City’s financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Transmittal Letter and Basic Financial Statements is intended to provide a comprehensive understanding of the City’s operations and financial standing.

Required Components of the Annual Financial Report



FISCAL YEAR 2012/13 FINANCIAL HIGHLIGHTS

- Total net position increased by \$2.3 million last fiscal year.
- The City's assets exceeded its liabilities by \$ 127.7 million; assets totaled \$142.5 million and liabilities were \$ 14.8 million.
- Net position is comprised of \$112.4 million for investment in capital assets, net of depreciation and related debt; \$2.0 million restricted for specific purposes; and \$13.4 million in unrestricted Net position (reference pg #27).
- Total City-wide revenues were \$21.7 million which consists of program revenue of \$7.8 million and general revenues of \$13.8 million (reference pg #28).
- Total City expenses were \$19.4 million (reference pg #28).
- Total Governmental Fund’s fund balances were \$14.8 million, consisting of \$9.9 million in the General Fund, \$3.4 million in the Capital Improvement Funds, and \$1.5 million in the Other Governmental Funds (reference pg #29). This represents an increase of \$948 thousand from last year.
- General Fund revenues were \$17.6 million, while General Fund expenditures were \$15.6 million (reference pg #31).

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements are comprised of 1) Government-wide (City-wide) Financial Statements, and; 2) Fund Financial Statements. These two sets of financial statements provide the reader two different perspectives of the City's financial activities and financial position.

Government-Wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the *Statement of Net Position* and the *Statement of Activities*. The *Statement of Net Position* 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 Position 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 Position* and the *Statement of Activities* are also required to be separated into governmental activities or business-type activities in order to distinguish between these two types of activities of the City. In the case of the City of Saratoga, there are no business-type activities as of June 30, 2013.

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

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. The *Statement of Net Position* and the *Statement of Activities* present information about the following:

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

Business-Type Activities - This category includes enterprise activities such as water, sewer, and utilities. Unlike governmental services, these services are fully 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.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

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. The City's funds are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - The City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances available at year-end. Financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Carrying amounts for capital assets and other long-lived assets, along with long-term liabilities are not presented on the balance sheet 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.

Proprietary Funds – Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for liability and risk management, workers compensation, office equipment support services, information technology services, vehicle and building maintenance, and vehicle and information technology equipment replacement. Because the internal service funds benefit the governmental functions, they have been included with the *governmental activities* in the government-wide financial statements.

Fiduciary Funds – These funds 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. Fiduciary funds are not reflected in the government-wide financial statements because these resources are not available to support the City's programs. Currently the City does not have any fiduciary funds.

NOTES TO THE FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information other than through the MD&A follows the Notes and includes a budgetary comparison for the General Fund as presented in the governmental fund financial statements, and information on the modified approach for city streets and infrastructure.

SUPPLEMENTARY INFORMATION

Combining and individual fund statements and schedules are included to provide additional information on non-major governmental funds including special revenue, debt service, and capital project funds, as well as proprietary internal service fund information and uses of capital assets. An un-audited statistical section provides historical and current data on financial trends, revenue and debt capacity, demographic and economic information, and operating information.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as an indicator of the City's financial position. The City's Total Net Position increased \$2,293,952, from \$125,387,400 in fiscal year 2011/12 to \$127,681,352 in fiscal year 2012/13.

The most significant portion of the City's net position (\$112,353,273 or 88.0%) 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. These capital assets represent infrastructure which provides services to the citizens, consequently, these assets are not available for future spending.

\$1,970,887 or 1.5% of the City's net position is subject to external restrictions on how they may be used. Of these restricted net position, \$621,948 is restricted for lighting and landscaping assessment districts, \$463,182 is restricted to environmental programs, and \$885,757 is for repayment of long-term debt.

The remaining \$13,357,192 or 10.5% of the City's net position are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

Net Position

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Assets		
Current assets	\$ 18,646,780	\$ 18,023,582
Capital assets	123,893,273	123,196,676
Total Assets	<u>142,540,053</u>	<u>141,220,258</u>
Liabilities		
Current liabilities	3,228,709	4,051,633
Long-term debt	11,629,992	11,781,225
Total Liabilities	<u>14,858,701</u>	<u>15,832,858</u>
Net Position		
Net investment in capital assets	112,353,273	111,201,676
Restricted for environmental services	463,182	562,504
Restricted for special assessment funds	621,948	513,182
Restricted for debt service	885,757	862,415
Unrestricted	13,357,192	12,247,623
Total Net Position	<u>\$ 127,681,352</u>	<u>\$ 125,387,400</u>

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Statement of Changes in Net Position

Functions/Programs	Governmental Activities		Increase (Decrease)
	2013	2012	
Program Revenues			
Charges for services	\$ 7,154,600	\$ 5,625,974	\$ 1,528,626
Operating grants and contributions	75,000	1,319,318	(1,244,318)
Capital grants and contributions	599,067	2,337,120	(1,738,053)
Total Program Revenues	7,828,667	9,282,412	(1,453,745)
General Revenues			
Property taxes	9,152,499	8,456,687	695,812
Sales taxes	1,051,121	1,100,489	(49,368)
Local taxes	769,357	683,383	85,974
Franchise taxes	1,919,750	1,852,390	67,360
Motor vehicle in-lieu	16,402	15,830	572
Intergovernmental revenues	766,090	910,331	(144,241)
Investment earnings	50,562	66,623	(16,061)
Other revenues	112,906	118,181	(5,275)
Total General Revenues	13,838,687	13,203,914	634,773
Expenses			
General and intergovernmental services	4,143,254	3,486,353	656,901
Public safety	4,381,644	4,299,853	81,791
Public works	6,921,349	9,121,435	(2,200,086)
Community services	1,804,331	1,995,948	(191,617)
Community development services	1,712,706	1,553,119	159,587
Interest on long-term debt (unallocated)	410,118	452,645	(42,527)
Total Expenses	19,373,402	20,909,353	(1,535,951)
Increase / (Decrease) in Net Position	2,293,952	1,576,973	716,979
Net Position, Beginning of Year	125,387,400	123,810,427	1,576,973
Net Position, End of Year	\$ 127,681,352	\$ 125,387,400	\$ 2,293,952

As shown in the above *Statement of Changes in Net Position* schedule, the net change in program revenues from the prior fiscal year for governmental activities is a decrease of \$1,453,745. The net change in general revenues from the prior year is an increase of \$634,773, for a total decrease in revenues of \$818,972. The net change in expenses from the prior year was a decrease of \$1,535,951.

With total program and general revenues for fiscal year 2012/13 at \$21,667,354 and total expenses at \$19,373,402, the net activity resulted in an increase in Net Position of \$2,293,952.

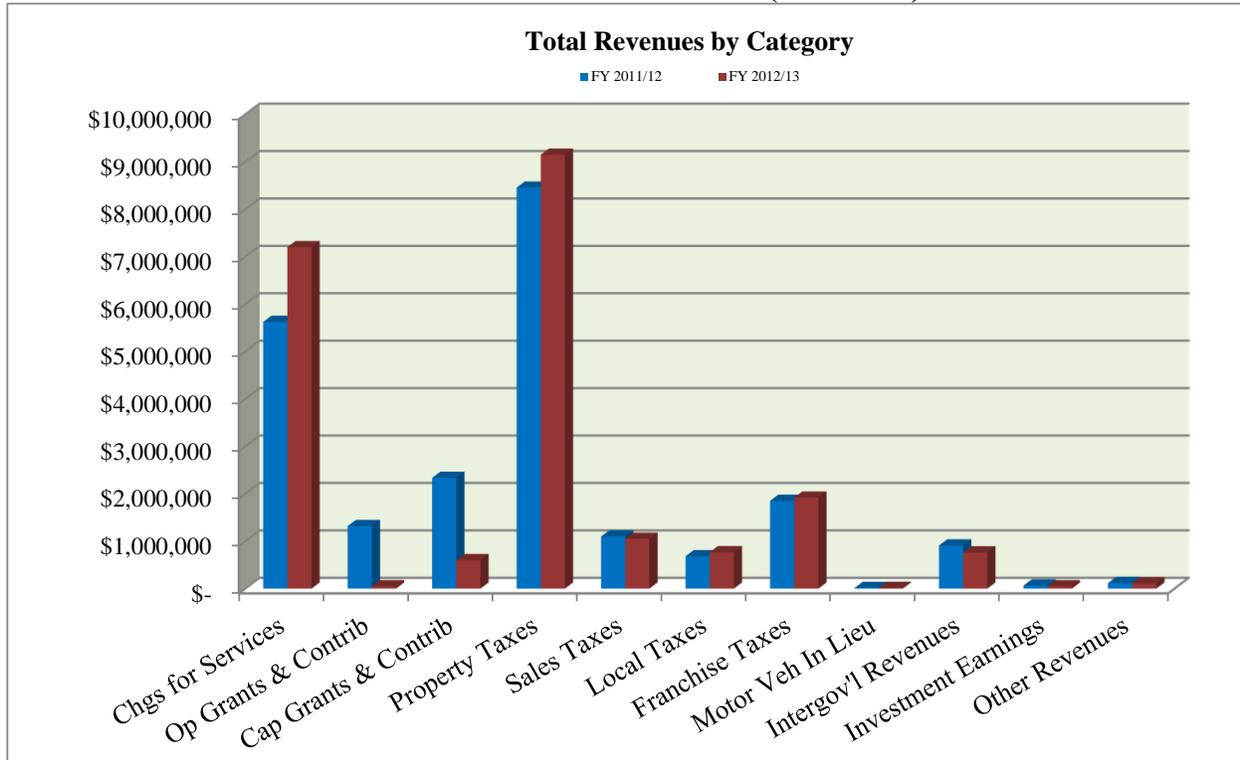
An analysis and graphical representation of the changes in revenues and expenditures by type of significant events follows:

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Revenues

Although a number of revenue categories increased during FY 2012/13, the offset from large reductions in operating and capital grant revenues resulted in a net decrease of \$818,972 in total program and general revenues.

CHART OF REVENUE INCREASE OR (DECREASE)



Increases in Revenues

Program Revenues decreases were offset by a substantial increase in one category:

- Charge for Services revenue increased by \$1,528,626 due in part to a more than \$1 million increase in maintenance project revenues. Additional increases came from development revenues, a new solid waste surcharge for waste management expenses, and the new VLF surcharge for street maintenance.

General Revenues increased \$634,773 from the prior year. The most significant changes include:

- A \$695,812 increase in Property Tax revenue includes a one-time PTAF reimbursement payment of \$177,881, with the remainder from increases in secured, unsecured, and document transfer taxes, illustrating a healthy resurgence in the housing market with property turnover and rising prices.
- An increase of \$85,974 in local taxes is a combination of increases in Transient Occupancy Tax (\$22,779), and taxes related to the increase in construction activity: Supplemental Business License Tax (\$23,241) and Construction Tax (\$40,881).
- A \$67,360 increase in Franchise Tax came primarily from a jump in Solid Waste Fee revenue (\$45,714), but also includes increases in Water Fees (\$14,116) and Cable Fees (\$18,996). Gas and Electric Fee decreases (\$11,492) offset the increases.

**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Decreases in Revenues

Program Revenues decreased substantially in grant revenues:

- A decrease of \$1,244,318 in Operating Grants is a result of two large one-time grants received in the prior year for 1) \$750,000 for the purchase of land for future use as an open space park, and 2) \$466,818 in Prop 1B grant revenue for street maintenance work.
- A \$1,738,053 decrease in Capital Grants and Contributions is a result of 1) a reduction in one-time grant revenues received last year and 2) the change in grant policy to eliminate the accrual of all grant expenditures as receivables. Only grant expenditures which are reimbursed within 75 days of year end will be accrued, as is the standard for other types of receivables. Invoiced but unreimbursed receivables are offset through a unearned revenue journal.

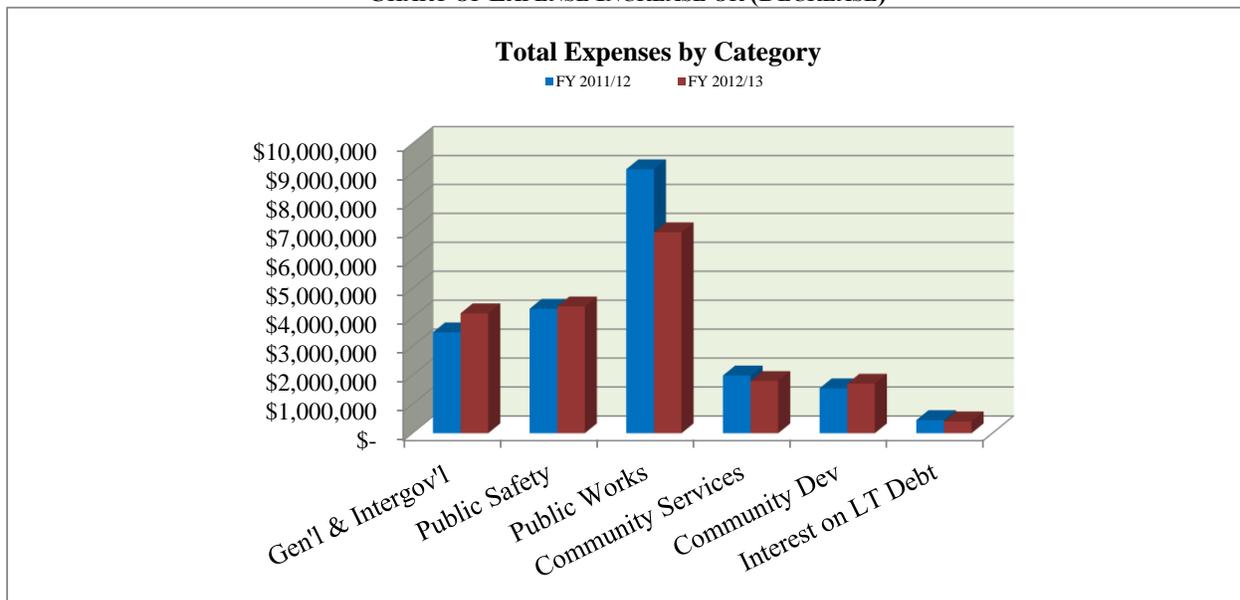
General Revenues decreased substantially in two categories:

- A \$144,241 decrease in Intergovernmental Revenue came from a reduction in Gas Tax revenue. The decrease in Gas Tax is a result of AB 1465 (2012). This legislation shifted a portion of Section 2103 funds to the State Highway account to backfill for funds transferred from that account to the State’s General Fund to pay for transportation debt service. The State’s reconciliation included adjustments to both 2011/12 and 2012/13 fiscal year allocations, causing the large decrease.
- A \$49,368 decrease in Sales Tax revenues resulted from a combination of the State’s estimates which were too high in the prior year, which subsequently resulted in a FY 2011/12 overpayment and a reconciling reduction in FY 2012/13 payments to compensate for the overpayment. There were also several adjustments for incorrect prior year allocations.

Expenses

The FY 2012/13 net change in expenses for Governmental Activities was a decrease of \$1,535,951 which came primarily from reductions in Public Works capital spending as illustrated in the chart below.

CHART OF EXPENSE INCREASE OR (DECREASE)



**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Increases in Expenses

Significant increases in expenditures from the prior year occurred in several categories:

- General and intergovernmental services increased by \$695,901, primarily from the \$245,444 payoff of the CalPERS side fund. Growth in labor and operational costs also contributed toward the increase.
- Public Safety increased by \$81,791 as a result of an increase in the cost of the Sheriff's law enforcement contract.
- Community Development Services increased by \$159,587, consisting of staff cost increases in the Development Services and Building and Inspection programs.

Decreases in Expenses

Notable decreases were related to a reduction in capital project expenditures:

- Public Works (primarily street capital improvement projects) decreased in total by \$2,200,086, and Community Services (primarily park capital improvement projects) decreased by \$191,617.

MAJOR AND OTHER GOVERNMENTAL FUNDS: CHANGE IN FUND BALANCE

A summary of the changes in fund balance of the Major Funds and Other Governmental Funds is presented below:

	Major Funds		Other Governmental Funds
	General	Capital Improvement	
Total Revenues	\$ 17,635,988	\$ 2,776,901	\$ 1,375,340
Total Expenditures	15,567,935	3,979,272	1,292,554
Revenues Over (Under) Expenditures	2,068,053	(1,202,371)	82,786
Transfers in	106,000	1,184,500	-
Transfers out	(1,184,500)	(106,000)	-
Net change in fund balances	989,553	(123,871)	82,786
Beginning of year	8,929,121	3,544,205	1,424,919
End of year	\$ 9,918,674	\$ 3,420,334	\$ 1,507,705

Included in the Major Funds are the General Fund and the Capital Improvement Funds. The Other Governmental Funds include twenty-five Lighting and Landscape Assessment Districts, accounted for as one fund in the financials and the Library Bond Debt Service Fund. The total net change from fiscal year transactions, including Major Funds and Other Governmental Funds, was an increase of \$948,468.

General Fund

As shown in the preceding *Major Funds* table, the net change in the General Fund's ending fund balance is an increase of \$989,553. A Net Gain is a result of the net operating revenues exceeding net operating expenditures. A number of the General Fund revenue categories increased from the prior year for a net revenue gain of \$1,375,340, most notably property tax revenues and development related fees. The

**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

addition of the Measure B tax revenue to fund street maintenance activities, and a solid waste surcharge to fund environmental programs contributed to the gain. General Fund revenues budgets are conservatively based upon prior year experience and revenue specific information; however the strengthening of the housing market at a fairly rapid pace and the added revenue streams resulted in a large positive variation from budgeted revenues.

Expenditures are budgeted at anticipated program needs at not-to-exceed projected funding levels. With the increase development activity, related expenditures increased from the prior year. Additional increases came from salary and benefit cost increases, sheriff contract increases, and rising internal service fund costs.

Capital Improvement Project Fund

As shown in the table above, the net change in the Capital Improvement Fund decreased by \$128,871 as a portion of the capital improvement project work completed over the course of the year utilized prior year funding in addition to current year funding.

Other Governmental Funds

Of the net \$82,786 increase in Other Governmental Funds, the collective 25 Landscaping & Lighting funds comprise \$59,444 of the total. The Library Bond debt service fund accounts for the remaining \$23,342 of the increase. Both net gains represent the excess of revenue over expenditures in the normal course of operations.

GENERAL FUND – BUDGETARY HIGHLIGHTS

Changes from the City's General Fund 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 appropriations in a fund 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 fund's bottom line may be approved by the City Manager. Significant changes from the City’s original budget to the final budget are summarized as follows:

Revenues and Transfers In

**Adopted to Final Budget
Fiscal Year Ended June 30, 2013**

	Adopted Budget	+ Budget Adjustments	= Final Budget
Revenues	\$ 15,821,815	871,794	\$ 16,693,609
Transfers in	\$ 106,000	-	\$ 106,000

The General Fund adopted revenue budget was \$15,821,815, and adopted transfers in was \$106,000. At mid-year, budget adjustments were made to increase expected revenues. The Sheriff’s Office provided the City with a very large contract refund of \$303,294. This refund was not budgeted as refunds may or may not be received, and the amount is unknown at the time of budget adoption. Impacts from the upturn in the housing market coupled with historically low interest rates contributed to an expected \$250,000 increase in property taxes, and \$398,500 in various planning, building, and engineering fees.

On the other hand, at mid-year Sales Tax was trending far below budget leading to a budget decrease of \$60,000. By year-end, sales tax revenues had partially recovered, and were over budget by \$15,000.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Meanwhile, historically low interest rates were continuing to fall even in the midst of the improving economy. This led to a \$10,000 decrease in budgeted interest, from \$55,100 to \$45,100. Disappointingly, interest earning ended the year even lower, with \$28,670 received. Another mid-year budgeted decrease came from the notification of another cell tower lease cancellation. However, Metro PCS continued their lease payment through the end of the fiscal year, so the budget reduction was not needed after all.

The original amount of \$106,000 of budgeted transfers in from Gas Tax funds to reimburse the General Fund for engineering, administrative, and project management staff time remained the only transfer in to the General Fund.

Expenses and Transfers Out

**Adopted to Final Budget
Fiscal Year Ended June 30, 2013**

	Adopted Budget	+ Budget Adjustments	= Final Budget
Expenditures	\$ 15,803,048	366,311	\$ 16,169,359
Transfers out	\$ 735,000	449,500	\$ 1,184,500

The General Fund adopted expenditure budget was \$15,803,048 and adopted transfers out was \$735,000. Budget adjustments were made at the City's mid-year review; City Council members approved: \$245,444 to pay off the remaining CalPERS Employer Side Fund liability to reduce the employer contribution rate and generate approximately \$30,000 in savings, \$16,185 was appropriated to pay an unexpected West Valley Sanitation charge for their Employer Side Fund liability, and another \$75,000 was appropriated for various operational funding increases, primarily related to street and parks maintenance. Additional budget adjustments of \$30,000 for backup building inspector services and \$18,225 for the purchase and installation of a new orchard well pump were approved later in the year.

Transfers Out increased by \$449,500. At mid-year, Council approved \$60,000 be transferred out for the Civic Theater Master Plan Study, while \$64,500 went to fund the Community Center's new wood floor. Later in the year, \$45,000 was transferred for Parking District #3 lot repairs, and \$280,000 to fund repairs for the Hakone Gardens Driveway damage caused by failed storm drains during a heavy winter storm.

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
FOR THE YEAR ENDED JUNE 30, 2013**

City policy is to achieve an average Pavement Condition Index (PCI) rating of 70 for all streets, at minimum. The City's overall rating was 76 with 83% of streets rated as Excellent to Very Good, 14% of streets are rated as "Good", 3% of streets rated "Poor", and 0% of streets are rated as "Very Poor". The City spent \$2,856,603 to maintain and preserve eligible infrastructure assets. For more detailed information on Capital Assets activity, please refer to Note 4 in the section entitled "Notes to the Basic Financial Statements" and Note 2 in the "Required Supplementary Section". The latest assessment study was conducted during the fall of 2010. A road assessment study update will be conducted in the fall of 2013.

As of June 30, 2013, the City had \$123,893,273 invested in a variety of capital assets as reflected in the following schedule, which represents an increase of \$696,597 or a 0.6% increase from the prior year.

	Capital Assets at Year End Net of Depreciation	
	Governmental Activities	
	2013	2012
Land	\$ 14,585,401	\$ 14,510,401
Building and structures	18,203,584	16,969,831
Machinery and equipment	663,288	604,135
Infrastructure	82,825,336	83,945,356
Construction in progress	7,615,664	7,166,953
Total Capital Assets, Net of Depreciation	<u>\$ 123,893,273</u>	<u>\$ 123,196,676</u>

The following reconciliation summarizes the changes in Capital Assets.

	Changes in Capital Assets				Balance June 30, 2013
	Balance July 1, 2012	Additions	Retirements	Reclassification	
Land	\$ 14,510,401	\$ -	\$ -	\$ 75,000	\$ 14,585,401
Building and structures	23,611,590	-	-	1,868,560	25,480,150
Machinery and equipment	2,422,782	104,243	(125,586)	68,887	2,470,326
Infrastructure	104,928,913	-	-	97,878	105,026,791
Construction in progress	7,166,953	2,612,974	(53,938)	(2,110,325)	7,615,664
Depreciation	(29,443,963)	(1,966,682)	125,586	-	(31,285,059)
Total Capital Assets, Net of Depreciation	<u>\$ 123,196,676</u>	<u>\$ 750,535</u>	<u>\$ (53,938)</u>	<u>\$ -</u>	<u>\$ 123,893,273</u>

Major capital projects in progress during fiscal year 2012/13 included the following expenditures:

- Prospect Center/19548 Prospect - \$113,452
- Library Improvements - \$118,910
- Highway 9 Traffic Safety - \$774,371
- Highway 9 Improvement – Phase III - \$429,779
- Fruitvale Avenue Median - \$125,954
- Village Sidewalk, Curb, and Gutters - \$137,193

**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

- Hakone Gardens Driveway & Retaining Wall - \$107,004
- GP Safety Element Upgrade - \$164,958

Additional information on Capital Assets is included in Note 4 to the financial statements.

DEBT AND OTHER LONG-TERM OBLIGATION ADMINISTRATION

The net change in outstanding obligations for the City of Saratoga is a decrease of \$501,126. Total long term bonded debt, net of premium decreased by \$476,892. Outstanding compensated absences decreased by \$24,234.

Outstanding Long-Term Obligation at Year End

	Governmental Activities	
	2013	2012
2011 General Obligation Bond	\$ 11,540,000	\$ 11,995,000
Net Original Issue Premium	415,954	437,846
Compensated absences	621,979	646,213
Total Outstanding Debt	<u>\$ 12,577,933</u>	<u>\$ 13,079,059</u>

The current portion of long-term debt (\$485,000 for the refunded 2001 General Obligation Bonds for fiscal year 2013) and \$21,892 of amortized net original premium, are classified as a current liability in the City's *Statement of Net Position*.

General Obligation Bonds

The City refunded the 2001 General Obligation Bonds and in their place issued General Obligation Bonds in the amount of \$11,995,000 on July 14, 2011 with interest rates on the bonds ranging from 2.0% to 4.0%, with final payment due August 1, 2031. Principal of \$455,000 and interest of \$412,485 were paid during the fiscal year.

Compensated absences are accrued liabilities for vested and unpaid vacation and sick pay. The compensated absences balance decreased during the fiscal year by \$24,234 due to use and payouts of unused compensated absences to retiring, terminated, and general employee payouts. An estimated current liability of \$440,749 is expected to be used in the next fiscal year.

Additional information on outstanding obligations can be found in Note 5 to the financial statements.

ECONOMIC FACTORS

At the time the fiscal year 2012/13 budget was developed in early spring of 2012, the economy had stabilized and the “new normal” was upon us. In this environment of economic uncertainty, stagnant revenues, and increasing demands from the community, the Council passed an austere budget. Conservative revenue projections were supported by decreases in labor costs and ongoing program expenditure reductions, resulting in a sustainable but restrictive Operating Budget. The Capital Improvement Program Budget, which is funded by residual funding, grant funding, and dedicated revenue streams such as Gas Tax, continued to construct projects with previously committed funding. New project funding however was impacted by the reduction in residual funding.

Fortunately, as the prior fiscal year came to a close and the budget was adopted, a number of revenues

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

began to show improvement. The improvement continued over the course of the 2012/13 fiscal year:

- General Fund Property Taxes increased in total by 8.29%, (or 6.74% if the County's one-time PTAF reimbursement payment is not included), with increases of almost \$300,000 in Secured Property Tax, more than \$63,000 in Unsecured Property Tax, and \$52,000 in Transfer Tax.
- Development related fee increases were driven upward with the Housing Market resurgence as evidenced by:
 - Construction Tax and Supplemental Business License Tax revenue increases of 23% (based on building permit values) – equal to more than \$64,000
 - Combined Planning and Building revenues jumped by 14% and Development Engineering revenues increased by 35% - equal to almost \$300,000
- Transient Occupancy Tax, long an indicator of economic temperament, saw a strong uptick with an 11% increase – almost \$23,000

Not all revenues reacted to a strengthening economy. Interest rates continued to slide downward to ever-new historical lows with a bleak outlook projected. Rental income also decreased, primarily from reduced soccer field rentals. Many other revenues remained flat – however General Fund expenses continued to increase.

- Salary and Benefit costs increased by \$335,000 (5.5%), primarily due to rising benefit expenses. With new employee benefit levels reduced through the implementation of lower cost pension plans and the capping of medical benefits, future labor cost increases will be mitigated with the turnover of staff over time.
- These labor costs also contributed to the \$93,000 (2.3%) increase in Sheriff Services, in combination with operational cost increases. Public Safety labor costs will also be mitigated as time goes on due to the new lower cost State regulated pension plans for public safety employees.
- Consultant and Contract Services grew by more than \$244,000. This is in part attributable to \$58,000 in backup building inspection services, a \$40,000 increase in legal fees, \$65,000 in additional street sweeping services, \$22,000 in street maintenance services, and another \$72,000 in park and landscape services. While a portion of these expenses are considered one-time costs (such as the building inspector backup and storm related costs), some will continue on and grow in future years.

Overall, FY 2012/13 revenues grew at a faster pace than expenditures (net of transfers), both in dollars and percentage. The substantial revenue increase which occurred in FY 2012/13 helped to firm the City's long-term fiscal sustainability at current levels while allowing the reinstatement of some expenditure appropriations at mid-year in response to unplanned needs, and for operational right-sizing and flexibility.

Outlook

General Fund Revenues are not expected to continue on this rapid growth trajectory. Fiscal projections anticipate a leveling off in revenues as the initial rebound is tempered by economic hesitation. Fiscal uncertainty remains with us in this new normal, therefore the City plans to continue to maintain operations at core service levels in preparation of potential funding impacts. Potential revenue impacts include State takeaways of unprotected funding and changes in State directed revenue allocations. Known revenue impacts will come from reductions in capital funding grants, and from the elimination of road impact fees to fund ongoing street maintenance.

Anticipated expenditure increases include rising CalPERS rates of approximately 50% over the next

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

seven years to fund the change in rate setting and assumption factors. In addition, aging infrastructure maintenance expenses are increasing as our city ages. Even new infrastructure increases maintenance expenses, such as the annual refinishing of the Community Center's new wood floor, or maintenance of new trails, and increased water bills for tree plantings and median improvements.

In a long term status-quo projection, rising expenditures are certain, while revenue growth is not. As local governments do not have the ability to increase taxes or other revenues at a sufficient pace to maintain increasing operations, management must consider a long term view in the decision-making process. One of the hardest challenges the City faces is balancing community expectations against the fiscal reality of long-term operational practicality. The City continues to focus on this challenge.

REQUEST FOR FINANCIAL INFORMATION

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



BASIC FINANCIAL STATEMENTS

This page is intentionally blank

CITY OF SARATOGA
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 17,162,776
Receivables:	
Accounts	1,474,194
Interest	9,810
Total Current Assets	<u>18,646,780</u>
Noncurrent Assets:	
Capital Assets:	
Non-depreciable	71,356,684
Depreciable, net	52,536,589
Total Capital Assets	<u>123,893,273</u>
Total Noncurrent Assets	<u>123,893,273</u>
Total Assets	<u>142,540,053</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	909,533
Accrued payroll	118,480
Other payable	30,675
Interest payable	169,973
Deposits payable	1,027,607
Claims payable	24,800
Long-term obligations - due within one year	947,641
Total Current Liabilities	<u>3,228,709</u>
Noncurrent Liabilities:	
Long-term obligations - due in more than one year	<u>11,629,992</u>
Total liabilities	<u>14,858,701</u>
Net Position	
Net investment in capital assets	112,353,273
Restricted for:	
Environmental funds	463,182
Special assessment funds	621,948
Debt service	885,757
Total Restricted	<u>1,970,887</u>
Unrestricted	<u>13,357,192</u>
Total Net Position	<u>\$ 127,681,352</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Revenue and Changes in Net Position
						Primary Governmental Activities
Primary Government:						
Governmental Activities:						
General and intergovtl services	\$ 4,143,254	\$ 101,839	\$ -	\$ -	\$ 101,839	\$ (4,041,415)
Public safety	4,381,644	607,552	75,000	-	682,552	(3,699,092)
Public works	6,921,349	3,315,633	-	599,067	3,914,700	(3,006,649)
Community services	1,804,331	945,794	-	-	945,794	(858,537)
Community development services	1,712,706	2,183,782	-	-	2,183,782	471,076
Interest on long-term debt (unall.)	410,118	-	-	-	-	(410,118)
Total	<u>\$ 19,373,402</u>	<u>\$ 7,154,600</u>	<u>\$ 75,000</u>	<u>\$ 599,067</u>	<u>\$ 7,828,667</u>	<u>\$ (11,544,735)</u>
General Revenues:						
Taxes						
Property taxes						9,152,499
Sales taxes						1,051,121
Local taxes						769,357
Franchise taxes						1,919,750
Motor vehicle-in-lieu						16,402
Total taxes						<u>12,909,129</u>
Intergovernmental						766,090
Investment earnings						50,562
Other revenues						<u>112,906</u>
Total General Revenues						<u>13,838,687</u>
Change in Net Position						2,293,952
Net Position - Beginning of Year						<u>125,387,400</u>
Net Position - End of Year						<u>\$ 127,681,352</u>

The accompanying notes are an integral part of these financial statements

**CITY OF SARATOGA
GOVERNMENTAL FUNDS - BALANCE SHEET
JUNE 30, 2013**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement		
ASSETS				
Cash and investments	\$ 10,763,288	\$ 3,155,295	\$ 1,527,516	\$ 15,446,099
Receivables:				
Accounts	546,897	850,249	392	1,397,538
Interest	9,088	-	722	9,810
Total assets	<u>\$ 11,319,273</u>	<u>\$ 4,005,544</u>	<u>\$ 1,528,630</u>	<u>\$ 16,853,447</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 341,995	\$ 480,748	\$ 20,925	\$ 843,668
Accrued payroll	103,814	962	-	104,776
Deposits payable	924,107	103,500	-	1,027,607
Other payable	30,675	-	-	30,675
Unearned revenue	8	-	-	8
Total liabilities	<u>1,400,599</u>	<u>585,210</u>	<u>20,925</u>	<u>2,006,734</u>
Fund Balances:				
Restricted:				
Environmental services	463,182	-	-	463,182
Special assessment funds	-	-	621,948	621,948
Debt service	-	-	885,757	885,757
Committed:				
Capital improvement program	-	3,420,334	-	3,420,334
Hillside stability	675,000	-	-	675,000
Assigned:				
Future capital & efficiency	418,714	-	-	418,714
Carryforwards	73,101	-	-	73,101
Facility replacement	300,000	-	-	300,000
Unassigned:				
Working capital	2,923,096	-	-	2,923,096
Fiscal stabilization	1,500,000	-	-	1,500,000
Compensated absences	207,268	-	-	207,268
Development services	667,233	-	-	667,233
Other unassigned	2,691,080	-	-	2,691,080
Total fund balances	<u>9,918,674</u>	<u>3,420,334</u>	<u>1,507,705</u>	<u>14,846,713</u>
Total liabilities and fund balances	<u>\$ 11,319,273</u>	<u>\$ 4,005,544</u>	<u>\$ 1,528,630</u>	<u>\$ 16,853,447</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balances - Total Governmental Funds	\$ 14,846,713
Amounts reported for governmental activities in the statement of net position 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	71,356,684
Depreciable capital assets, net	<u>52,435,617</u>
Total Capital Assets	<u>123,792,301</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.	(169,973)
Internal service funds are used by management to charge the costs of office stores, vehicle and equipment maintenance and replacement, information services and replacement, building maintenance, risk management, and workers compensation. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position	1,723,790
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.	66,154
Long-term obligations 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	(11,540,000)
Compensated absences	(621,679)
Net original issue premium	<u>(415,954)</u>
Total Long-Term Obligations	<u>(12,577,633)</u>
Net Position of Governmental Activities	<u><u>\$ 127,681,352</u></u>

The accompanying notes are an integral part of these financial statements

**CITY OF SARATOGA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement		
REVENUES:				
Property taxes	\$ 8,959,231	\$ -	\$ 193,634	\$ 9,152,865
Special assessments	7,165	-	1,177,890	1,185,055
Sales taxes	1,051,121	-	-	1,051,121
Other local taxes	769,357	-	-	769,357
Licenses & permits	1,543,277	633,197	-	2,176,474
Fines & forfeiture	180,557	18,462	-	199,019
Intergovernmental - Federal	-	974,826	-	974,826
Intergovernmental - State	364,488	777,704	-	1,142,192
Intergovernmental - Other	51,999	217,401	-	269,400
Franchise fees	1,919,750	-	-	1,919,750
Use of money and property	492,366	31,130	3,816	527,312
Other revenue	2,296,677	124,181	-	2,420,858
Total revenues	17,635,988	2,776,901	1,375,340	21,788,229
EXPENDITURES:				
Current:				
General and intergovernmental services	3,268,524	-	-	3,268,524
Public safety	4,391,844	-	-	4,391,844
Public works	4,542,221	-	423,644	4,965,865
Community services	1,318,493	-	-	1,318,493
Community development services	2,046,853	-	-	2,046,853
Capital outlay	-	3,979,272	-	3,979,272
Debt service:				
Principal	-	-	455,000	455,000
Interest and fiscal charges	-	-	413,910	413,910
Total expenditures	15,567,935	3,979,272	1,292,554	20,839,761
REVENUES OVER (UNDER) EXPENDITURES	2,068,053	(1,202,371)	82,786	948,468
OTHER FINANCING SOURCES (USES):				
Transfers in	106,000	1,184,500	-	1,290,500
Transfers out	(1,184,500)	(106,000)	-	(1,290,500)
Total other financing sources (uses)	(1,078,500)	1,078,500	-	-
Net change in fund balances	989,553	(123,871)	82,786	948,468
FUND BALANCES:				
Beginning of year	8,929,121	3,544,205	1,424,919	13,898,245
End of year	<u>\$ 9,918,674</u>	<u>\$ 3,420,334</u>	<u>\$ 1,507,705</u>	<u>\$ 14,846,713</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SARATOGA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET
POSITION
FOR THE YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 948,468
Amounts reported for governmental activities in the Statement of Activities and Changes in net position were different because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in net position, 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.	2,578,741
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in net position, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds.	(1,916,967)
Internal service funds are used by management to charge the costs of office stores, vehicle and equipment maintenance and replacement, information services and replacement, building maintenance, risk management, and workers' compensation. The net revenue or (excess expenses) of the internal service funds is reported with government activities.	205,192
Certain revenues were not recorded or recorded as unearned revenue in the governmental funds because they did not meet the revenue recognition criteria of availability. However, they were included as revenue in the Government-Wide Statement of Activities and Changes in Net Assess under the full accrual basis.	(26,700)
Long-term compensated absences and claims payables were reported in the Government-Wide Statement of Activities and Changes in net position, 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.	
Compensated absences	24,534
Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of net position.	
Long-term debt repayments	455,000
Revenues resulting from the refunding of outstanding debt are not available to pay current-period expenditures and therefore, are revenue in the funds.	
Net original issue premium	21,892
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in net position, 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.	3,792
Change in Net Position of Governmental Activities	<u>\$ 2,293,952</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	\$ 1,716,677
Accounts receivable	10,510
Total current assets	<u>1,727,187</u>
Noncurrent assets:	
Capital assets:	
Machinery and equipment	792,003
Less: accumulated depreciation	<u>(691,031)</u>
Total capital assets (net of accumulated depreciation)	100,972
Total assets	<u>1,828,159</u>
LIABILITIES	
Liabilities:	
Current liabilities:	
Accounts payable	65,865
Accrued payroll	13,704
Other payables	24,800
Total current liabilities	<u>104,369</u>
NET POSITION	
Net Investment in capital assets	100,972
Unrestricted	1,622,818
Total net position	<u>\$ 1,723,790</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 2,181,236
Other operating revenues	<u>51,052</u>
Total operating revenues	<u>2,232,288</u>
Operating expenses:	
Cost of services	1,056,626
Administration	920,755
Depreciation	<u>49,715</u>
Total operating expenses	<u>2,027,096</u>
Operating income (loss)	<u>205,192</u>
Transfers out	<u>-</u>
Change in net position	205,192
Total net position - beginning	<u>1,518,598</u>
Total net position - ending	<u>\$ 1,723,790</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2013

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,252,252
Payments to suppliers	(1,159,767)
Payments to employees	(807,770)
Net cash provided (used) by operating activities	<u>284,715</u>
Cash flows from capital activities:	
Acquisition of capital assets	(84,537)
Net cash provided for the acquisition of capital assets	<u>(84,537)</u>
Net increase in cash and cash equivalents	200,178
Cash and cash equivalents, beginning of year	1,516,499
Cash and cash equivalents, ending of year	<u>\$ 1,716,677</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 205,191
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	49,715
Change in operating assets and liabilities:	
Accounts receivables	19,964
Accounts payable	6,077
Claims payable	3,553
Accrued payroll	215
Net cash provided (used) by operating activities	<u>\$ 284,715</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Saratoga, California, (the 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 30,363 at June 30, 2013. 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, 2013, the City's staff comprised 54 full-time and nine part-time 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 Santa Clara County Sheriff's offices. Emergency management and Fire services are provided by a special district. Code enforcement and inspection services are provided by City employees.
- Public Works/Maintenance - The City builds and maintains its parks, streets, curbs, gutters, and related public property with a force of 22 employees. Major projects may be contracted out to reduce costs.
- Community Development - Zoning administration, plan checking and advance planning services are provided by 12 employees.
- Culture, Recreation and Community Support services are provided by a total of 10 employees.
- General Government services are provided by a total of 11 employees.

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

The following entity is reported as blended component unit:

Lighting and Landscaping Assessment District - The Lighting and Landscaping Assessment District (the District) was established in 1980, for the levy and the collection 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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Governing Board as the City. The activity for the District has been included in the accompanying basic financial statements and no separate financial statements are issued.

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 Position* and a *Statement of Activities and Changes in Net Position*. 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, deferred outflows of resources, liabilities, deferred inflows of resources (including capital assets, as well as infrastructure assets, and long-term liabilities), are included in the accompanying *Statement of Net Position*. The *Statement of Activities* presents changes in net position. 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

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 Position have been eliminated. The following interfund activities have been eliminated:

- Transfers in/Transfers out
- Internal Service Fund charges
- Land and Lighting District Service Fees

Deferred Outflows/Deferred Inflows

Deferred outflows of resources is a consumption of net assets by the City that is applicable to a future reporting period. For example, prepaid items and deferred charges.

Deferred inflows of resources is an acquisition of net assets by the City that is applicable to a future reporting period. For example, unearned revenue and advance collections.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Unearned Revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

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 position as presented in these statements to the net position 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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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 45 days 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.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned 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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

the government has a legal claim to the resources, the unearned 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.

Proprietary Funds

The City's internal service funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the "economic resources measurement focus". This means all assets, deferred outflows of resources, liabilities (whether current or noncurrent) and deferred inflows of resources associated with their activities are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the internal service funds financial statements.

Internal service funds account for charges to City departments for services provided, on a cost reimbursement basis, in the following areas: general liability, workers' compensation, office stores, information technology services, vehicle maintenance, building maintenance, equipment replacement, and information technology replacement.

Fiduciary Fund Financial Statements

During fiscal year 2012/12 the City has no fiduciary responsibility as prior reported agency funds have been transferred to other outside government agencies.

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 Statement 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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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

D. Interfund Transactions

Interfund services provided and used 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 for interfund services provided and used 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.

E. Capital Assets

Capital assets, which include land, buildings, improvements, furniture, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are 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 \$10,000. 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 to 10 Years
Infrastructure	15 to 50 Years

In June 1999, GASB issued Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* 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 infrastructure in its basic financial statements.

The City defines infrastructure as the basic physical assets that allow the City to function, which 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 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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2010. This condition assessment was performed in the fall of 2010 with the final report presented in March, 2012. 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.

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. An 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.

F. Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as an incurred liability 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. Interest on long-term debt is recorded in the fund statements when payment is made.

G. 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 FINANCIAL STATEMENTS
JUNE 30, 2013

H. 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 financial statements as a liability.

I. 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.

J. Fund Balances

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This standard left unchanged the total amount reported as fund balance, but substantially altered the categories and terminology used to describe its components. Rather than focus on financial resources available for appropriation, the new categories focus on “the extent for which the government is bound to honor constraints in the specific purposes for which amounts in the reserve can be spent”.

The components of fund balance are now categorized as follows: “*non-spendable fund balance*”, resources that are inherently non-spendable from the vantage point of the current period; “*restricted fund balance*”, resources that are subject to enforceable legal restrictions; “*committed fund balance*”, resources whose specified use is constrained by limitations the government entity imposes upon itself through formal action at its highest level of decision making and remains binding unless removed in the same manner; “*assigned fund balance*”, resources that reflects a government’s intended general use of resources, such intent would have to be established at either the highest level of decision making, by a body, or an official designated for that purpose; and “*unassigned fund balance*”, net resources in excess of what can properly be classified in one of the other four categories. Currently, the City’s fund balance reserves fall into one of the four spendable categories; restricted, committed, assigned, or unassigned fund balance.

The City maintains three restricted fund balances constrained by external legal restrictions that can be spent only for the stipulated purposes. These fund balances are:

- Special Assessments Fund Balance – collectively represents year-end fund balances of twenty-five landscape and/or lighting assessment districts which use is restricted to the individual district.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- Environmental Services Fund Balance – represents surcharges collected on solid waste bills for use as supplemental funding of Environmental Services program fees for household hazardous waste fees, storm drain, street sweeping, and other pollution mitigation expenses related to integrated waste programs and storm water management. These funds are used to supplement environmental expenditures by using \$50,000 per year; however these reserve funds were not transferred for use in FY 2012/12 due to additional revenue available for these programs.
- Debt Service Fund Balance – represents funding collected for and use in the City’s general obligation bond debt originally issued in 2001.

The committed category, in which fund balance is constrained by limitations that the government imposes upon itself at its highest level of decision making by formal vote, and remain binding unless removed in the same manner, includes the following:

- Capital Improvement Program (CIP) Fund Balance – represents the collective balance of funding appropriated for specific capital improvement projects. Capital Projects are funded through direct revenues or budgeted transfers for improvement work within the following program funds: Streets, Park & Trail, Facility, or Administrative Improvements.
- Hillside Stability - funding set aside for use either in emergency repairs or high-cost and non-routine mitigation of hillside or landslide projects.

In the assigned category, fund balance reflects an intended use as established by Council. Use of Assigned Fund Balance is approved by formal vote of the Council, or the City Manager who is authorized to assign amounts to a specific purpose, either through specific action, fund balance policy, or through budget direction and approval. This category includes the following reserves:

- Future Capital & Efficiency Funding - represents General Fund funding set aside for capital and/or efficiency projects but not yet committed for a specific improvement project.
- Facility Replacement Reserve – represents accumulated funding for the future replacement, major rehabilitation, or new construction of City-owned facilities. This funding is to be used for funding the construction or provide for the services of related debt, but is not yet committed for a specific improvement project.
- Carryforward – represents either prior-year funds designated for one-time operational activities not yet completed by year-end, or to carryforward prior-year funding for specific activities as directed by Council. Carryover funds are appropriated for use in the following fiscal year.

The Unassigned Fund Balance category represents funding which may be held for specific types of uses or stabilization purposes, but is not yet directed to be used for a specific purpose. Reserve amounts are determined by, and align with, fund policy direction.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- Working Capital Reserve – provides funds for cash flow. Council policy set aside \$2,000,000 on July 1, 1999, to be increased annually by an amount equal to the interest the City earned on the equivalent amount of cash and investments. As of June 30, 2013 this fund balance has grown to \$2,923,096. This fund balance is not appropriated for use.
- Fiscal Stabilization Reserve – Council policy is to maintain \$1,500,000 for use by Council direction in case of disasters, emergencies, and economic downturns.
- Development Services Reserve– represents reserve funds collected for development services to be used to support multi-year funding levels for zoning administration, inspection services, and development regulation programs during periods where expenditures exceed revenues.
- Compensated Absences Reserve – represents reserve funding for employee payout compensation equal to the one-third of annual liability balance. This funding level is anticipated to be the maximum potential payout in excess of budgeted salary in a fiscal year.
- Other Unassigned Fund Balance – represents funding not yet appropriated or assigned for use. Council policy is to maintain a minimum of \$500,000 in unassigned funds as a buffer for unplanned expenditures or revenue shortfalls.

Flow Assumption / Spending Order Policy – When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to be spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has directed otherwise.

K. Net Position

In the government-wide financial statements, net position is classified in the following categories:

- Net Investment in Capital Assets – 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. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position
- Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

L. Use of Restricted/Unrestricted Net Position

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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

M. Property Tax and Special Assessments

County tax assessments include 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.

N. 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.

O. Subsequent Events

Management has considered subsequent events through November 12, 2013, the date which the financial statements were available to be issued. Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date through November 12, 2013. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

P. New GASB Pronouncements

GASB Statement No. 60 - In November, 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. This pronouncement is effective for periods beginning after December 15, 2012. The City does not believe there will be a significant financial statement effect related to this Statement.

GASB Statement No. 61 – In November, 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This pronouncement is effective for periods beginning after June 15, 2013. The City does not believe there will be a significant financial statement effect related to this Statement.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

GASB Statement No. 62 – In December, 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

This pronouncement is effective for periods beginning after December 15, 2012. The City does not believe there will be a significant financial statement effect related to this Statement.

Statement No. 63 - In June, 2012, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of Net Position by the government that is applicable to a future reporting period, and an acquisition of Net Position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement were effective as of July 1, 2012 and did not have a significant impact on the City’s financial statements.

Statement No. 64 - In June, 2012, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when swap counterparty or a swap counterparty’s credit support provider is replaced. This pronouncement is effective for financial statements for periods beginning after June 15, 2012. The City has determined this Statement change will not have an effect on the financial statements.

Statement No. 65 - In March, 2013, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. However, the City has chosen to implement these reporting requirements as of July 1, 2012. This statement did not have a significant impact on the City’s financial statements.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Statement No. 66 - In March, 2013, GASB issued Statement No. 66, *Technical Correction – 2013 – an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The City does not believe there will be a significant financial statement effect related to this Statement.

Statement No. 67 - In June, 2013, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regards to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The City is in the process of determining the impact this statement will have on the financial statements.

Statement No. 68 - In June, 2013, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. The City is in the process of determining the impact this statement will have on the financial statements.

Statement No. 69 – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, *combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The City believes there will be no financial statement effect related to this Statement.

Statement No. 70 – In April, 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). The City does not participate in nonexchange transactions and this Statement will have no financial statement effect.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 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, 2013:

	Statement of Net Position
	Governmental Activities
Cash and investments	\$ 17,162,776

The City's Cash and Investments at June 30, 2013, in more detail:

Cash and cash equivalents:	
Petty cash	\$ 1,450
Demand deposits	290,297
Total Cash and Cash Equivalents	291,747
Investments:	
Local Agency Investment Fund (LAIF)	16,871,029
Total Cash and Investments	\$ 17,162,776

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$291,747 at June 30, 2013. Bank balances before reconciling items were \$347,976 at that date due to deposits in transit and outstanding checks. The total amount was collateralized or insured with securities held by the pledging financial institutions.

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, and places the City ahead of general creditors of the institution.

The market value of pledged securities must equal at least 110 percent 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 percent of the City's total cash deposits. The City has waived the collateral requirements for cash deposits which are fully insured to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Demand deposits (non-interest bearing checking accounts) have unlimited insurance through the TAG Program. Other accounts are insured up to \$250,000 per custodian within agency.

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.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 is in compliance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* which requires the City's investments be recorded at fair value instead of cost. Under GASB 31, the carrying value of investments are adjusted to reflect their fair value at each fiscal year-end, with the effects of these adjustments included in the carrying value of the investments.

C. External Investment Pool

The City's investments with LAIF at June 30, 2013, 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. The approved investments policy is listed on the LAIF website, located at <http://www.treasurer.ca.gov/pmia-laif/>

As of June 30, 2013, the City had \$16,871,029 invested in LAIF. The LAIF fair value factor of 1.000273207 was used to calculate the fair value of the investments in LAIF.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

D. Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the term of an investment's maturity, the greater the sensitivity to changes in market interest rates. Although the City's investment policy allows for a broad range of investment instruments with varying terms of maturity, investments are limited to the Local Agency Investment Fund (LAIF) which is managed by the State Treasurer Office and overseen by the Pooled Money Investment Board, the State Treasurer investment committee, and a Local Agency Advisory Board.

Included in LAIF's investment portfolio are U.S. Treasuries, Federal Agency obligations, time deposits, negotiable certificates of deposits, commercial paper, corporate bonds, and security loans. Funds are available for withdrawal on demand, and are recorded on an amortized cost basis. At June 30, 2013, these investments had a weighted average maturity of 278 days. The City had the following invested in LAIF:

	Fair Value	Investment Maturities in Years Less Than One Year
State of California - Local Agency Investment Fund (LAIF)	<u>\$ 16,871,029</u>	<u>\$ 16,871,029</u>

Credit Risk

As of June 30, 2013, the City's investments in external investment pools are unrated. The City only invests in LAIF, therefore has no other policy relating to the credit risk of investments.

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. The City did not hold any securities through investment counterparties at the year ended June 30, 2013.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 - FUND FINANCIAL STATEMENTS INTERFUND TRANSACTIONS

Transfers In/Out

Transfers for the year ended June 30, 2013 were as follows:

Transfer in	Transfer out	Amount
General Fund	Capital Improvement Fund	\$ 106,000
Capital Improvement Fund	General Fund	1,184,500
Total		\$ 1,290,500

The General Fund received monies from the Capital Improvement from the Gas Tax fund for general administration of \$106,000.

The Capital Improvement Fund received monies from the General Fund from the adopted budget of \$100,000 for annual facility improvement projects, \$300,000 for the Saratoga to Sea Master Plan, \$475,000 for various traffic and sidewalk projects, \$60,000 for the energy power backup project, \$40,000 for the electric door phase 2 project, \$64,500 for the JPCC wood floor upgrade, and 145,000 for various business process improvement projects.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, consisted of the following:

	Primary Government				Balance June 30, 2013
	Balance July 1, 2012	Additions	Retirements	Reclassifications	
Governmental activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 14,510,401	\$ -	\$ -	\$ 75,000	\$ 14,585,401
Construction in progress	7,166,953	2,612,974	(53,938)	(2,110,325)	7,615,664
Infrastructure:					
Street pavement system	49,155,619	-	-	-	49,155,619
Total capital assets, not being depreciated	<u>70,832,973</u>	<u>2,612,974</u>	<u>(53,938)</u>	<u>(2,035,325)</u>	<u>71,356,684</u>
Capital assets, being depreciated:					
Buildings and structures	23,611,590	-	-	1,868,560	25,480,150
Machinery and equipment					
Governmental funds	1,698,723	19,705	(108,992)	68,887	1,678,323
Internal service funds	724,059	84,538	(16,594)	-	792,003
Infrastructure:					
Bridges	1,563,654	-	-	-	1,563,654
Signs and lights	1,820,585	-	-	14,558	1,835,143
Drainage system	40,060,953	-	-	39,100	40,100,053
Sidewalks	12,328,102	-	-	44,220	12,372,322
Total capital assets, being depreciated	<u>81,807,666</u>	<u>104,243</u>	<u>(125,586)</u>	<u>2,035,325</u>	<u>83,821,648</u>
Accumulated depreciation:					
Buildings and structures	(6,641,759)	(634,807)	-	-	(7,276,566)
Machinery and equipment					
Governmental funds	(1,160,737)	(64,262)	108,992	-	(1,116,007)
Internal service funds	(657,910)	(49,715)	16,594	-	(691,031)
Infrastructure:					
Bridges	(1,027,104)	(25,717)	-	-	(1,052,821)
Signs and lights	(926,699)	(64,952)	-	-	(991,651)
Drainage system	(13,929,761)	(801,610)	-	-	(14,731,371)
Sidewalks	(5,099,993)	(325,619)	-	-	(5,425,612)
Total accumulated depreciation	<u>(29,443,963)</u>	<u>(1,966,682)</u>	<u>125,586</u>	<u>-</u>	<u>(31,285,059)</u>
Total capital assets, being depreciated, net	<u>52,363,703</u>	<u>(1,862,439)</u>	<u>-</u>	<u>2,035,325</u>	<u>52,536,589</u>
Governmental activities capital assets, net	<u>\$ 123,196,676</u>	<u>\$ 750,535</u>	<u>\$ (53,938)</u>	<u>\$ -</u>	<u>\$ 123,893,273</u>

Depreciation expense, including the amount related to the internal service funds, was charged in the following functions in the Statement of Activities:

General Government	\$ 1,299,379
Public Works	598,972
Community Services	18,616
Community Development	-
Internal Service Funds	49,715
Total Depreciation Expense	<u>\$ 1,966,682</u>

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Position. 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.

NOTE 5 – LONG-TERM OBLIGATIONS

A summary of the City's long-term obligations transactions for the year ended June 30, 2013, is presented below:

Description	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Classification	
					Due Within One Year	Due In More Than One Year
General Obligation Bonds:						
2011 Library bonds	\$ 11,995,000	\$ -	\$ (455,000)	\$ 11,540,000	\$ 485,000	\$ 11,055,000
Net original issue premium	437,846	-	(21,892)	415,954	21,892	394,062
Compensated absences	646,213	403,682	(428,216)	621,679	440,749	180,930
Total	<u>\$ 13,079,059</u>	<u>\$ 403,682</u>	<u>\$ (905,108)</u>	<u>\$ 12,577,633</u>	<u>\$ 947,641</u>	<u>\$ 11,629,992</u>

General Obligation 2012 Library Bonds - Original Issue \$11,995,000

On July 14, 2012, the City issued General Obligation Bonds Series 2012 in the amount of \$11,995,000. The bonds were issued to fully refund the General Obligation 2001 Library Bonds. The bonds are payable from and secured by certain property taxes within the City. Interest on the bonds ranges from 2.0 percent to 4.0 percent and is payable on February 1 and August 1 of each year, commencing February 1, 2013. Principal is due annually beginning on August 1, 2013, in amounts ranging from \$455,000 to \$760,000, with a final payment on August 1, 2031 of \$1,610,000. The bonds maturing on or before August 1, 2021 are not subject to redemption prior to their respective stated maturity dates. Bonds maturing on or after August 1, 2022 are subject to redemption prior to their respective stated maturity dates at the option of the city at the principal amount of the bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

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

Year Ended	Principal	Interest	Total
2014	\$ 485,000	\$ 403,085	\$ 888,085
2015	495,000	393,285	888,285
2016	500,000	383,335	883,335
2017	475,000	371,210	846,210
2018	485,000	356,811	841,811
2019-2023	2,715,000	1,492,650	4,207,650
2024-2028	3,285,000	928,608	4,213,608
2029-2032	3,100,000	254,000	3,354,000
Total	<u>\$ 11,540,000</u>	<u>\$ 4,582,984</u>	<u>\$ 16,122,984</u>

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to \$621,679 at June 30, 2013. The compensated absences liability will generally be liquidated through the General Fund.

NOTE 6 - RISK MANAGEMENT

The City participates in the two following public entity risk pools:

ABAG Plan Corporation (ABAG PLAN) - covers general liability claims up to a limit of \$5 million and purchases an additional \$15 million of excess insurance coverage, for a total of \$20 million per occurrence limit. 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, 2013, the City contributed \$214,130 for current year coverage and received no refund of prior year excess contributions.

ABAG Workers' Compensation Pool Insurance Authority (ABAG POOL) – covers workers' compensation coverage up to \$250,000 and excess coverage provides an employer liability limit of \$5 million per occurrence, and workers' compensation per occurrence limit to \$100 million. The City has no deductible for these claims. During the fiscal year ended June 30, 2013, the City contributed \$153,620 for current year coverage. The City's contribution equals 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 \$24,800 reported at June 30, 2013, 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 incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. Changes in the claims payable amounts were as follows:

The General Fund has been used in the prior years to liquidate the liability for claims and judgments.

	Year Ended June 30, 2013	Year Ended June 30, 2012
Claims payable, beginning of year	\$ 21,247	\$ 14,091
Fiscal year claims and changes in estimates	24,800	21,247
Claims payments	(21,247)	(14,091)
Claims payable, end of year	<u>\$ 24,800</u>	<u>\$ 21,247</u>

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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 and the ABAG Workers' Compensation Pool Insurance Authority for the fiscal year ended June 30, 2012 (most recent available):

	Plan Corporation	Comp Shared Risk Pool
Total Assets	\$ 45,141,862	\$ 3,978,862
Total Liabilities	24,677,330	791,665
Net Assets	<u>\$ 20,464,532</u>	<u>\$ 3,187,197</u>
Total Revenues	\$ 9,110,482	\$ 557,954
Total Expenses	15,179,160	471,897
Net Increase in Net Assets	<u>\$ (6,068,678)</u>	<u>\$ 86,057</u>

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

NOTE 7 - RETIREMENT PLANS

Pension Plan

Plan Description - The City contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit plan. CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS act 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 CalPERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95811.

Funding Policy - The City employer is required to contribute an actuarially determined rate of annual covered payroll for its miscellaneous employees (13.031 percent until February 2013 and 11.040 percent for the remainder of fiscal year 2012/13). Active plan members are required by State statute to contribute 7 percent of their annual covered salary. In past years, the City employer contributed this required amount on behalf of City employees. As a result of labor negotiations during fiscal year 2011/12, employees began to contribute the 7 percent of annual salary.

Annual Pension Cost - For fiscal year 2012/13, the City's annual pension cost was \$603,323. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. CalPERS actuarial assumptions included (a) 7.75 percent (7.75%) investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.55 percent to 14.45 percent for miscellaneous employees depending on age, service, and type of employment, and (c) 3.25 percent per year payroll growth adjustments. Both (a) and (b) included an inflation component of 3.00 percent. The actuarial value of CalPERS assets was determined using

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. CalPERS' 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, 2008, was 30 years for miscellaneous employees for prior and current service unfunded liability.

THREE-YEAR ANNUAL PENSION COSTS TREND INFORMATION FOR CALPERS

Fiscal Year	Annual Pension Cost (APC)	APC Contributed	Net Pension Obligation
2011	\$ 579,256	100%	\$ -
2012	616,323	100%	\$ -
2013	603,323	100%	\$ -

Required Supplementary Information

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

NOTE 8 - NET POSITION

A. Net Investment in Capital Assets

As of June 30, 2013, the net investment in capital assets consisted of the following:

Capital assets, net	\$ 123,893,273
2011 general obligation library bonds	(11,540,000)
Net investment in capital assets	<u>\$ 112,353,273</u>

B. Restricted Net Position

As of June 30, 2013, the restricted net position consisted of the following:

	Restricted For			Total
	Environmental Services	Special Assessments	Debt Service	
Restricted Net Position	<u>\$ 463,182</u>	<u>\$ 621,948</u>	<u>\$ 885,757</u>	<u>\$ 1,970,887</u>

NOTE 9 - JOINT POWERS AGREEMENTS

The City is a member of several Joint Power Agreements, as follows:

The Santa Clara County Valley Transportation Authority (VTA) consists of various cities in the San Francisco Bay area. The Transportation 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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

statements may be obtained from the Traffic Authority at 1754 Technology Drive, Suite 224, San Jose, California 95110.

The West Valley Solid Waste Management Joint Powers Authority consists of the west valley cities of Campbell, Los Gatos, Monte Sereno, and Saratoga. The JPA was formed to coordinate efforts in carrying out solid waste collection and disposal activities, and in meeting the mandates of AB939, the States' Integrated Waste Management Act.

The Silicon Valley Regional Interoperability Authority (SVRIA) consists of Silicon Valley agencies formed to coordinate the design and implementation of an interoperable public safety communication system.

The Santa Clara County Library System JPA consists of various member agencies as a policy making and governing body of the County's library system.

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.

NOTE 10 - EXCESS EXPENDITURES OVER APPROPRIATIONS

There were no excess of expenditures over appropriations in individual funds during fiscal year 2012/13.

NOTE 11 - 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. For Federal programs, the City reached the level of qualifying cost during the current fiscal year so a single audit was required. 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.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

C. Commitments

The City had several outstanding contracts or planned construction projects as of June 30, 2013. These projects are evidenced by contractual commitments with contractors and include:

<u>Vendor</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>
Amland Corp	\$ 33,189	\$ 24,400
Biggs Cardosa Association	4,200	3,570
BKF Engineers	64,834	34,694
Chrisp Company	36,460	2,988
Cotton Shires & Associates	80,887	12,647
David L. Gates & Associates	25,279	13,363
Fehr Engineering Company	10,500	2,000
Gachina Landscape	17,940	17,940
Gradetech, Inc.	975,690	252,638
Guerra Construction Group	232,346	173,788
Hillside Drilling, Inc.	252,033	252,033
Labor Consultants	15,625	4,075
Lundmark Construction	19,490	7,620
Pacific Products & Services	9,000	9,000
Peelle, Technologies, Inc.	117,749	107,084
Reed & Graham, Inc.	33,000	33,000
Solectric Electrical	13,000	1,787
Steve Benzing Architect	4,820	1,108
Tennyson Electric	159,929	20,289
Testing Engineers	13,529	8,786
The Planning Center	249,631	236,945
	<u>\$ 2,369,131</u>	<u>\$ 1,219,754</u>

As of June 30, 2013, 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.



REQUIRED SUPPLEMENTARY INFORMATION

This page is intentionally blank

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 1 - BUDGETARY INFORMATION

The following is the budget comparison schedules for General Fund.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 8,186,642	\$ 8,436,600	\$ 8,959,231	\$ 522,631
Special assessments	5,375	5,375	7,165	1,790
Sales taxes	1,095,000	1,035,000	1,051,121	16,121
Other local taxes	580,000	630,000	769,357	139,357
Licenses & permits	1,050,065	1,315,065	1,543,277	228,212
Fines & forfeitures	251,025	251,025	180,557	(70,468)
Intergovernmental - state	340,863	340,863	364,488	23,625
Intergovernmental - other	33,000	33,000	51,999	18,999
Franchise fees	1,819,500	1,819,500	1,919,750	100,250
Use of money & property	536,282	516,282	492,366	(23,916)
Other revenue	1,924,105	2,310,899	2,296,677	(14,222)
Total revenues	15,821,857	16,693,609	17,635,988	942,379
EXPENDITURES:				
Current:				
General and intergovernmental services	3,483,445	3,718,846	3,268,524	450,322
Public safety	4,400,463	4,400,463	4,391,844	8,619
Public works	4,482,355	4,563,265	4,542,221	21,044
Community services	1,396,144	1,396,144	1,318,493	77,651
Community development services	2,040,641	2,090,641	2,046,853	43,788
Total expenditures	15,803,048	16,169,359	15,567,935	601,424
REVENUES OVER (UNDER) EXPENDITURES	18,809	524,250	2,068,053	1,543,803
OTHER FINANCING SOURCES (USES):				
Transfers in	106,000	106,000	106,000	-
Transfers out	(735,000)	(1,184,500)	(1,184,500)	-
Total other financing sources (uses)	(629,000)	(1,078,500)	(1,078,500)	-
Net change in fund balances	\$ (610,191)	\$ (554,250)	989,553	\$ 1,543,803
FUND BALANCES:				
Beginning of year			8,929,121	
End of year			<u>\$ 9,918,674</u>	

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

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

The annual budgets are adopted for the period of July 1 to June 30, and prepared to accurately and openly communicate service and infrastructure priorities to the community, businesses, vendors, employees, and other public agencies. The Annual Operating Budget is developed on a program basis for all funds with fund level authority. 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 adopts an annual budget for the capital projects as part of adopting the five-year Capital Improvement Plan. The annual capital budget is adopted on a project-by-project basis.

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

- a. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating and capital budgets include proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budgets are legally enacted through the passage of a resolution.
- d. For the Operating Budget, 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. As Capital Projects are adopted on a project basis, the City Council must approve increases or decreases of budgeted amounts or changes in project scope. Upon project completion, immaterial amounts are transferred to ongoing maintenance projects within the capital program. If remaining project funds are material, the project balance is brought back to Council for approval to transfer.
- f. Formal budgetary integration in the form of legally adopted budgets is employed as a management control device for all 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, Internal Service, and Capital funds. Unexpended and unencumbered appropriations automatically lapse at the end of the fiscal year.

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 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 which provide 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 includes the street system, park and recreation lands and improvements; storm water conveyance and drainage systems, and 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 with the final report received March 30, 2012. 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 140 centerline miles of paved surfaces. The City's road system can be grouped by function class and includes 23.4 centerline miles of arterial, 23.5 centerline miles of collector, and 93.3 miles as residential.

A visual survey of all pavement segments was conducted to assess the existing surface condition of each of the individual pavement segments. Upon completion of the study, a Pavement Condition Index (PCI) was calculated for each segment in the City's pavement network to reflect the overall pavement condition. Rating between 0 and 100, a PCI of 0 would correspond to a badly deteriorated pavement with virtually no remaining life. A PCI of 100 would correspond to a pavement with proper engineering design and construction at the beginning of its life cycle. The assessment study was conducted during November, 2010.

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

The following conditions were defined:

Condition	Rating
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, 2013, the City's street system was rated at a PCI index of 76 on the average with the detail condition as follows:

Condition	Percent of Streets
Excellent	8%
Very Good	75%
Good	14%
Poor	3%
Very Poor	0%

The City expended \$2,417,444 on street maintenance for the year ended June 30, 2013. These routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the year 2017 is a minimum of \$1,000,000. Approximately \$8,200,000 is the projected budget for fiscal year 2013/14.

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 ten years is presented below:

Fiscal Year	Budget	Actual Expenditures	Funded By		Total Funded	PCI Index
			Other Sources	Gas Tax Fund		
2003-04	\$ 1,961,844	\$ 1,489,667	\$ 907,327	\$ 582,340	\$ 1,489,667	-
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
2006-07	2,026,404	1,156,889	19,899	970,818	990,717	70
2007-08	2,246,152	1,691,466	1,252,709	438,757	1,691,466	70
2008-09	2,680,504	1,574,485	1,148,650	425,835	1,574,485	70
2009-10	1,811,130	771,386	575,710	195,676	771,386	70
2010-11	4,770,782	1,847,221	1,449,686	397,535	1,847,221	76
2011-12	4,683,078	2,856,603	1,622,401	1,234,202	2,856,603	76
2012-13	4,826,265	2,417,444	1,660,028	757,416	2,417,444	76

As of June 2013, approximately 17 percent 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 Report at the end of a five-year period

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

(2013-2017) amounted to approximately \$11,000,000 for all streets and are expected to be rehabilitated with a minimum annual budget of \$1,000,000.

This page is intentionally blank.



SUPPLEMENTARY INFORMATION

This page is intentionally blank

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Lighting and Landscape Assessment District Funds – These funds account for revenues and expenditures associated with maintaining the City’s 25 Landscape and Lighting districts which were approved by consent of property owners living along or within the boundaries of the Districts.

Debt Service Fund

Library Bond - Santa Clara County general obligation bond tax revenues are accumulated in this fund to pay annual principal and interest payments on the voter approved 2001 Library Improvement Bond.

**CITY OF SARATOGA
 COMBINING BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013**

	Special Revenue	Debt Service	
	Lighting and Landscaping Assessment District	Library Bond	Total Other Governmental Funds
ASSETS			
Cash and investments	\$ 642,339	\$ 885,177	\$ 1,527,516
Receivables:			
Accounts	192	200	392
Interest	342	380	722
Total assets	<u>\$ 642,873</u>	<u>\$ 885,757</u>	<u>\$ 1,528,630</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 20,925	\$ -	\$ 20,925
Total liabilities	<u>20,925</u>	<u>-</u>	<u>20,925</u>
Fund Balances:			
Restricted:			
Special revenue funds	621,948	-	621,948
Debt service	-	885,757	885,757
Total fund balances	<u>621,948</u>	<u>885,757</u>	<u>1,507,705</u>
Total liabilities and fund balances	<u>\$ 642,873</u>	<u>\$ 885,757</u>	<u>\$ 1,528,630</u>

**CITY OF SARATOGA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Special Revenue	Debt Service	Total Other Governmental Funds
	Lighting and Landscaping Assessment District	Library Bond	
REVENUES:			
Property taxes	\$ 193,634	\$ -	\$ 193,634
Special assessment	287,489	890,401	1,177,890
Use of money and property	1,965	1,851	3,816
Total revenues	<u>483,088</u>	<u>892,252</u>	<u>1,375,340</u>
EXPENDITURES:			
Current:			
General and ingov't services			
Public works	423,644	-	423,644
Debt service:			
Principal	-	455,000	455,000
Interest and fiscal charges	-	413,910	413,910
Total expenditures	<u>423,644</u>	<u>868,910</u>	<u>1,292,554</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>59,444</u>	<u>23,342</u>	<u>82,786</u>
Net change in fund balances	59,444	23,342	82,786
FUND BALANCES:			
Beginning of year	562,504	862,415	1,424,919
End of year	<u>\$ 621,948</u>	<u>\$ 885,757</u>	<u>\$ 1,507,705</u>

**CITY OF SARATOGA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses & permits	\$ 425,000	\$ 425,000	\$ 633,197	\$ 208,197
Fines & forfeitures	-	-	18,462	18,462
Intergovernmental - federal	3,934,428	4,096,962	974,826	(3,122,136)
Intergovernmental - state	1,018,662	853,315	777,704	(75,611)
Intergovernmental - other	390,088	390,088	217,401	(172,687)
Use of money and property	35,000	35,000	31,130	(3,870)
Other revenue	323,212	401,406	124,181	(277,225)
Total revenues	<u>6,126,390</u>	<u>6,201,771</u>	<u>2,776,901</u>	<u>(3,424,870)</u>
EXPENDITURES:				
Capital outlay	10,264,595	10,789,477	3,979,272	6,810,205
Total expenditures	<u>10,264,595</u>	<u>10,789,477</u>	<u>3,979,272</u>	<u>6,810,205</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(4,138,205)</u>	<u>(4,587,706)</u>	<u>(1,202,371)</u>	<u>3,385,335</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	735,000	1,184,500	1,184,500	-
Transfers out	(106,000)	(106,000)	(106,000)	-
Total other financing sources (uses)	<u>629,000</u>	<u>1,078,500</u>	<u>1,078,500</u>	<u>-</u>
Net change in fund balances	<u>\$ (3,509,205)</u>	<u>\$ (3,509,206)</u>	<u>(123,871)</u>	<u>\$ 3,385,335</u>
FUND BALANCES:				
Beginning of year			3,544,205	
End of year			<u>\$ 3,420,334</u>	

**CITY OF SARATOGA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 LIGHTING & LANDSCAPING ASSESSMENT DISTRICT SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 172,550	\$ 172,550	\$ 193,634	\$ 21,084
Special assessments	290,539	290,539	287,489	(3,050)
Use of money and property	1,645	1,645	1,965	320
Total revenues	<u>464,734</u>	<u>464,734</u>	<u>483,088</u>	<u>18,354</u>
EXPENDITURES:				
Current:				
Public works	<u>633,929</u>	<u>633,929</u>	<u>423,644</u>	<u>210,285</u>
Total expenditures	<u>633,929</u>	<u>633,929</u>	<u>423,644</u>	<u>210,285</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(169,195)</u>	<u>(169,195)</u>	<u>59,444</u>	<u>228,639</u>
Net change in fund balances	<u>\$ (169,195)</u>	<u>\$ (169,195)</u>	<u>59,444</u>	<u>\$ 228,639</u>
FUND BALANCES:				
Beginning of year			<u>562,504</u>	
End of year			<u>\$ 621,948</u>	

**CITY OF SARATOGA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 LIBRARY BOND DEBT SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$ 850,000	\$ 850,000	\$ 890,401	\$ 40,401
Use of money and property	600	600	1,851	1,251
Total revenues	<u>850,600</u>	<u>850,600</u>	<u>892,252</u>	<u>41,652</u>
EXPENDITURES:				
Debt service:				
General and ingov't services	-	-	-	-
Principal	455,000	455,000	455,000	-
Interest and fiscal charges	414,285	414,285	413,910	375
Total expenditures	<u>869,285</u>	<u>869,285</u>	<u>868,910</u>	<u>375</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(18,685)</u>	<u>(18,685)</u>	<u>23,342</u>	<u>42,027</u>
Net change in fund balances	<u>\$ (18,685)</u>	<u>\$ (18,685)</u>	<u>23,342</u>	<u>\$ 42,027</u>
FUND BALANCES:				
Beginning of year			<u>862,415</u>	
End of year			<u>\$ 885,757</u>	

INTERNAL SERVICE FUNDS

Liability/Risk Management Insurance Fund – Accounts for insurance premiums, self-insurance portion of claims, and administrative cost associated with settling claims. Charges made to operating departments are based on liability risk and claim occurrence history.

Worker's Compensation Self-insurance Fund – Accounts for insurance premiums, self insured portion of claims, and administrative costs associated with settling claims. Charges made to operating departments are based on liability risk and claim occurrence history.

Office Stores Fund - Photocopy equipment, postage and bulk mail meter expenses are controlled at one source point and expended to the departments as goods or services are utilized.

Information Technology Services Fund – Supports the delivery of technology based services and infrastructure, including desktop support, network systems, technology upgrades and initiatives, community systems, and associated information technology equipment.

Vehicle & Equipment Maintenance Fund – Accounts for the cost of operating and maintaining automotive equipment used for service operations in various City departments.

Building Maintenance Fund – Accounts for operating costs associated with building maintenance. Expenses include custodial supplies and services, maintenance and repair, utilities, and staffing costs.

Vehicle & Equipment Replacement Fund – Established to accumulate funding for the replacement of vehicles and equipment. Replacement costs are charged to program over the asset's life span, reflective of usage.

Information Technology Equipment Replacement Fund – Established to accumulate funding for the replacement of information technology equipment. Replacement costs are charged to departments over the asset's lifespan, reflective of usage.

**CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2013**

	Liability / Risk Management	Workers' Compensation	Office Stores
ASSETS			
Current assets:			
Cash and investments	\$ 250,245	\$ 296,293	\$ 29,227
Accounts receivable	5,667	-	27
Total current assets	<u>255,912</u>	<u>296,293</u>	<u>29,254</u>
Noncurrent assets:			
Capital assets:			
Machinery and equipment	-	-	-
Less: accumulated depreciation	-	-	-
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>255,912</u>	<u>296,293</u>	<u>29,254</u>
LIABILITIES			
Liabilities:			
Current liabilities:			
Accounts payable	-	2,214	5,234
Accrued payroll	1,053	359	-
Claims payable	24,800	-	-
Total current liabilities	<u>25,853</u>	<u>2,573</u>	<u>5,234</u>
NET POSITION			
Net investment in capital assets	-	-	-
Unrestricted	230,059	293,720	24,020
Total net position	<u>\$ 230,059</u>	<u>\$ 293,720</u>	<u>\$ 24,020</u>

<u>Information Technology Services</u>	<u>Vehicle and Equipment Maintenance</u>	<u>Building Maintenance</u>	<u>Vehicle and Equipment Replacement</u>	<u>Information Technology Equipment Replacement</u>	<u>Total</u>
\$ 291,578	\$ 15,046	\$ 223,831	\$ 442,089	\$ 168,368	\$ 1,716,677
153	-	4,663	-	-	10,510
<u>291,731</u>	<u>15,046</u>	<u>228,494</u>	<u>442,089</u>	<u>168,368</u>	<u>1,727,187</u>
-	-	-	701,763	90,240	792,003
-	-	-	(600,791)	(90,240)	(691,031)
-	-	-	100,972	-	100,972
<u>291,731</u>	<u>15,046</u>	<u>228,494</u>	<u>543,061</u>	<u>168,368</u>	<u>1,828,159</u>
6,238	3,356	36,772	-	12,051	65,865
4,208	1,263	6,821	-	-	13,704
-	-	-	-	-	24,800
<u>10,446</u>	<u>4,619</u>	<u>43,593</u>	<u>-</u>	<u>12,051</u>	<u>104,369</u>
-	-	-	100,972	-	100,972
281,285	10,427	184,901	442,089	156,317	1,622,818
<u>\$ 281,285</u>	<u>\$ 10,427</u>	<u>\$ 184,901</u>	<u>\$ 543,061</u>	<u>\$ 156,317</u>	<u>\$ 1,723,790</u>

**CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Liability / Risk Management	Workers' Compensation	Office Stores
Operating revenues:			
Charges for services	\$ 375,000	\$ 240,000	\$ 55,000
Other operating revenues	28,398	4,454	12,085
Total operating revenues	<u>403,398</u>	<u>244,454</u>	<u>67,085</u>
Operating expenses:			
Cost of services	-	-	-
Administration	308,096	182,700	54,285
Depreciation	-	-	-
Total operating expenses	<u>308,096</u>	<u>182,700</u>	<u>54,285</u>
Operating income	<u>95,302</u>	<u>61,754</u>	<u>12,800</u>
Change in net position	95,302	61,754	12,800
Total net position - beginning	<u>134,757</u>	<u>231,966</u>	<u>11,220</u>
Total net position - ending	<u>\$ 230,059</u>	<u>\$ 293,720</u>	<u>\$ 24,020</u>

Information Technology Services	Vehicle and Equipment Maintenance	Building Maintenance	Vehicle and Equipment Replacement	Information Technology Equipment Replacement	Total
\$ 400,000	\$ 215,000	\$ 750,000	\$ 100,000	\$ 46,236	\$ 2,181,236
258	-	5,857	-	-	51,052
<u>400,258</u>	<u>215,000</u>	<u>755,857</u>	<u>100,000</u>	<u>46,236</u>	<u>2,232,288</u>
-	227,604	771,882	10,462	46,678	1,056,626
375,674	-	-	-	-	920,755
-	-	-	49,715	-	49,715
<u>375,674</u>	<u>227,604</u>	<u>771,882</u>	<u>60,177</u>	<u>46,678</u>	<u>2,027,096</u>
<u>24,584</u>	<u>(12,604)</u>	<u>(16,025)</u>	<u>39,823</u>	<u>(442)</u>	<u>205,192</u>
24,584	(12,604)	(16,025)	39,823	(442)	205,192
256,701	23,031	200,926	503,238	156,759	1,518,598
<u>\$ 281,285</u>	<u>\$ 10,427</u>	<u>\$ 184,901</u>	<u>\$ 543,061</u>	<u>\$ 156,317</u>	<u>\$ 1,723,790</u>

**CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	Liability / Risk Management	Workers' Compensation	Office Stores
Cash flows from operating activities:			
Receipts from customers and users	\$ 428,205	\$ 244,454	\$ 67,058
Payments to suppliers	(245,965)	(160,494)	(52,682)
Payments to employees	<u>(58,604)</u>	<u>(20,247)</u>	<u>-</u>
Net cash provided by operating activities	<u>123,636</u>	<u>63,713</u>	<u>14,376</u>
Cash flows from capital activities:			
Acquisition of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Net cash used for acquisition of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	123,636	63,713	14,376
Cash and cash equivalents, beginning of year	<u>126,609</u>	<u>232,580</u>	<u>14,851</u>
Cash and cash equivalents, ending of year	<u>\$ 250,245</u>	<u>\$ 296,293</u>	<u>\$ 29,227</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 95,302	\$ 61,754	\$ 12,800
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	-	-	-
Change in operating assets and liabilities:			
Accounts receivables	24,807	-	(27)
Accounts payable	(286)	1,769	1,603
Claims payable	3,553	-	-
Accrued payroll	<u>260</u>	<u>190</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 123,636</u>	<u>\$ 63,713</u>	<u>\$ 14,376</u>

Information Technology Services	Vehicle and Equipment Maintenance	Building Maintenance	Vehicle and Equipment Replacement	Information Technology Equipment Replacement	Total
\$ 400,105	\$ 215,000	\$ 751,194	\$ 100,000	\$ 46,236	\$ 2,252,252
(175,865)	(156,714)	(319,404)	(10,462)	(38,180)	(1,159,766)
(201,264)	(76,918)	(450,737)	-	-	(807,770)
22,976	(18,632)	(18,947)	89,538	8,056	284,716
-	-	-	(84,538)	-	(84,538)
-	-	-	(84,538)	-	(84,538)
22,976	(18,632)	(18,947)	5,000	8,056	200,178
268,602	33,678	242,778	437,089	160,312	1,516,499
<u>\$ 291,578</u>	<u>\$ 15,046</u>	<u>\$ 223,831</u>	<u>\$ 442,089</u>	<u>\$ 168,368</u>	<u>\$ 1,716,677</u>
\$ 24,584	\$ (12,604)	\$ (16,025)	\$ 39,823	\$ (442)	\$ 205,192
-	-	-	49,715	-	49,715
(153)	-	(4,663)	-	-	19,964
(1,569)	(6,039)	2,101	-	8,498	6,077
-	-	-	-	-	3,553
114	11	(360)	-	-	215
<u>\$ 22,976</u>	<u>\$ (18,632)</u>	<u>\$ (18,947)</u>	<u>\$ 89,538</u>	<u>\$ 8,056</u>	<u>\$ 284,716</u>

This page is intentionally blank

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

This page is intentionally blank

**CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Governmental Funds Capital Assets:		
Land and land improvements	\$ 14,585,401	\$ 14,510,401
Buildings and structures	25,480,150	23,611,590
Machinery and equipment	1,678,323	1,698,723
Infrastructure	105,026,791	104,928,913
Construction in progress	<u>7,615,664</u>	<u>7,166,953</u>
Total Governmental Funds Capital Assets	154,386,329	151,916,580
Accumulated depreciation	<u>(30,594,028)</u>	<u>(28,786,053)</u>
Total Governmental Funds Capital Assets, Net	<u><u>\$ 123,792,301</u></u>	<u><u>\$ 123,130,527</u></u>

Investments in Governmental Funds

Capital Assets by Source:

General Fund	\$ 115,331,263	\$ 115,440,255
Special revenue funds	960,972	960,972
Capital projects funds	37,246,746	34,668,005
Donations	847,348	847,348
Accumulated depreciation	<u>(30,594,028)</u>	<u>(28,786,053)</u>
Total Governmental Funds Capital Assets	<u><u>\$ 123,792,301</u></u>	<u><u>\$ 123,130,527</u></u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net position.

**CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY¹
JUNE 30, 2013**

Function and Activity	<u>Land and Land Improvements</u>	<u>Buildings and Structures</u>
General and intergovernmental services:		
Management services	\$ -	\$ 564,632
Administrative services	-	521,073
Intergovernmental services	<u>118,184</u>	<u>3,138,641</u>
Total General and Intergovernmental Services:	<u>118,184</u>	<u>4,224,346</u>
Public safety:		
Police services	-	-
Code enforcement	<u>-</u>	<u>-</u>
Total Public Safety:	<u>-</u>	<u>-</u>
Public works:		
Streets and sidewalks	835,154	62,921
Parks/open space	<u>3,712,061</u>	<u>2,679,107</u>
Total Public Works:	<u>4,547,215</u>	<u>2,742,028</u>
Community services	8,177,538	4,198,877
Community development services	<u>1,742,464</u>	<u>14,314,899</u>
Total Governmental Funds Capital Assets	14,585,401	25,480,150
Accumulated depreciation	<u>-</u>	<u>(7,276,566)</u>
Total Governmental Funds Capital Assets, Net	<u>\$ 14,585,401</u>	<u>\$ 18,203,584</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net position.

Machinery and Equipment	Infrastructure	Construction in Progress	Total
\$ 553,507	\$ -	\$ 355,105	\$ 1,473,244
140,332	-	-	661,405
22,225	-	-	3,279,050
<u>716,064</u>	<u>-</u>	<u>355,105</u>	<u>5,413,699</u>
29,459	-	-	29,459
7,548	-	-	7,548
<u>37,007</u>	<u>-</u>	<u>-</u>	<u>37,007</u>
421,125	104,899,554	4,869,501	111,088,255
150,019	-	45,326	6,586,513
<u>571,144</u>	<u>104,899,554</u>	<u>4,914,827</u>	<u>117,674,768</u>
337,476	127,237	2,296,494	15,137,622
16,632	-	49,238	16,123,233
1,678,323	105,026,791	7,615,664	154,386,329
<u>(1,116,007)</u>	<u>(22,201,455)</u>	<u>-</u>	<u>(30,594,028)</u>
<u>\$ 562,316</u>	<u>\$ 82,825,336</u>	<u>\$ 7,615,664</u>	<u>\$ 123,792,301</u>

CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGE BY FUNCTION AND ACTIVITY
JUNE 30, 2013

Function and Activity	Governmental			Governmental
	Funds Capital Assets July 1, 2012	Additions	Deletions	Funds Capital Assets June 30, 2013
General and intergovernmental services:				
Management services	\$ 1,335,133	\$ 138,111	\$ -	\$ 1,473,244
Administrative services	307,917	353,488	-	661,405
Intergovernmental services	3,279,050	-	-	3,279,050
Total General and Intergovernmental Services:	4,922,100	491,599	-	5,413,699
Public safety:				
Police services	29,459	-	-	29,459
Code enforcement	7,548	-	-	7,548
Total Public Safety:	37,007	-	-	37,007
Public works:				
Streets and sidewalks	109,483,820	1,640,580	(36,145)	111,088,255
Parks/open space	6,646,344	12,746	(72,577)	6,586,513
Total Public Works:	116,130,164	1,653,326	(108,722)	117,674,768
Community services	14,706,057	431,565	-	15,137,622
Community development services	16,121,251	1,982	-	16,123,233
Total Governmental Funds Capital Assets	151,916,579	2,578,472	(108,722)	154,386,329
Accumulated depreciation	(28,786,052)	(1,916,748)	108,772	(30,594,028)
Total Governmental Funds Capital Assets, Net	\$ 123,130,527	\$ 661,724	\$ 50	\$ 123,792,301

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net position.



STATISTICAL SECTION

This page is intentionally blank

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	Page
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.	86-91
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source; property tax.	92-101
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.	102-108
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.	109-110
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.	112-117

The City of Saratoga implemented GASB Statement No. 34 in fiscal year 2001/02; schedules presenting government-wide information include information beginning in that year.

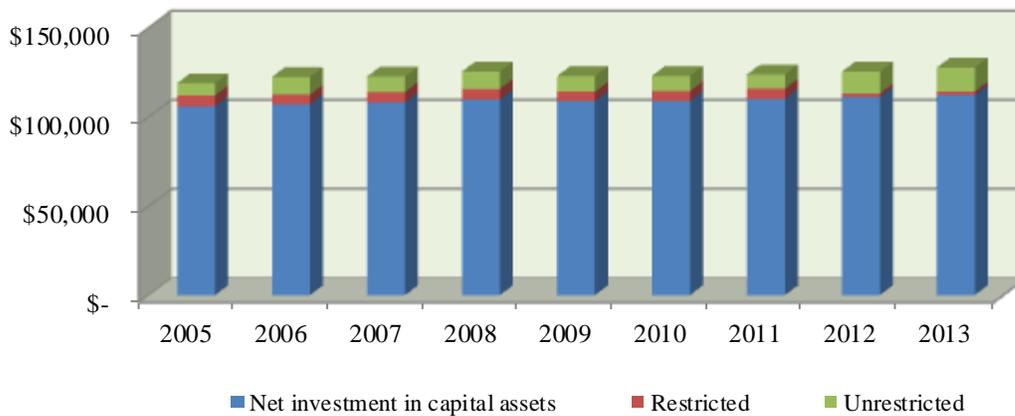
The City of Saratoga implemented GASB Statement No. 44 in fiscal year 2007/08; newly required schedules presenting information in the Statistical Section include the earliest available information.

**CITY OF SARATOGA
NET POSITION BY COMPONENT
LAST NINE YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

(amounts expressed in thousands)

	Fiscal Year			
	2005	2006	2007	2008
Primary government				
Governmental activities				
Net investment in capital assets	\$ 105,784	\$ 107,100	\$ 108,102	\$ 109,818
Restricted	6,328	5,370	5,928	5,940
Unrestricted	6,789	9,955	8,593	9,710
Total primary government	<u>\$ 118,901</u>	<u>\$ 122,425</u>	<u>\$ 122,623</u>	<u>\$ 125,468</u>

Net Positon by Component



<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 108,818	\$ 108,966	\$ 110,016	\$ 111,201	\$ 112,353
5,281	5,519	5,830	1,938	1,971
<u>8,759</u>	<u>8,533</u>	<u>7,964</u>	<u>12,248</u>	<u>13,357</u>
<u>\$ 122,858</u>	<u>\$ 123,018</u>	<u>\$ 123,810</u>	<u>\$ 125,387</u>	<u>\$ 127,681</u>

**CITY OF SARATOGA
CHANGES IN NET POSITION
LAST NINE YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

(amounts expressed in thousands)

	Fiscal Year			
	2005	2006	2007	2008
Expenses:				
Governmental activities:				
General and intergovernmental services	\$ 4,160	\$ 3,473	\$ 4,532	\$ 6,293
Public safety	3,736	3,427	3,844	4,166
Public works	3,829	4,752	6,425	5,325
Community services	1,929	1,395	1,437	1,286
Community development services	2,349	2,226	1,993	2,032
Interest on long-term debt (unallocated)	760	754	768	714
Total governmental activities expenses	<u>16,763</u>	<u>16,027</u>	<u>18,999</u>	<u>19,816</u>
Program revenues:				
Charges for services:				
General and intergovernmental services	-	31	452	1,787
Public safety	141	122	-	411
Public works	1,988	1,890	528	1,705
Community services	757	1,008	604	911
Community development services	1,890	2,665	1,328	2,110
Operating grants and contributions	1,218	1,549	2,155	151
Capital grants and contributions	865	1,568	1,282	1,715
Total governmental activities program revenue	<u>6,859</u>	<u>8,833</u>	<u>6,349</u>	<u>8,790</u>
Net (expense) revenue and change in net assets	<u>(9,904)</u>	<u>(7,194)</u>	<u>(12,650)</u>	<u>(11,026)</u>
General revenue and other changes in net position				
Taxes:				
Property taxes	4,841	5,652	5,772	8,099
Sales taxes	1,011	988	995	1,058
Local taxes	1,143	1,288	1,099	694
Franchise taxes	995	1,040	1,187	1,625
Motor vehicle in-lieu	420	718	177	149
Total Taxes	<u>8,410</u>	<u>9,686</u>	<u>9,230</u>	<u>11,625</u>
Intergovernmental	-	-	673	841
Investment earnings	283	709	2,813	1,057
Other revenues	193	323	132	348
Total general revenues	<u>8,886</u>	<u>10,718</u>	<u>12,848</u>	<u>13,871</u>
Change in net position	<u>(1,018)</u>	<u>3,524</u>	<u>198</u>	<u>2,845</u>
Net position - beginning of year	<u>119,919</u>	<u>118,901</u>	<u>122,425</u>	<u>122,623</u>
Net position - end of year	<u>\$ 118,901</u>	<u>\$ 122,425</u>	<u>\$ 122,623</u>	<u>\$ 125,468</u>

Source: CAFR

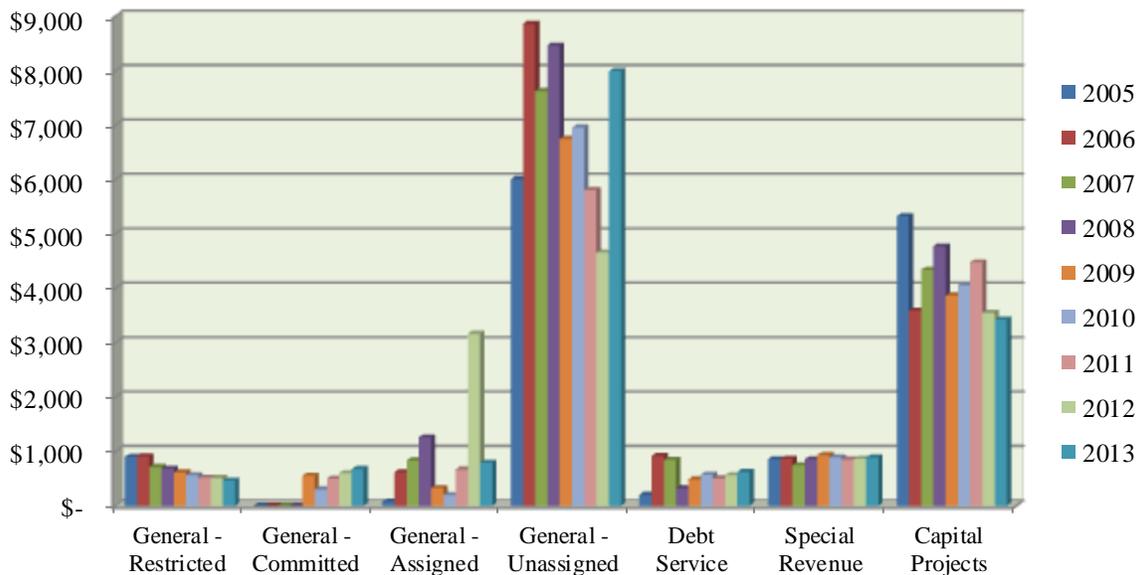
	2009	2010	2011	2012	2013
\$	5,595	\$ 3,729	\$ 4,368	\$ 3,486	\$ 4,143
	4,211	4,339	4,457	4,300	4,382
	7,643	6,535	6,645	9,121	6,922
	1,634	1,711	1,846	1,996	1,804
	2,000	1,751	1,839	1,553	1,713
	697	677	656	453	410
	<u>21,780</u>	<u>18,742</u>	<u>19,811</u>	<u>20,909</u>	<u>19,374</u>
	133	125	171	140	102
	520	425	561	594	607
	2,379	2,535	2,771	2,079	3,316
	935	917	1,020	890	946
	1,802	1,586	1,734	1,923	2,184
	228	275	401	1,319	75
	339	674	1,221	2,337	599
	<u>6,336</u>	<u>6,537</u>	<u>7,879</u>	<u>9,282</u>	<u>7,829</u>
	<u>(15,444)</u>	<u>(12,205)</u>	<u>(11,932)</u>	<u>(11,627)</u>	<u>(11,545)</u>
	8,336	8,371	8,199	8,457	9,153
	1,043	955	991	1,101	1,051
	663	560	632	683	769
	1,657	1,664	1,821	1,852	1,920
	116	101	146	16	16
	<u>11,815</u>	<u>11,651</u>	<u>11,789</u>	<u>12,109</u>	<u>12,909</u>
	474	522	773	910	766
	397	101	65	67	51
	148	91	97	118	113
	<u>12,834</u>	<u>12,365</u>	<u>12,724</u>	<u>13,204</u>	<u>13,839</u>
	(2,610)	160	792	1,577	2,294
	<u>125,468</u>	<u>122,858</u>	<u>123,018</u>	<u>123,810</u>	<u>125,387</u>
\$	<u>122,858</u>	<u>\$ 123,018</u>	<u>\$ 123,810</u>	<u>\$ 125,387</u>	<u>\$ 127,681</u>

**CITY OF SARATOGA
 FUND BALANCE OF GOVERNMENTAL FUNDS
 LAST NINE YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

(amounts expressed in thousands)

	Fiscal Year			
	2005	2006	2007	2008
General fund:				
Restricted	\$ 899	\$ 910	\$ 711	\$ 679
Committed	-	-	-	-
Assigned	75	615	831	1,258
Unassigned	6,002	8,854	7,619	8,459
Total general fund	<u>\$ 6,976</u>	<u>\$ 10,379</u>	<u>\$ 9,161</u>	<u>\$ 10,396</u>
All other governmental funds:				
Restricted				
Special revenue funds	\$ 202	\$ 919	\$ 844	\$ 318
Debt service	856	865	746	854
Committed				
Capital project funds	5,321	3,586	4,338	4,768
Total all other governmental funds	<u>\$ 6,379</u>	<u>\$ 5,370</u>	<u>\$ 5,928</u>	<u>\$ 5,940</u>

Fund Balances of Governmental Funds



Source: CAFR

Information prior to fiscal year 2011 have been updated to conform with GASB 54 requirements

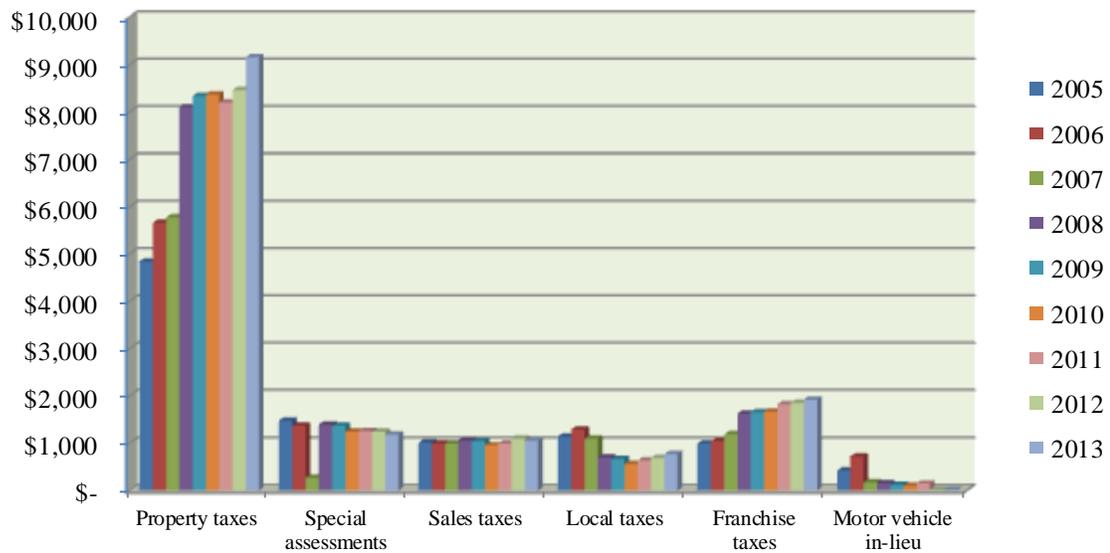
2009	2010	2011	2012	2013
\$ 613	\$ 563	\$ 513	\$ 513	\$ 463
550	300	500	600	675
322	196	667	3,161	792
6,744	6,952	5,804	4,655	7,989
<u>\$ 8,229</u>	<u>\$ 8,011</u>	<u>\$ 7,484</u>	<u>\$ 8,929</u>	<u>\$ 9,919</u>
\$ 484	\$ 569	\$ 504	\$ 563	\$ 622
931	893	851	862	886
3,866	4,057	4,475	3,544	3,420
<u>\$ 5,281</u>	<u>\$ 5,519</u>	<u>\$ 5,830</u>	<u>\$ 4,969</u>	<u>\$ 4,928</u>

**CITY OF SARATOGA
 GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 LAST NINE YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

(amounts expressed in thousands)

	Fiscal Year			
	2005	2006	2007	2008
Tax revenues:				
Property taxes	\$ 4,841	\$ 5,652	\$ 5,772	\$ 8,099
Special assessments	1,476	1,369	271	1,392
Sales taxes	1,011	988	995	1,058
Local taxes	1,143	1,288	1,099	694
Franchise taxes	995	1,040	1,187	1,625
Motor vehicle in-lieu	420	718	177	149
Total tax revenues	\$ 9,886	\$ 11,055	\$ 9,501	\$ 13,017

Tax Revenues by Source



Source: CAFR

2009	2010	2011	2012	2013
\$ 8,336	\$ 8,371	\$ 8,199	\$ 8,457	\$ 9,153
1,368	1,247	1,255	1,243	1,185
1,043	955	991	1,101	1,051
663	560	632	683	769
1,657	1,664	1,821	1,852	1,920
116	101	146	16	16
<u>\$ 13,183</u>	<u>\$ 12,898</u>	<u>\$ 13,044</u>	<u>\$ 13,352</u>	<u>\$ 14,094</u>

**CITY OF SARATOGA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

(amounts expressed in thousands)

	Fiscal Year			
	2005	2006	2007	2008
Revenues:				
Property taxes	\$ 4,893	\$ 5,652	\$ 4,758	\$ 7,877
Special assessments	1,411	1,370	1,285	1,566
Sales taxes	1,011	987	995	1,058
Other local taxes	851	1,288	1,126	773
Licensed and permits	100	79	1,340	1,671
Fines and forfeitures	162	259	396	344
Intergovernmental - federal	90	-	-	-
Intergovernmental - state	1,375	2,660	3,631	1,641
Intergovernmental - other	671	976	629	777
Franchise fees	1,294	1,041	1,187	1,622
Use of money any property	664	752	2,813	924
Other revenues	153	1,719	151	326
Current services charges	3,093	2,715	900	4,184
Total tax revenues	<u>15,768</u>	<u>19,498</u>	<u>19,211</u>	<u>22,763</u>
Expenditures:				
Current:				
General and intergovernmental services	3,238	3,346	3,806	4,083
Public safety	3,731	3,423	3,824	4,166
Public works	2,599	3,501	5,714	4,717
Community services	1,875	1,210	1,381	1,262
Community development services	1,990	1,847	1,962	2,026
Capital outlay	1,777	2,908	2,130	4,246
Debt service:				
Principal	255	270	280	295
Interest and fiscal charges	766	760	774	721
Total expenditures	<u>16,231</u>	<u>17,265</u>	<u>19,871</u>	<u>21,515</u>
Excess of revenues	(463)	2,233	(660)	1,247
Other financing sources (uses):				
Refunded bond proceeds	-	-	-	-
Payment for refunded bonds	-	-	-	-
Net original issue premium	-	-	-	-
Transfers in	2,492	499	3,422	2,241
Transfers out	(2,492)	(499)	(3,422)	(2,241)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (463)</u>	<u>\$ 2,233</u>	<u>\$ (660)</u>	<u>\$ 1,247</u>
Debt as a percentage of noncapital expenditures	7.06%	7.17%	5.94%	5.62%

Source: CAFR

CITY OF SARATOGA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	2009	2010	2011	2012	2013
\$	8,335	\$ 8,371	\$ 8,199	\$ 8,457	\$ 9,153
	1,368	1,247	1,255	1,243	1,185
	1,043	954	991	1,101	1,051
	663	560	632	683	769
	1,460	1,489	1,950	1,728	2,177
	360	359	285	234	199
	-	430	1,033	1,915	975
	1,283	1,258	1,480	1,728	1,142
	290	258	337	73	269
	1,657	1,664	1,821	1,852	1,920
	794	595	550	589	527
	1,966	1,794	2,169	2,199	2,421
	-	-	-	-	-
	<u>19,219</u>	<u>18,979</u>	<u>20,702</u>	<u>21,802</u>	<u>21,788</u>
	3,330	3,102	3,524	3,145	3,269
	4,206	4,349	4,467	4,310	4,392
	4,700	4,730	4,717	4,751	4,966
	1,424	1,223	1,322	1,269	1,318
	2,450	2,111	2,193	1,888	2,047
	4,060	2,584	3,704	5,179	3,979
	310	330	350	370	455
	705	685	665	551	414
	<u>21,185</u>	<u>19,114</u>	<u>20,942</u>	<u>21,463</u>	<u>20,840</u>
	(1,966)	(135)	(240)	339	948
	-	-	-	11,995	-
	-	-	-	(12,235)	-
	-	-	-	460	-
	2,043	1,172	1,725	510	1,291
	<u>(2,043)</u>	<u>(1,017)</u>	<u>(1,700)</u>	<u>(485)</u>	<u>(1,291)</u>
	-	155	25	245	-
\$	<u>(1,966)</u>	<u>\$ 20</u>	<u>\$ (215)</u>	<u>\$ 584</u>	<u>\$ 948</u>
	4.89%	5.80%	5.56%	4.68%	4.76%

CITY OF SARATOGA
PROPERTY TAX RATES – DIRECT AND OVERLAPPING GOVERNMENTS
LAST NINE YEARS

(Property Tax Rates per \$100 of Assessed Value)

	Fiscal Year			
	2005	2006	2007	2008
General	1.0000	1.0000	1.0000	1.0000
County Retirement Levy	0.0388	0.0388	0.0388	0.0388
County Library	0.0024	0.0024	0.0024	0.0024
City of Saratoga	0.0148	0.0117	0.0096	0.0113
	<u>1.0560</u>	<u>1.0529</u>	<u>1.0508</u>	<u>1.0525</u>
Campbell School District	0.0529	0.0512	0.0508	0.0475
County Bond 2008 Hospital	0.0000	0.0000	0.0000	0.0000
Campbell Elementary 2002	0.0000	0.0000	0.0000	0.0000
Campbell Elementary 2010	0.0000	0.0000	0.0000	0.0000
Campbell Union High 1999	0.0198	0.0224	0.0198	0.0285
Campbell Union High 2006	0.0000	0.0000	0.0000	0.0000
Cupertino Elementary School District	0.0360	0.0350	0.0289	0.0337
Moreland Elementary School District	0.0612	0.0561	0.0556	0.0569
Saratoga School District	0.0361	0.0356	0.0351	0.0363
Campbell Union High School District	0.0197	0.0224	0.0198	0.0285
Fremont Union High School District	0.0268	0.0260	0.0243	0.0241
Los Gatos-Saratoga Joint Union High School District	0.0409	0.0371	0.0651	0.0345
Foothill-DeAnza Community College District	0.0129	0.0119	0.0346	0.0113
West Valley Community College District 2004	0.0000	0.0140	0.0126	0.0118
West Valley Community College District 2012	0.0000	0.0000	0.0000	0.0000
Saratoga Fire District	0.0017	0.0052	0.0049	0.0053
Santa Clara Valley Water District - State Water Proj	0.0086	0.0069	0.0070	0.0067
Santa Clara Valley Water District - Zone W-1	0.0006	0.0009	0.0002	0.0040
	<u>0.3172</u>	<u>0.3247</u>	<u>0.3587</u>	<u>0.3291</u>
Total Tax Rate	<u><u>1.3732</u></u>	<u><u>1.3776</u></u>	<u><u>1.4095</u></u>	<u><u>1.3816</u></u>

Source: California Municipal Statistics, Inc.

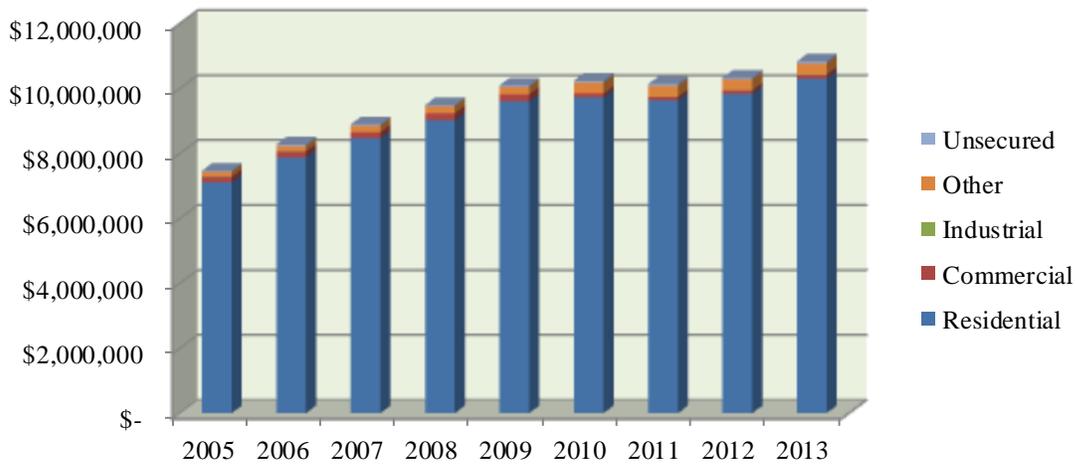
2009	2010	2011	2012	2013
1.0000	1.0000	1.0000	1.0000	1.0000
0.0388	0.0388	0.0388	0.0388	0.0388
0.0024	0.0024	0.0024	0.0024	0.0024
0.0104	0.0094	0.0094	0.0088	0.0080
1.0516	1.0506	1.0506	1.0500	1.0492
0.0524	0.0285	0.0249	0.0283	0.0246
0.0000	0.0122	0.0095	0.0047	0.0051
0.0000	0.0267	0.0298	0.0266	0.0220
0.0000	0.0000	0.0005	0.0003	0.0086
0.0299	0.0183	0.0196	0.0186	0.0165
0.0000	0.0131	0.0131	0.0156	0.0160
0.0306	0.0000	0.0000	0.0000	0.0000
0.0565	0.0000	0.0000	0.0000	0.0000
0.0363	0.0000	0.0000	0.0000	0.0000
0.0299	0.0000	0.0000	0.0000	0.0000
0.0339	0.0000	0.0000	0.0000	0.0000
0.0330	0.0000	0.0000	0.0000	0.0000
0.0123	0.0000	0.0000	0.0000	0.0000
0.0032	0.0140	0.0139	0.0137	0.0139
0.0000	0.0000	0.0000	0.0000	0.0150
0.0053	0.0000	0.0000	0.0000	0.0000
0.0059	0.0071	0.0070	0.0063	0.0069
0.0002	0.0003	0.0002	0.0001	0.0000
0.3294	0.1202	0.1185	0.1142	0.1286
1.3810	1.1708	1.1691	1.1642	1.1778

**CITY OF SARATOGA
 ASSESSED VALUE OF TAXABLE PROPERTY
 LAST NINE YEARS**

(amounts expressed in thousands)

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Other Property	Unsecured Property	Total Assessed Property
2005	\$ 7,114,095	\$ 166,071	\$ 8,746	\$ 138,912	\$ 42,965	\$ 7,470,789
2006	7,883,965	177,149	8,921	161,496	46,874	8,278,405
2007	8,467,894	187,142	9,099	192,470	39,764	8,896,369
2008	9,025,628	208,369	9,281	210,269	35,775	9,489,322
2009	9,605,309	213,951	9,467	223,190	43,933	10,095,850
2010	9,724,687	120,769	9,656	327,898	58,210	10,241,220
2011	9,639,782	107,269	9,633	323,881	57,172	10,137,737
2012	9,834,082	111,232	9,706	323,563	55,535	10,334,118
2013	10,312,597	112,875	11,455	335,765	62,378	10,835,070

Total Assessed Property



Source: Santa Clara County Assessor data, MuniServices, LLC

Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate
\$ (76,932)	\$ 7,393,857	1.0560
(133,951)	8,144,454	1.0529
(140,859)	8,755,510	1.0508
(159,369)	9,329,953	1.0525
(161,488)	9,934,362	1.0516
(230,127)	10,011,093	1.0506
(230,477)	9,907,260	1.0506
(230,868)	10,103,250	1.0476
(233,895)	10,601,175	1.0492

**CITY OF SARATOGA
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO
 JUNE 30, 2013**

(amounts expressed in thousands)

Taxpayer	2013			2004		
	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value
Cupertino Village Associates, LLC	\$ 35,770	1	0.34%			
Quito Village Group, LLC	20,400	2	0.19%			
San Jose Water Works	17,106	3	0.16%	\$ 9,901	6	0.14%
John I. and Michelle Keller	15,594	4	0.15%			
Gregpenn Properties, LLC	13,056	5	0.12%			
Argonaut Associates, LLV	10,776	6	0.10%			
Stormin Norman LLC	10,000	7	0.09%			
Public Storage Inc.	9,686	8	0.09%			
Coyote Properties IV LLC	9,300	9	0.09%			
Summerhill Creekside LLC	9,166	10	0.09%			
Saratoga Office Center Partner				22,325	1	0.32%
Di Salvo Family LLC				12,901	2	0.19%
Peterschmidt David C Roxanne N				12,005	3	0.17%
Navico Inc				11,379	4	0.16%
Sobrato Contraction Corp				10,992	5	0.16%
Morrison Terri E				9,423	7	0.14%
Krishnamurthi Ashok				9,282	8	0.13%
Jordan Deloise A Trust				8,904	9	0.13%
House David L				8,594	10	0.12%
Top Ten Total Assessed Value	<u>\$ 150,854</u>			<u>\$ 115,706</u>		
City Total Assessed Value	<u><u>\$ 10,601,175</u></u>			<u><u>\$ 6,908,796</u></u>		

**CITY OF SARATOGA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST NINE YEARS**

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage		Amount	Percentage
2005	\$ 4,972,875	\$ 4,972,875	100.0%	\$ -	\$ 4,972,875	100.0%
2006	5,243,038	5,243,038	100.0%	-	5,243,038	100.0%
2007	6,032,558	6,032,558	100.0%	-	6,032,558	100.0%
2008	8,108,364	8,108,364	100.0%	-	8,108,364	100.0%
2009	8,332,184	8,332,184	100.0%	-	8,332,184	100.0%
2010	8,371,396	8,371,396	100.0%	-	8,371,396	100.0%
2011	8,199,341	8,199,341	100.0%	-	8,199,341	100.0%
2012	8,456,687	8,456,687	100.0%	-	8,456,687	100.0%
2013	9,152,865	9,152,865	100.0%	-	9,152,865	100.0%

Source: City of Saratoga

CITY OF SARATOGA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST NINE YEARS

(amounts expressed in thousands, except per capita amounts)

	Fiscal Year			
	2005	2006	2007	2008
Governmental activities				
General obligation bonds	\$ 14,440	\$ 14,170	\$ 13,890	\$ 13,595
Net original issue premium	-	-	-	-
Total primary government	<u>\$ 14,440</u>	<u>\$ 14,170</u>	<u>\$ 13,890</u>	<u>\$ 13,595</u>
Percentage of Personal Income ¹	0.91%	0.82%	0.75%	0.74%
Per capita ²	468	460	443	430

Source: CAFR

¹US Census Bureau, adjusted for inflation, MuniServices LLC

²Population information from California State Controller's Office

2009	2010	2011	2012	2013
\$ 13,285	\$ 12,955	\$ 12,605	\$ 11,995	\$ 11,540
-	-	-	438	416
<u>\$ 13,285</u>	<u>\$ 12,955</u>	<u>\$ 12,605</u>	<u>\$ 12,433</u>	<u>\$ 11,956</u>
0.76%	0.54%	0.57%	0.57%	0.53%
419	405	417	409	389

CITY OF SARATOGA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST NINE YEARS

(amounts expressed in thousands, except per capita amounts)

	Fiscal Year			
	2005	2006	2007	2008
General obligation bonds	\$ 14,440	\$ 14,170	\$ 13,890	\$ 13,595
Net original issue premium	-	-	-	-
Less: Amount available in debt service fund	(855)	(865)	(747)	(854)
Total primary government	<u>\$ 13,585</u>	<u>\$ 13,305</u>	<u>\$ 13,143</u>	<u>\$ 12,741</u>
Percentage of actual taxable value of property	0.18%	0.16%	0.15%	0.14%
Per capita ¹	440	431	419	403

Source: CAFR

¹Population information from California State Controller's Office

From: Demographics & Economic Statistic Population (State Controller's Office)	30,850	30,835	31,352	31,592
-----------------------------------------------------------------------------------	--------	--------	--------	--------

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 13,285	\$ 12,955	\$ 12,605	\$ 11,995	\$ 11,540
-	-	-	438	416
(926)	(890)	(848)	(860)	(885)
<u>\$ 12,359</u>	<u>\$ 12,065</u>	<u>\$ 11,757</u>	<u>\$ 11,135</u>	<u>\$ 10,655</u>

0.12%	0.12%	0.12%	0.11%	0.10%
-------	-------	-------	-------	-------

390	377	389	367	347
-----	-----	-----	-----	-----

31,679	31,997	30,195	30,363	30,706
--------	--------	--------	--------	--------

CITY OF SARATOGA
LEGAL DEBT MARGIN INFORMATION
LAST NINE YEARS

(amounts expressed in thousands)

	Fiscal Year			
	2005	2006	2007	2008
Debt Limit	\$ 1,120,618	\$ 1,241,761	\$ 1,334,455	\$ 1,423,398
Total net debt applicable to limit	13,585	13,305	13,143	12,741
Legal debt margin	\$ 1,107,033	\$ 1,228,456	\$ 1,321,312	\$ 1,410,657
Total net debt applicable to the limit as a percentage of debt limit	1.21%	1.07%	0.98%	0.90%
Legal debt margin calculation				
Assessed value	\$ 7,393,857	\$ 8,144,454	\$ 8,755,510	\$ 9,329,953
Add back: exempt real property	76,932	133,951	140,859	159,369
Total assessed value	\$ 7,470,789	\$ 8,278,405	\$ 8,896,369	\$ 9,489,322
Debt limit (15% of total assessed value)	\$ 1,120,618	\$ 1,241,761	\$ 1,334,455	\$ 1,423,398
Debt applicable to limit:				
General obligation bonds	\$ 14,440	\$ 14,170	\$ 13,890	\$ 13,595
Net original issue premium	-	-	-	-
Less: Amount available in debt service fund	(855)	(865)	(747)	(854)
Total net debt applicable to limit	\$ 13,585	\$ 13,305	\$ 13,143	\$ 12,741
Legal debt margin	\$ 1,107,033	\$ 1,228,456	\$ 1,321,312	\$ 1,410,657

Source: CAFR

2009	2010	2011	2012	2013
\$ 1,514,378	\$ 1,536,183	\$ 1,520,660	\$ 1,550,118	\$ 1,625,261
12,359	12,065	11,757	11,135	10,655
\$ 1,502,019	\$ 1,524,118	\$ 1,508,903	\$ 1,538,983	\$ 1,614,606
0.82%	0.79%	0.77%	0.72%	0.66%
\$ 9,934,362	\$ 10,011,093	\$ 9,907,259	\$ 10,103,250	\$ 10,601,175
161,488	230,127	230,477	230,868	233,895
\$ 10,095,850	\$ 10,241,220	\$ 10,137,736	\$ 10,334,118	\$ 10,835,070
\$ 1,514,378	\$ 1,536,183	\$ 1,520,660	\$ 1,550,118	\$ 1,625,261
\$ 13,285	\$ 12,955	\$ 12,605	\$ 11,995	\$ 11,540
-	-	-	438	416
(926)	(890)	(848)	(860)	(885)
\$ 12,359	\$ 12,065	\$ 11,757	\$ 11,135	\$ 10,655
\$ 1,502,019	\$ 1,524,118	\$ 1,508,903	\$ 1,538,983	\$ 1,614,606

**CITY OF SARATOGA
DIRECT AND OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT**

(amount expressed in thousands)

	Debt Outstanding	Estimated Percentage Applicable ¹	Estimated Share of Overlapping Debt
Direct Debt:			
City of Saratoga	\$ 11,540	100.000%	\$ 11,540
Total Direct Debt			<u>11,540</u>
Overlapping Tax and Assessment Debt:			
Santa Clara County	850,800	3.453%	29,378
Foothill-De Anza Community College District	631,564	1.654%	10,446
West Valley Community College District	308,533	10.284%	31,730
Campbell Union High School District	156,055	5.606%	8,748
Fremont Union High School District	299,550	3.668%	10,987
Los Gatos-Saratoga Joint Union High School District	46,905	39.202%	18,388
Campbell Union School District	146,472	6.879%	10,076
Cupertino Union School District	164,417	6.100%	10,029
Moreland School District	83,200	12.968%	10,789
Saratoga Union School District	42,987	85.972%	36,957
Saratoga Fire Protection District	4,254	97.204%	4,135
Santa Clara Valley Water District Benefit Assessment	123,100	3.453%	4,251
Total Overlapping Tax and Assessment Debt			<u>185,914</u>
Overlapping General Fund Debt:			
Santa Clara County General Fund Obligations	819,957	3.453%	\$ 28,313
Santa Clara County Pension Obligations	378,995	3.453%	13,087
Santa Clara County Board of Education			
Certificates of Participation	10,400	3.453%	359
Santa Clara County Vector Control District			
Certificates of Participation	3,455	3.453%	119
Foothill-De Anza Community College District			
Certificates of Participation	17,225	1.654%	285
West Valley-Mission College District			
General Fund Obligations	65,435	10.284%	6,729
Campbell Union High School District			
Certificates of Participation	11,325	5.606%	635
Los Gatos-Saratoga Joint Union High School District			
Certificates of Participation	8,420	39.202%	3,301
Saratoga Union School District			
Certificates of Participation	5,540	85.972%	4,763
Midpeninsula Open Space Park District			
General Fund Obligations	135,650	5.953%	8,075
Total Overlapping General Fund Debt			<u>65,666</u>
Total Overlapping Tax & Assesment and General Fund Debt			<u>251,580</u>
Combined Total Debt ²			<u>\$ 263,120</u>

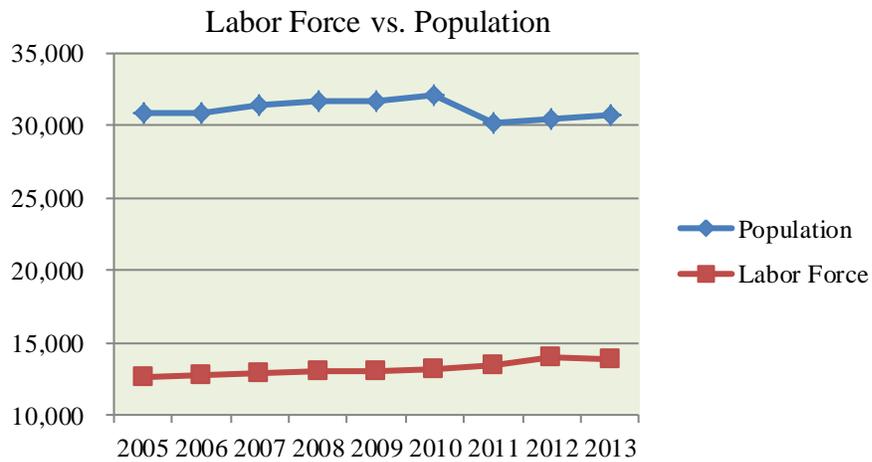
¹ Percentage of overlapping agency's assessed valuation located within boundaries of the city.

² Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

**CITY OF SARATOGA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST NINE YEARS**

Fiscal Year	City Population ¹	Personal Income (in thousands) ²	Per Capita Personal Income ²	Labor Force ³	Unemployment Rate ³
2005	30,850	\$ 1,586,245	\$ 51,418	12,600	2.5%
2006	30,835	1,719,175	55,754	12,700	2.1%
2007	31,352	1,860,365	59,338	12,900	2.3%
2008	31,592	1,843,425	58,351	13,100	3.2%
2009	31,679	1,747,699	55,169	13,300	6.0%
2010	31,997	2,401,151	75,043	13,200	5.6%
2011	30,195	2,211,963	73,256	13,400	5.0%
2012	30,363	2,119,463	69,804	14,000	4.4%
2013	30,706	2,179,904	70,993	13,900	4.2%



Source: ¹Population information from California State Controller's Office

²US Census Data, adjusted for inflation, MuniServices LLC

³EDD Labor Market Information Division, MuniServices LLC

**CITY OF SARATOGA
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND EIGHT YEARS AGO AT JUNE 30, 2013**

Employer	2013			2005 ¹		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
West Valley Community College	765	1	5.46%			
Saratoga Retirement Community	260	2	1.86%			
Saratoga High School	132	3	0.94%			
Sub-Acute Saratoga Hospital	120	4	0.86%			
Our Lady of Fatima	101	5	0.72%			
Prospect High School	100	6	0.71%			
Redwood Middle School	96	7	0.69%			
Gene's Fine Foods	80	8	0.57%	85	1	0.67%
Safeway	65	9	0.46%	65	2	0.52%
Villa Montalvo	60	10	0.43%			
Saratoga Country Club				65	3	0.52%
24 Hour Fitness				30	4	0.24%
Windermere				27	5	0.21%
CVS				20	6	0.16%
Classic Car Wash				20	7	0.16%
Harmonic European Day Spa				20	8	0.16%
Hinshaw, Draa & Marsh				20	9	0.16%
Bella Saratoga				20	10	0.16%
Total City Employment ²	14,000			12,600		

¹Earliest information available

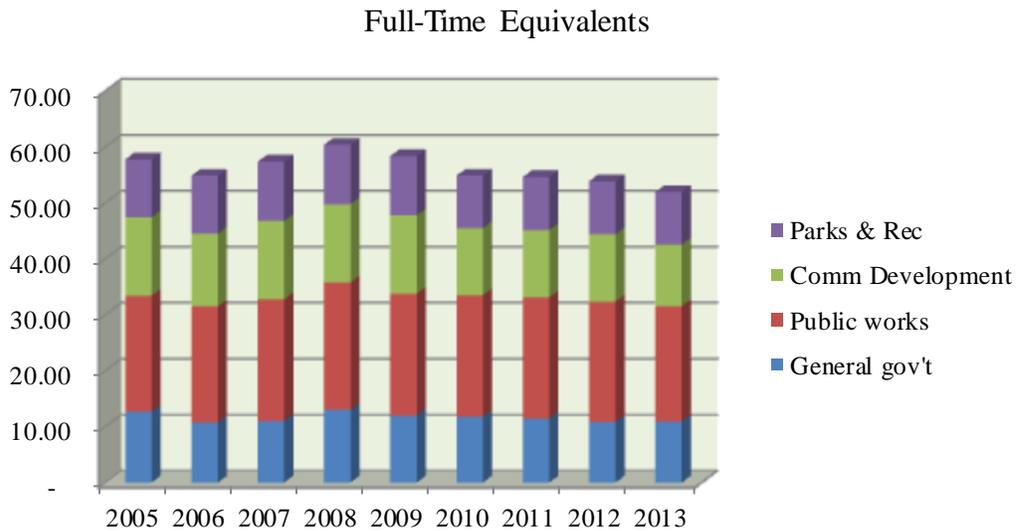
²EDD Labor Market Information Division, MuniServices LLC

Source: City of Saratoga

This page is intentionally blank

**CITY OF SARATOGA
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 LAST NINE FISCAL YEARS**

Function	Fiscal Year			
	2005	2006	2007	2008
General government	12.65	10.75	11.00	13.00
Public works	20.75	20.75	21.75	22.75
Community development	14.00	13.00	14.00	14.00
Parks and recreation	10.35	10.35	10.60	10.60
Total	57.75	54.85	57.35	60.35



Source: City of Saratoga Budget Document

2009	2010	2011	2012	2013
12.00	11.75	11.45	10.80	10.90
21.75	21.75	21.65	21.55	20.65
14.00	12.00	12.00	12.00	11.00
10.60	9.35	9.50	9.50	9.35
<u>58.35</u>	<u>54.85</u>	<u>54.60</u>	<u>53.85</u>	<u>51.90</u>

**CITY OF SARATOGA
OPERATING INDICATORS BY FUNCTION
LAST NINE FISCAL YEARS**

Function	Fiscal Year			
	2005	2006	2007	2008
Part 1 crimes ¹	463	426	425	381
Total incidents	42,011	40,567	39,663	41,243
Police reports	1,767	1,659	1,767	1,941
Public Works				
Street resurfacing (miles)	-	5	14	-
Street lights repaired	2	3	3	12
Potholes filled (sq. ft.)	-	5,000	5,000	7,000
Community Development				
Total permit valuation (\$000)	74,668	94,485	69,935	70,442
Parks and Recreation				
Classes, trips (enrollment) community events	5,604	5,712	4,817	4,782
Adult Exercise (e.g. JS Dance. Jazzerxcise)	272	312	285	362
Sports programs (e.g. Adult basketball, softball)	470	473	515	591
Prescholl programs (enrollment)	200	163	159	225
Staffed Day/summer camps (enrollment)	301	287	205	242
Teen/youth council (enrollment)	2,506	3,798	2,221	94
Senior center (enrollment/attendance days)	22,312	22,591	18,515	17,826

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

2009	2010	2011	2012	2013
282	173	373	287	277
41,384	39,942	41,642	35,664	40,141
1,949	1,273	1,549	1,329	1,106
6	3	-	6	-
25	24	25	41	29
10,000	10,000	11,000	10,000	12,060
61,117	44,658	50,936	59,675	79,896
4,698	4,366	6,135	5,479	5,365
515	545	661	647	1,663
459	423	-	-	-
171	161	142	132	188
225	331	326	-	45
419	2,110	1,323	787	605
16,325	16,533	14,640	15,221	12,269

**CITY OF SARATOGA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST NINE FISCAL YEARS**

Function	Fiscal Year			
	2005	2006	2007	2008
Public safety				
Police Station	1	1	-	-
Fire Station				
Saratoga Fire District	1	1	1	1
Central Fire District	1	1	1	1
Public Works				
Street Miles - Private	13	13	13	13
Street Miles - Public	137	137	137	137
West Valley Sanitation District				
Number of Connections	8,601	8,621	8,651	8,651
Length of Sewer Lines	120	120	127	127
Cupertino Valley Sanitation District				
Number of Connections	2,118	2,118	2,915	2,927
Length of Sewer Lines	36	36	36	36
Parks and Recreation				
Parks Acreage	81	81	81	81
Parks	15	15	15	15

Source: City of Saratoga various records

2009	2010	2011	2012	2013
-	-	-	-	-
1	1	1	1	1
1	1	1	1	1
14	14	14	14	14
140	140	140	140	141
8,683	8,687	8,664	8,679	8,821
127	127	127	127	127
2,938	2,949	2,954	2,959	2,961
37	37	37	37	37
84	84	84	84	84
15	15	15	15	15

This page is intentionally blank