

CITY OF SARATOGA *California*

TRANSFORMING AN OLD QUARRY



..... INTO A NEW PUBLIC PARK



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2016



Saratoga, California

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016

City Council

Manny Cappello.....	Mayor
Emily Lo	Vice Mayor
Mary-Lynne Bernald.....	Council Member
Rishi Kumar	Council Member
Howard Miller.....	Council Member

Presented under the direction of:
James Lindsay, City Manager
Finance & Administrative Services Department

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**CITY OF SARATOGA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2016**

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**CITY OF SARATOGA
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INTRODUCTORY SECTION

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CITY OF SARATOGA

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

December 7, 2016

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, 2016 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, 2016, 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.

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 30,219 at January 1, 2016, 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, and overseeing the daily operations of the City.

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 is predominantly a residential city and in general is fiscally protected by the stability of its' tax revenue. 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

Property tax assessments represent the largest source of revenue for the City. Historically, the City, along with the neighboring cities of Cupertino, Los Altos Hills, and Monte Sereno, has received less than the minimum 7% allocation that is allowed under State law due to special legislation enacted thirty years ago. Throughout the years, the cities have launched collaborative lobbying efforts to introduce and pass legislation that would treat the four cities as equal as all of the other no/low tax cities, and receive the minimum 7% of the property tax collected in the respective cities. SB 107, enacted in September 2015, restored the 7% minimum property tax allocation to the Cities in increments of 20% over the next five fiscal years.

Franchise Fees

Franchise Fees are assessments on a number of 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 continue to be stable and reliable. The City's property and sales tax performances have weathered the storm of the "Great Recession" caused by the economic downturn of 2008. Over the past four fiscal years, California continues to experience a recovery that is being led by the Silicon Valley's strong housing and labor markets.

General Fund Property Tax revenues increased more than 8% in FY 2015/16 as the region's assessed value of properties continues to exceed expectations. 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 2015/16 Sales Tax revenue decreased from the prior year, partly due to timing differences in accruals, and corrections in allocations from the State. It is clear, however, that the overall strength of the economy remained strong in the region. 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.

Development Fees have stabilized over the past three fiscal years as a result of increasing housing prices. Revenues have returned to pre-recession levels; in FY 2015/16 revenues increased slightly from the prior year. A small portion of development fees continue to be directed to fund long term planning services.

California's economy continues to improve, Saratoga and the rest of the San Francisco Bay Area cities are at the forefront of this swell. 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 capital improvement 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, primarily infrastructure, 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 2015/16 Budget was developed with a focus on improving local roads, addressing financial liabilities and enhancing community engagement. It addressed cost increases for employee pensions and health care and public safety services. These cost increases resulted from corrective actions taken by

CalPERS, increases in health premiums and an increase in overall compensation for the Deputy Sheriff Association approved by the Santa Clara County Board of Supervisors. Council also increased funding for the community grants program in order to maintain the importance of a sense of community and civic pride.

In 2014, the City's Unfunded Accrued Liability (UAL) was \$6.9 million as reported by CalPERS. The City Council took immediate action by directing staff to make an initial payment of \$3.3 million from reserves and also directed staff to make annual \$500,000 payments, in addition to existing pension contributions, a year for the next 15 years in order to pay down the remaining UAL. The long-term interest savings is anticipated to be \$3.6 million. The City made its first payment of \$500,000 in fiscal year 2015/16.

In October 2011, the City acquired the old Congress Springs Quarry parcels from Santa Clara County. In 2013, the City expanded its Urban Service Area to include the old quarry property. The Quarry Park Master Plan was adopted in 2014 and the park was officially opened on October 31, 2015. This sixty-four-acre park will improve trail and open space connectivity for Saratoga residents.

The fiscal year 2015/16 Capital Projects Budget included funding for 15 new projects. Some of the projects funded include infrastructure improvements to residential streets and storm drains, park & trail improvements at city parks including Hakone Gardens and Quarry Park, facility improvements at the Senior and Community Center, and funding for an overhaul of the City's website to be more user-friendly for mobile devices and allow users easier access to information.

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 unmodified (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

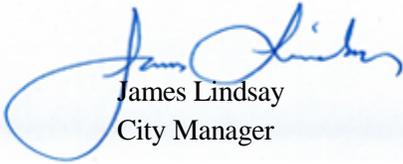
The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement to the City for its Excellence in Financial Reporting on the CAFR for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, the City published an 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 Anthony McFarlane, Finance Manager for his preparation of this annual financial report, and to our supporting staff members: Ann Xu, Accountant; Julie Ingraham, Karen Caselli, and Gina Scott, 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,



James Lindsay
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, 2015

Executive Director/CEO

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

As of June 30, 2016

CITY COUNCIL

Manny Cappello - Mayor
Emily Lo – Vice Mayor
Mary-Lynne Bernald
Rishi Kumar
Howard Miller

CITY STAFF

James Lindsay – City Manager
Crystal Bothelio – City Clerk/Asst to the City Manager
Mary Furey – Administrative Services Director
Erwin Ordonez – 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



FINANCIAL SECTION



INDEPENDENT AUDITORS' 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, 2016, 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, 2016, 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 other 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.

New Accounting Principles

As discussed in Note 1 to the financial statements, the City adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016 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

November 14, 2016
San Jose, California

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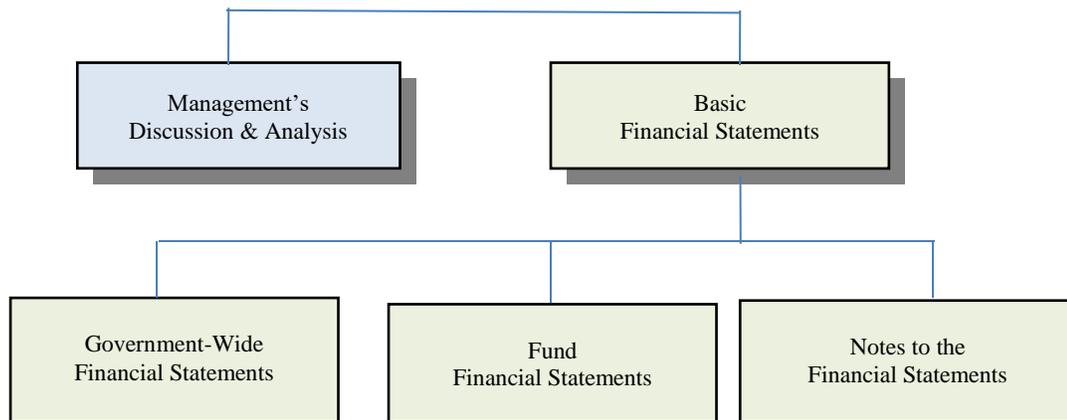
**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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 present discussion and analysis of the City’s financial performance during the fiscal year that ended on June 30, 2016. 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 2015/16 FINANCIAL HIGHLIGHTS

- Total net position increased by \$4 million over last fiscal year after a prior period adjustment. A significant portion of this increase is related to the \$3.2 million payment made towards the City’s Unfunded Accrued Liability in fiscal year 2014/15 and its effect on reducing the City’s Net Pension Liability.
- The City's assets plus deferred outflow of resources exceeds its liabilities plus deferred inflow of resources by almost \$ 128.1 million; with total assets plus deferred outflow of resources of \$147.8 million less liabilities plus deferred inflow of resources of \$ 19.7 million.
- Net Position is comprised of \$112 million for investment in capital assets, net of depreciation and related debt; \$2.2 million restricted for specific purposes; and \$13.8 million in unrestricted Net Position (reference pg. #40).
- Total City-wide revenues of \$24.1 million consist of \$16.8 million in general revenue and \$7.3 million in program revenue (reference pg. #41).
- City expenses total \$20.1 million (reference pg. #41).

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

- The Governmental Fund's fund balances total \$17.3 million, with \$10.7 million in the General Fund, \$4.7 million in the Capital Improvement Funds, and \$1.9 million in the Other Governmental Funds. This represents an increase of \$1.8 million from last year (reference pg. #42).
- General Fund revenues total \$20.8 million, while General Fund expenditures total \$18.2 million (reference pg. #43).

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 are comprised of the *Statement of Net Position* and the *Statement of Activities*. The *Statement of Net Position* provides summary level information about the financial position of the City, 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 summary level information about the City's revenues and 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* illustrates the change in Net Position for the fiscal year.

City financial activities are required to be grouped as either government activities or business-type activities. The amount in the *Statement of Net Position* and the *Statement of Activities* are required to be separated into governmental activities or business-type activities in order to distinguish between the two types of activities. In the case of the City of Saratoga, there are no business-type activities as of June 30, 2016.

Fund Financial Statements report the City's operations in more detail than 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 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 in the Supplementary Information section. 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 activities are meant to be fully supported by charges paid by users, based

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

on the services used. The City of Saratoga does not have any business-type activities at this time.

Fund Financial Statements

A fund represents a grouping of related accounts and is used to maintain control over resources that are 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.

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 funds are classified as 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 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 types: 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 insurance and risk management, worker's compensation, office equipment support services, information technology services, vehicle and building maintenance, and vehicle and information technology equipment replacement. Because internal service funds primarily benefit 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.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information, other than presented in this MD&A, follows the Notes Section 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.

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 \$7,187,771 from \$120,921,347 in fiscal year 2014/15 to \$128,109,118 in fiscal year 2015/16. The primary reason for the increase in net position is due to the post-implementation of GASB Statement No. 68. The prior period adjustment related to Deferred Outflows of Resources increased beginning Net Position by approximately \$3.2 million. The City's Net Pension Liability also decreased approximately \$2.7 million from \$6,945,916 in fiscal year 2014/15 to \$4,266,268 in fiscal year 2015/16.

The most significant portion of the City's Net Position (\$112,030,057 or 87.4%) 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.

\$2,241,925 or 1.8% of the City's Net Position is subject to external restrictions on how the funding may be used. Within the restricted Net Position total, \$1,005,791 is for lighting and landscaping assessment districts, \$922,952 is for repayment of long-term debt, and \$313,182 is for environmental services.

The remaining balance of \$13,837,137, or 10.8% of the City's Net Position, is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

		Net Position	
		Governmental Activities	
		<u>2016</u>	<u>2015</u>
Assets			
Current assets		\$ 23,518,788	\$ 20,597,864
Capital assets		122,440,335	123,024,541
	Total Assets	<u>145,959,123</u>	<u>143,622,405</u>
Deferred Outflow of Resources			
Deferred Outflow		1,896,625	703,379
	Total Deferred Outflow of Resources	<u>1,896,625</u>	<u>703,379</u>
Liabilities			
Current liabilities		4,489,830	4,078,118
Long-term liabilities		14,326,643	17,575,706
	Total Liabilities	<u>18,816,473</u>	<u>21,653,824</u>
Deferred Inflow of Resources			
Deferred Inflow		930,158	1,750,613
	Total Deferred Inflow of Resources	<u>930,158</u>	<u>1,750,613</u>
Net Position			
Net investment in capital assets		112,030,057	112,092,371
Restricted for environmental services		313,182	363,182
Restricted for special assessment funds		1,005,791	867,642
Restricted for debt service		922,952	906,600
Unrestricted		13,837,137	6,691,552
	Total Net Position	<u>\$ 128,109,118</u>	<u>\$ 120,921,347</u>

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Statement of Changes in Net Position

Functions/Programs	Governmental Activities		Increase (Decrease)
	2016	2015	
Program Revenues			
Charges for services	\$ 6,922,602	\$ 6,135,177	\$ 787,425
Operating grants and contributions	165,278	107,062	58,216
Capital grants and contributions	182,888	785,366	(602,478)
Total Program Revenues	<u>7,270,768</u>	<u>7,027,605</u>	<u>243,163</u>
General Revenues			
Property taxes	11,549,213	10,669,281	879,932
Sales taxes	1,189,398	1,224,427	(35,029)
Local taxes	897,761	866,272	31,489
Franchise taxes	2,068,401	2,069,479	(1,078)
Motor vehicle in-lieu	12,427	13,113	(686)
Intergovernmental revenues	717,926	1,022,838	(304,912)
Investment earnings	101,233	67,121	34,112
Other revenues	273,121	236,988	36,133
Total General Revenues	<u>16,809,480</u>	<u>16,169,519</u>	<u>639,961</u>
Expenses			
General and intergovernmental services	5,143,155	7,566,201	(2,423,046)
Public safety	4,786,568	4,850,289	(63,721)
Public works	6,180,812	6,272,570	(91,758)
Community services	1,582,337	1,588,840	(6,503)
Community development services	2,011,787	1,961,660	50,127
Interest on long-term debt (unallocated)	380,844	390,834	(9,990)
Total Expenses	<u>20,085,504</u>	<u>22,630,394</u>	<u>\$ (2,544,891)</u>
Increase / (Decrease) in Net Position	3,994,745	566,730	3,428,015
Net Position, Beginning of Year	120,921,347	129,256,133	(8,334,786)
Prior Period Adjustment - GASB 68	3,193,024	(8,901,517)	-
Net Position, Beginning of Year, As Adjusted	<u>124,114,371</u>	<u>120,354,616</u>	<u>(8,334,786)</u>
Net Position, End of Year	<u>\$ 128,109,118</u>	<u>\$ 120,921,347</u>	<u>\$ 7,187,771</u>

As shown in the above *Statement of Changes in Net Position* schedule, program revenues increased by \$243,163 from the prior fiscal year for governmental activities. General revenues also increased by \$639,961 from the prior year. This resulted in a total increase in revenues of \$883,124. Expenses decreased by \$2,544,891 from the prior year.

With total program and general revenues for fiscal year 2015/16 at \$24,080,248 and total expenses at \$20,085,503, the net activity resulted in an increase in Net Position of \$3,994,745. A prior period adjustment of \$3,193,024 increased the beginning balance of net position from \$120,354,616 to \$124,114,371 as a result of a GASB 68 post implementation adjustment to deferred outflows of resources.

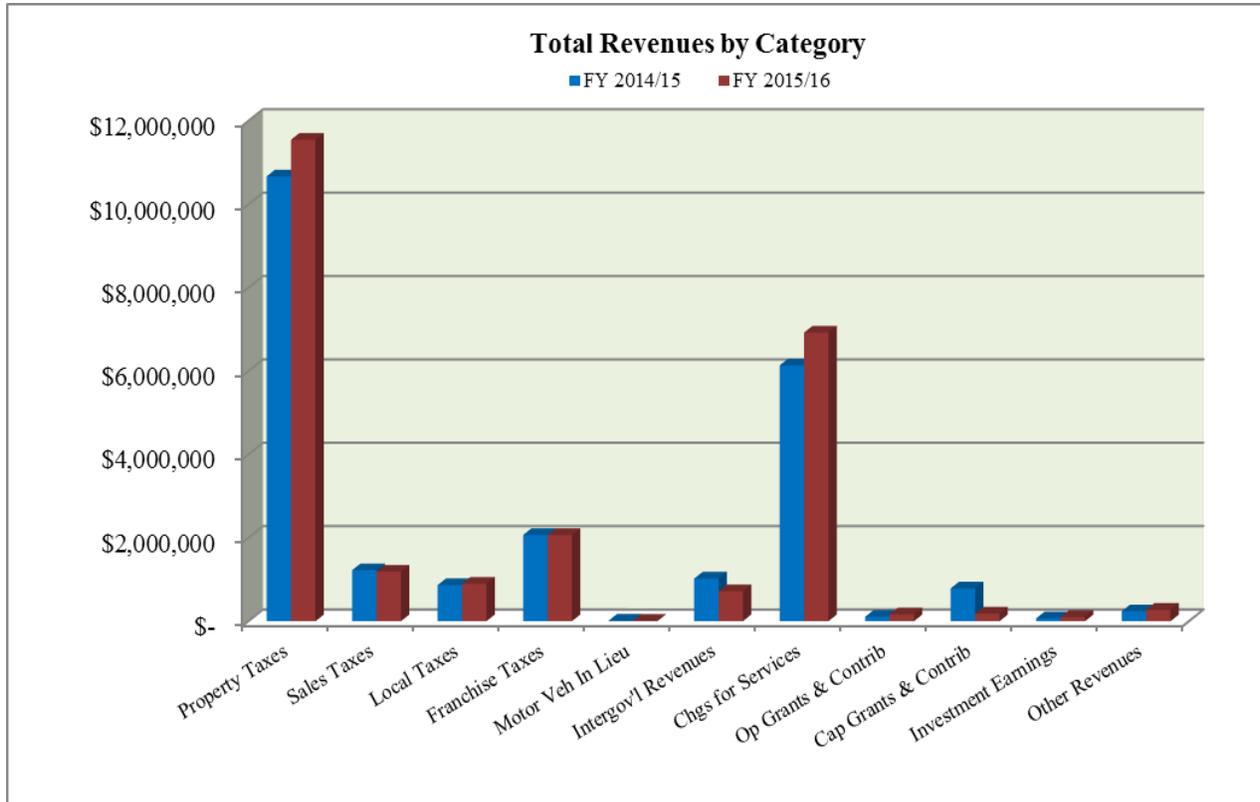
An analysis and graphical representation of the changes in revenues and expenditures by type of significant events follows:

**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Revenues

Fiscal year 2015/16 revenues reflect the ongoing strength of the San Francisco bay area economy with growth in Property Tax and a slight but steady upward trend in other revenues. The only decrease seen was in Capital Grants resulting in a net increase of \$883,574 in total general and program revenues.

CHART OF REVENUE INCREASE OR (DECREASE)



Increase in Revenues

General Revenues increased \$639,691 from the prior year. The most significant changes include:

- A \$879,932 increase in Property Tax Revenue due to higher assessed valuations of property within the City as a result of increased demand for housing in the region.
- A \$304,912 decrease in Intergovernmental Revenue was primarily due to a reduction in Gas Tax revenues of \$236,403.

Program Revenues increased \$243,163 overall:

- Charges for services increased \$787,425 due to an increase in building permit, plan check and park development fee revenues.

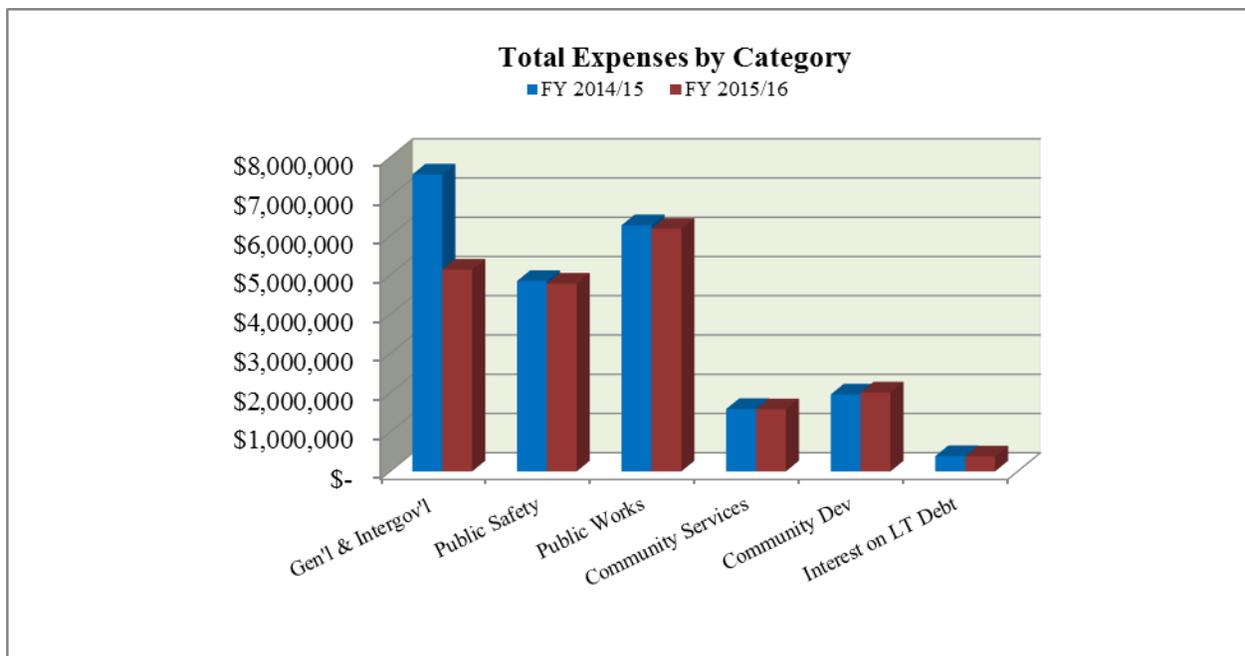
**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

- Capital Grants & Contributions decreased \$544,262, as some grant reimbursed projects entered into phases that were delayed either to the issuance of necessary permits from other agencies, or the acquisition of right-of-way easements.

Expenses

Fiscal Year 2015/16 expenses aligned with the prior year reflecting a stabilized economy and consistency in workload output. There was a minimal increase in Development Services as a result of increased contract services costs to backfill vacant positions as illustrated in the chart below.

CHART OF EXPENSE INCREASE OR (DECREASE)



Increases in Expenses

There were no significant increases in expenses from the prior year:

- Development Services increased by \$50,127 as a result of staffing vacancies due to turnover and extended leave and the increased use of contract personnel.

Decreases in Expenses

Notable decreases in expenses from the prior year occurred in one category:

- General and Intergovernmental Services decreased \$2,423,026 primarily due to a decrease in payments made toward the City’s Unfunded Accrued Liability. In fiscal year 2014/15, the City made a payment of \$3,294,619 compared to \$500,034 in fiscal year 2015/16. This decrease was offset by a \$100,000 increase in use of discretionary spending for the Silicon Valley Community Choice Energy Authority (SVCCEA) and \$50,000 for senior and transportation needs assessments.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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	\$ 20,782,594	\$ 1,878,269	\$ 1,501,188
Total Expenditures	18,378,966	2,590,721	1,346,689
Revenues Over (Under) Expenditures	2,403,628	(712,452)	154,500
Transfers in	267,918	3,312,293	-
Transfers out	(1,837,656)	(1,742,555)	-
Net change in fund balances	833,890	857,287	154,500
Beginning of year	9,806,731	3,858,777	1,774,243
End of year	\$ 10,640,622	\$ 4,716,064	\$ 1,928,743

Included in the Major Funds are the General Fund and the Capital Improvement Funds. The Other Governmental Funds include twenty-eight 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 \$1,845,677.

General Fund

As shown in the above *Major Funds* table, the net change in the General Fund's ending fund balance is an increase of \$883,890. A Net Increase 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 \$1,263,048, most notably property tax revenue. General Fund Revenue budgets are conservatively based upon prior year experience and revenue specific information. The year ended far ahead of budget due to the strength of the housing market and corresponding increases in license and permits.

Expenses are budgeted at anticipated program needs at not-to-exceed projected funding levels. However, the City has opted to commit additional funding towards the Unfunded Accrued Liability, or UAL, related to pensions. In fiscal year 2014/15, the City Council directed staff to make annual \$500,000 payments towards the UAL beginning in fiscal year 2015/16. This payment is in addition to the required minimum contribution amount required, thereby reducing the UAL. As of June 30, 2015, the Net Pension Liability, or NPL, is approximately \$4.3 million.

Capital Improvement Project Fund

As shown in the table above, the net change in the Capital Improvement Fund increased by \$857,287 as funding transfers for new Capital Improvement Projects exceeded expenses for the year.

**CITY OF SARATOGA
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Other Governmental Funds

Of the net \$154,500 increase in Other Governmental Funds, the collective 28 Landscaping & Lighting funds comprise \$138,148 of the total. The Library Bond debt service fund accounts for the remaining \$16,352 of the increase. Both net gains represent a small 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

The General Fund adopted revenue budget was \$19,174,626 as shown in the first column in the schedule below:

**Adopted to Final Budget
Fiscal Year Ended June 30, 2016**

	Adopted Budget	+ Budget Adjustments	= Final Budget
Revenues	\$ 19,174,626	42,042	\$ 19,216,668
Transfers in	\$ -	-	\$ -

During the fiscal year, a budget adjustment of \$42,042 to increase revenues as the City received grant funding from the Santa Clara County Health Department to fund the adoption of a tobacco ordinance, the placement of no smoking signage in public areas and the purchase of a watering station.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Expenses and Transfers Out

The General Fund expense budget was adopted at \$18,597,650 and adopted transfers out at \$1,902,656, as shown in the first column in the schedule below:

**Adopted to Final Budget
Fiscal Year Ended June 30, 2016**

	Adopted Budget	+ Budget Adjustments	= Final Budget
Expenses	\$ 18,597,650	448,602	\$ 19,046,252
Transfers out	\$ 1,902,656	(65,000)	\$ 1,837,656

During the fiscal year, a budget adjustment of \$448,602 to increase expenses as follows; \$180,000 for a one-time contribution into the Facility Furniture, Fixture & Equipment Internal Service Fund, \$176,560 for carryover items from fiscal year 2014/15, \$50,000 for code enforcement services and \$42,042 for the Santa Clara County Health Department grant expenses. Transfers out was decreased by a net (\$65,000) as follows; (\$180,000) was reclassified from a transfer out to a CIP project to a one-time contribution to an Internal Service Fund; \$75,000 for an Electric Vehicle Fast-Charging Station and \$40,000 for a transportation needs assessment.

The original amount of \$1,902,656 of budgeted transfers from the General Fund to the Capital Improvement funds was allocated as follows; \$1,088,760 for street, sidewalk, and storm drain repair, \$295,000 for park and trail improvements, \$233,896 for various facility improvements, and \$285,000 for various administrative projects.

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 policy is to achieve a Pavement Condition Index (PCI) average rating of 70 for all streets, at minimum. The City's overall rating was 69 with 0% of streets rated as Excellent, 81% of streets rated as "Very Good" to "Good," 16% of streets rated "Poor," and 3% of streets rated as "Very Poor." With the overall rating below target, the City has begun the process to review infrastructure investment strategies.

Overall, the City spent \$1,397,415 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

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Basic Financial Statements" and Note 2 in the "Required Supplementary Section". The latest assessment study was conducted during the fall of 2013.

As reflected in the following schedule, the City has \$122,440,334 invested in a variety of capital assets as of June 30, 2016. This represents a decrease of \$584,207 or a 0.47% decrease from the prior year.

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

	Governmental Activities	
	2016	2015
Land	\$ 15,591,925	\$ 14,885,401
Building and structures	16,624,254	17,252,520
Machinery and equipment	1,076,503	673,182
Infrastructure	81,651,697	82,857,393
Construction in progress	7,495,955	7,356,045
Total Capital Assets, Net of Depreciation	<u>\$ 122,440,334</u>	<u>\$ 123,024,541</u>

The following reconciliation summarizes the changes in Capital Assets.

Changes in Capital Assets

	Balance	Additions	Retirements	Reclassification	Balance
	July 1, 2015				June 30, 2016
Land	\$ 14,885,401	\$ 706,524	\$ -	\$ -	\$ 15,591,925
Building and structures	25,911,869	74,885	-	-	25,986,754
Machinery and equipment	2,580,015	560,891	(112,797)	-	3,028,109
Infrastructure	107,491,010	-	-	-	107,491,010
Construction in progress	7,356,045	1,288,560	(1,148,650)	-	7,495,955
Depreciation	(35,199,799)	(2,066,417)	112,797	-	(37,153,419)
Total Capital Assets, Net of Depreciation	<u>\$ 123,024,541</u>	<u>\$ 564,443</u>	<u>\$ (1,148,650)</u>	<u>\$ -</u>	<u>\$ 122,440,334</u>

Major capital projects in progress during fiscal year 2015/16 included the following expenditures:

- Quarry Park - \$534,344
- Saratoga Village Pedestrian Improvements - \$221,069
- Prospect/Saratoga Median Improvements - \$149,622
- Master Switch - \$139,540
- Hakone Gardens - \$100,008

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

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

DEBT AND OTHER LONG-TERM OBLIGATION ADMINISTRATION

The net change in outstanding obligations for the City of Saratoga is a decrease of \$515,951. Total long term bonded debt, net of premium decreased by \$478,108. Outstanding compensated absences increased by \$5,941.

Outstanding Long-Term Obligation at Year End

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
2011 General obligation bond	\$ 10,060,000	\$ 10,560,000
Net original issue premium	350,278	372,170
Compensated absences	630,441	624,500
Total Outstanding long-term obligations	<u>\$ 11,040,719</u>	<u>\$ 11,556,670</u>

The current portion of long-term debt (\$475,000 for the refunded 2001 General Obligation Bonds for fiscal year 2016/17) 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 2011 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 \$500,000 and interest of \$383,335 were paid during the fiscal year.

Compensated Absences

Compensated absences are accrued liabilities for vested and unpaid vacation and sick pay. The compensated absences balance increased during the fiscal year by \$5,941 due to a decrease in use and payouts of unused compensated absences to retiring, separated, and general employees. An estimated current liability of \$483,452 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.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

GASB 68 ADJUSTMENTS TO PENSION EXPENSE

CalPERS provided a GASB 68 accounting valuation report with the City's proportionate share of the plan's net pension liability. The liabilities were actuarially determined with a valuation date of June 30, 2014. These amounts were rolled forward along with the changes in net pension liability recognized during the measurement period between June 30, 2014 and June 30, 2015. With the provided liability and asset information, the total pension liability, net pension liability, and pension expense were developed for the measurement date of June 30, 2015. The City is responsible for determining the difference between the actual and allocated contributions, changes in proportion and the appropriate treatment of any contributions made during the measurement period and subsequent to the measurement date.

DEFERRED OUTFLOW OF RESOURCES

Deferred outflow of resources related to pensions increased by a net of \$1,193,246 as a result of changes in proportions, increased amortization and pension contributions made subsequent to the measurement date as reported by CalPERS.

Deferred Outflow of Resources at Year End

	<u>2016</u>	<u>2015</u>
Reclassify pension contribution	\$ 996,855	\$ 609,860
Adjustment due to difference in proportions	35,586	145,474
Amortization of difference in proportions	862,977	(51,955)
Prepaid	1,207	-
Total Deferred outflow of resources	<u>\$ 1,896,625</u>	<u>\$ 703,379</u>

A prior period adjustment of \$3,193,037 increased deferred outflow of resources from \$703,379 to \$3,896,416. The UAL payment made in the prior fiscal year was not properly classified in the first Net Pension Liability adjustment made in accordance with GASB 68. Current year adjustments as a result of a reduction in the pension liability, additional pension contributions, changes in proportions and assumptions during the measurement period and subsequent to the June 30, 2015 measurement date resulted in a net adjustment to pension expense of (\$2,000,998).

Additional information on pension disclosures can be found in Note 7 of the Financial Statements.

DEFERRED INFLOW OF RESOURCES

Deferred inflow of resources decreased by a net of (\$820,455) as result of changes in assumptions, proportionate shares and differences between projected and actual earnings during the measurement period as reported by CalPERS.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Deferred Inflow of Resources at Year End

	<u>2016</u>	<u>2015</u>
Net difference between projected and actual earnings	\$ 1,031,759	\$ 2,334,150
Amortization of difference between projected and actual earnings	-	(583,537)
Adjustment due to changes in assumptions	336,681	-
Change in proportionate share	(507,792)	-
Unearned	69,510	-
Total deferred inflow of resources	<u>\$ 930,158</u>	<u>\$ 1,750,613</u>

An adjustment to pension expense to record the proportionate share of activity in the pension plan during the measurement period and subsequent to the measurement date include proportion differences and earnings amortization from the prior year, changes in assumptions, and recognizing the difference between projected and actual earnings amounted to an increase of \$889,965.

Additional information on pension disclosures can be found in Note 7 of the Financial Statements.

NET PENSION LIABILITY

The City's net pension liability decreased (\$2,679,648) from the prior year. This decrease is the net difference between the additional UAL payment of \$3,193,037 million plus additional pension contributions, pension plan investment income, and changes in assumptions of \$2,036,950 less service costs and interest on the total pension liability of (\$2,550,339) during the measurement period.

Net Pension Liability at Year End

	<u>2016</u>	<u>2015</u>
Net Pension Liability	\$ 4,266,268	\$ 6,945,916
Total net pension liability	<u>\$ 4,266,268</u>	<u>\$ 6,945,916</u>

The net decrease to pension expense to record the City's proportionate share of changes in Net Pension Liability and related ratios for the measurement period ending June 30, 2015 in accordance with GASB 68 is (\$1,568,614).

Additional information on pension disclosures can be found in Note 7 of the Financial Statements.

ECONOMIC FACTORS

The following economic indicators from fiscal year 2015/16 were taken into account when developing the budget for fiscal year 2016/17.

- Taxable assessed value of property was \$12.1 billion, an increase of 5.4% from the previous fiscal year.
- The unemployment rate for the City was 3.51% versus 3.85% from the previous year. This compares favorably with the county rate of 4.0% and the state rate of 5.7%.
- Per capita income was \$83,106 an increase of 4.1% from the previous year.

**CITY OF SARATOGA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

General Fund revenues available for appropriation in fiscal year 2016/17 are \$21.8 million, an increase of \$2.6 million over the final 2015/16 budget amount of \$19.2 million. Property taxes, benefiting from the increase in assessed valuation and an additional increase in the City's allocation percentage, and charges for services related to building inspections and plan checking are expected to lead this increase. This increase in revenues will be used to improve local roads, restore funding for a code compliance officer, initiate community safety measures and enhance community enrichment efforts.

General Fund expenses available for appropriation in fiscal year 2016/17 are \$19.7 million, an increase of \$800,000 over the final budget amount of \$18.7 million. Increases are anticipated in salaries and benefits due to the addition of a code compliance officer, health premium increases and cost-of-living adjustments. Increases will also be seen in contract services related to public safety. The budget will also continue to address the city's standing policy of reducing long-term liabilities related to pension obligations and building reserves to weather future downturns in the economy.

As for the City's capital budget, the focus continues to be on improving local roads. A total of \$2.7 million is allocated for street repair and resurfacing and sidewalks, curbs and storm drains.

Outlook

Although the City's fiscal health continues to improve, General Fund revenues are not expected to continue on this rapid growth trajectory. Fiscal projections anticipate a leveling off in revenues as this growth is tempered by economic hesitation. Fiscal uncertainty remains, 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 impacts will come from reductions in capital funding grants from state and federal sources to fund infrastructure improvement projects.

In addition to generally rising operational costs, aging infrastructure maintenance expenses are increasing as our city ages. New infrastructure also adds to rising maintenance expenses, such as the implementation of Quarry Park, 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

CITY OF SARATOGA
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 19,976,921
Restricted cash and investments	1,946,728
Receivables:	
Accounts	1,595,121
Interest	19
Total Current Assets	<u>23,518,788</u>
Noncurrent Assets:	
Capital Assets:	
Non-depreciable	74,707,718
Depreciable, net	47,732,617
Total Capital Assets	<u>122,440,335</u>
Total Noncurrent Assets	<u>122,440,335</u>
Total Assets	<u>145,959,124</u>
DEFERRED OUTFLOW OF RESOURCES	
Pension contributions	1,895,418
Prepaid	1,207
Total Deferred Outflow of Resources	<u>1,896,625</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 758,166
Accrued payroll	250,188
Interest payable	157,640
Deposits payable	2,284,529
Claims payable	58,963
Long-term obligations - due within one year	980,344
Total Current Liabilities	<u>4,489,830</u>
Noncurrent Liabilities:	
Net Pension Liability	4,266,268
Long-term obligations - due in more than one year	10,060,375
Total Noncurrent Liabilities	<u>14,326,643</u>
Total Liabilities	<u>18,816,473</u>
DEFERRED INFLOW OF RESOURCES	
Difference between projected and actual earnings	860,648
Unearned revenue	69,510
Total Deferred Inflow of Resources	<u>930,158</u>
Net Position	
Net investment in capital assets	112,030,057
Restricted for:	
Environmental funds	313,182
Special assessment funds	1,005,791
Debt service	922,952
Total Restricted	<u>2,241,925</u>
Unrestricted	<u>13,837,137</u>
Total Net Position	<u>\$ 128,109,118</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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	\$ 5,143,155	\$ 97,920	\$ 34,762	\$ -	\$ 132,682	\$ (5,010,474)
Public safety	4,786,568	309,615	122,119	-	431,735	(4,354,834)
Public works	6,180,812	3,003,820	8,397	182,888	3,195,105	(2,985,707)
Community services	1,582,337	1,114,164	-	-	1,114,164	(468,172)
Community development services	2,011,787	2,397,083	-	-	2,397,083	385,296
Interest on long-term debt (unall.)	380,844	-	-	-	-	(380,844)
Total	\$ 20,085,504	\$ 6,922,602	\$ 165,278	\$ 182,888	\$ 7,270,769	\$ (12,814,735)
General Revenues:						
Taxes						
Property taxes						\$ 11,549,213
Sales taxes						1,189,398
Local taxes						897,761
Franchise taxes						2,068,401
Motor vehicle-in-lieu						12,427
Total taxes						15,717,200
Intergovernmental						717,926
Investment earnings						101,233
Other revenues						273,121
Total General Revenues						16,809,480
Change in Net Position						3,994,745
Net Position - Beginning of Year						120,921,347
Prior Period Adjustment						3,193,024
Net Position - Beginning of Year as Adjusted						124,114,371
Net Position - End of Year						\$ 128,109,118

The accompanying notes are an integral part of these financial statements

**CITY OF SARATOGA
GOVERNMENTAL FUNDS – BALANCE SHEET
JUNE 30, 2016**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement		
ASSETS				
Cash and investments	\$ 12,867,064	\$ 4,157,617	\$ -	\$ 17,024,680
Restricted cash and investments			1,946,728	1,946,728
Receivables:				
Accounts	715,972	871,758	5,156	1,592,886
Interest	19	-	-	19
Total assets	<u>\$ 13,583,055</u>	<u>\$ 5,029,375</u>	<u>\$ 1,951,884</u>	<u>\$ 20,564,313</u>
DEFERRED OUTFLOW OF RESOURCES				
Prepaid Items	1,207	-	-	1,207
Total deferred outflow of resources	<u>\$ 1,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,207</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 394,531	\$ 282,283	\$ 23,141	\$ 699,955
Accrued payroll	220,974	5,128	-	226,102
Deposits payable	2,283,629	900	-	2,284,529
Other payable	-	-	-	-
Total liabilities	<u>2,899,134</u>	<u>288,311</u>	<u>23,141</u>	<u>3,210,586</u>
DEFERRED INFLOW OF RESOURCES				
Unearned Revenue	44,506	25,000	-	69,506
Total deferred outflow of resources	<u>\$ 44,506</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 69,506</u>
Fund Balances:				
Restricted:				
Environmental services	313,182	-	-	313,182
Special assessment funds	-	-	1,005,791	1,005,791
Debt service	-	-	922,952	922,952
Committed:				
Capital improvement program	-	4,716,064	-	4,716,064
Hillside stability	1,000,000	-	-	1,000,000
Assigned:				
Future capital & efficiency	1,472,408	-	-	1,472,408
Carryforwards	-	-	-	-
Facility replacement	1,200,000	-	-	1,200,000
Unassigned:				
Working capital	1,000,000	-	-	1,000,000
Fiscal stabilization	2,250,000	-	-	2,250,000
Compensated absences	209,937	-	-	209,937
Development services	719,562	-	-	719,562
Other unassigned	2,475,534	-	-	2,475,534
Total fund balances	<u>10,640,622</u>	<u>4,716,064</u>	<u>1,928,743</u>	<u>17,285,428</u>
Total liabilities and fund balances	<u>\$ 13,539,756</u>	<u>\$ 5,004,375</u>	<u>\$ 1,951,884</u>	<u>\$ 20,496,014</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, 2016

Total Fund Balances - Total Governmental Funds \$ 17,285,428

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	74,707,718
Depreciable capital assets, net	47,421,453
Total Capital Assets	<u>122,129,171</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. (157,640)

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 assets 3,124,379

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. (4)

Deferred outflow of resources are transactions that have already taken place but are not ready to be recognized on the financial statements as expenses

Reclassify FY 2015/16 pension contribution	996,855
Adjustment due to difference between expected and actual experiences	35,586
Amortization of difference in projected and actual earnings on investments	862,977
	<u>1,895,418</u>

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	(10,060,000)
Net Pension Liability	(4,266,268)
Compensated absences	(630,441)
Net original issue premium	(350,278)
Total Long-Term Obligations	<u>(15,306,987)</u>

Deferred inflow of resources are transactions that have already taken place but are not ready to be recognized on the financial statements as revenues

Net difference between projected and actual earnings on pension plan investments	(1,031,759)
Adjustment due to changes in assumptions	(336,681)
Change in proportionate share	507,792
	<u>(860,648)</u>

Net Position of Governmental Activities \$ 128,109,118

The accompanying notes are an integral part of these financial statements

**CITY OF SARATOGA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement		
REVENUES:				
Property taxes	\$ 11,301,176	\$ -	\$ 248,037	\$ 11,549,213
Special assessments	-	-	1,221,513	1,221,513
Sales taxes	1,189,398	-	-	1,189,398
Other local taxes	897,761	-	-	897,761
Licenses & permits	1,524,679	691,245	-	2,215,924
Fines & forfeiture	176,740	70,850	-	247,590
Intergovernmental - Federal	-	158,090	-	158,090
Intergovernmental - State	472,800	708,773	-	1,181,573
Intergovernmental - Other	74,275	2,045	-	76,320
Franchise fees	2,068,401	-	-	2,068,401
Use of money and property	606,917	33,326	6,638	646,881
Other revenue	2,470,447	213,940	25,000	2,709,387
Total revenues	<u>20,782,594</u>	<u>1,878,269</u>	<u>1,501,188</u>	<u>24,162,052</u>
EXPENDITURES:				
Current:				
General and intergovernmental services	4,246,424	-	-	4,246,424
Public safety	5,225,854	-	-	5,225,854
Public works	5,239,053	-	461,679	5,700,732
Community services	1,474,775	-	-	1,474,775
Community development services	2,192,860	-	-	2,192,860
Capital outlay	-	2,590,721	-	2,590,721
Debt service:				
Principal	-	-	500,000	500,000
Interest and fiscal charges	-	-	385,010	385,010
Total expenditures	<u>18,378,966</u>	<u>2,590,721</u>	<u>1,346,689</u>	<u>22,316,375</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>2,403,628</u>	<u>(712,451)</u>	<u>154,500</u>	<u>1,845,677</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	267,918	3,312,293	-	3,580,211
Transfers out	(1,837,656)	(1,742,555)	-	(3,580,211)
Total other financing sources (uses)	<u>(1,569,738)</u>	<u>1,569,738</u>	<u>-</u>	<u>-</u>
Net change in fund balances	833,890	857,287	154,499.73	1,845,677
FUND BALANCES:				
Beginning of year	9,806,731	3,858,777	1,774,243	15,439,751
End of year	<u>\$ 10,640,622</u>	<u>\$ 4,716,064</u>	<u>1,928,743</u>	<u>\$ 17,285,428</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 FISCAL YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 1,845,677
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.	1,288,560
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.	(1,988,032)
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.	759,805
GASB 68 Adjustments to pension expense	
Reclassify 2015 pension contribution to deferred outflows	996,855
Amortization of changes in deferred outflows	(2,997,853)
Change in net pension liability - current year	2,679,648
Amortization of changes in deferred inflows	889,965
Adjustments to pension expense as a result of GASB 68	<u>1,568,615</u>
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	(5,941)
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	500,000
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.	4,166
Change in Net Position of Governmental Activities	<u>\$ 3,994,745</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	\$ 2,952,241
Accounts receivable	2,234
Total current assets	<u>2,954,474</u>
Noncurrent assets:	
Capital assets:	
Machinery and equipment	1,073,414
Less: accumulated depreciation	<u>(762,249)</u>
Total capital assets (net of accumulated depreciation)	<u>311,164</u>
Total assets	<u>3,265,639</u>
LIABILITIES	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 58,210
Accrued payroll	24,086
Other payables	<u>58,963</u>
Total current liabilities	<u>141,259</u>
NET POSITION	
Net investment in capital assets	311,164
Unrestricted	<u>2,813,215</u>
Total net position	<u>\$ 3,124,379</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 FISCAL YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 2,850,836
Other operating revenues	75,168
Total operating revenues	<u>2,926,004</u>
Operating expenses:	
Cost of services	2,087,814
Administration	-
Depreciation	78,384
Total operating expenses	<u>2,166,198</u>
Operating income (loss)	<u>759,806</u>
Transfers in	<u>-</u>
Change in net position	759,806
Total net position - beginning	2,364,574
Total net position - ending	<u>\$ 3,124,379</u>

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2016

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,904,733
Payments to suppliers	(1,302,233)
Payments to employees	(845,426)
Net cash provided (used) by operating activities	<u>757,074</u>
Cash flows from capital activities:	
Acquisition of capital assets	(170,916)
Net cash provided for the acquisition of capital assets	<u>(170,916)</u>
Net increase in cash and cash equivalents	586,159
Cash and cash equivalents, beginning of year	<u>2,366,082</u>
Cash and cash equivalents, ending of year	<u><u>\$ 2,952,241</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 759,806
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	78,384
Other receipts	(22,734)
Change in operating assets and liabilities:	
Accounts receivables	1,464
Accounts payable	11,113
Claims payable	(74,616)
Accrued payroll	3,657
Net cash provided (used) by operating activities	<u><u>\$ 757,074</u></u>

The accompanying notes are an integral part of these financial statements

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CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

Change in Accounting Principle – Prior Period Adjustment

Net position as of July 1, 2016 has been restated as follows for the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71.

Net Position as previously reported at June 30, 2015	\$ 120,921,347
Prior period adjustment:	
Deferred outflows:	
Additional contributions made during fiscal year 2014/15	<u>3,193,024</u>
Total prior period adjustment	<u>3,193,024</u>
Net Position as restated, July 1, 2015	<u><u>\$ 124,114,371</u></u>

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 30,219 at June 30, 2016. The City is a largely residential community located in the foothills of the Santa Cruz Mountains.

The City operates under the Council-Manager form of government, with five-elected Council members served by a full-time City Manager and staff. At June 30, 2016, the City's staff was comprised of 57 full-time or part-time employees, and numerous part-time temporary and seasonal employees. Staff is responsible for the following City 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 21 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 14 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

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 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 and liabilities, including capital assets, as well as infrastructure assets, long-term liabilities, and deferred inflows and outflows of resources 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 inter-fund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated. The following inter-fund activities have been eliminated:

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

Deferred Outflow of Resources and Deferred Inflow of Resources

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

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

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, 2016

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 and liabilities (whether current or noncurrent) 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 non-exchange 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 2015/16 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, 2016

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. Inter-fund Transactions

Inter-fund 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 inter-fund transactions, except for inter-fund services provided and used and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as transfers.

E. Capital Assets

Capital assets, including 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 assets 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

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(signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems. The City elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting of its streets, concrete and asphalt pavements. The City commissioned a physical assessment of the streets condition as of June 30, 2013. This condition assessment was performed in the fall of 2013 with the final report presented in March, 2014. 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.

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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.

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

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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.
- 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.
- Debt Service Fund Balance – represents funding collected for and use in the City’s general obligation bond debt.

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 on a resolution of the City Council, and remains 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 official 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.

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- 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.

- 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, 2016 the Working Capital Reserve balance is \$1,000,000.
- Fiscal Stabilization Reserve – Council policy is to maintain \$2,500,000 for use by Council direction in case of disasters, emergencies, and economic downturns. As of June 30, 2016, the Fiscal Stabilization Reserve balance is \$2,250,000.
- 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.

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- 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 "invested in capital assets, net of related debt" 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 positions are available, the City's policy is to apply restricted net position first.

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 reviewed subsequent events and transactions that occurred after the date of the financial statements through the date of issuance. 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.

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P. New GASB Pronouncements

A. Implemented New Accounting Pronouncements

GASB Statement No. 72 – In February, 2015, GASB issued Statement No 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (fiscal year ending June 30, 2016).

See Note 2 for information related to the financial statement impact of this Statement.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Effective date: the provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

There is no financial statement impact related to this Statement.

GASB Statement No. 77 – *Tax Abatement Disclosures*. Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

There is no financial statement impact related to this statement.

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GASB Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plan*. Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This Statement amends the scope and applicability of *Statement 68* to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that

- Is not a state or local governmental pension plan,
- Is used to provide a defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state and local governmental employers,
- And has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pension through the pension plans).

This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

See Note 7 for information related to the financial statement impact of this Statement.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. Effective date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address;

- How the external investment pool transacts with its participants,
- Requirements for portfolio maturity, quality, diversification, and liquidity,
- Calculation and requirements of a shadow price.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

See Note 2 for information related to the financial statement impact of this statement.

B. Upcoming Accounting and Reporting Changes

GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Issue date: 06/15. Effective date: the provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the

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scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
- Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of non-employer contributing entities *not* in a special funding situation.

The City does anticipate a material financial statement impact related to this Statement.

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Issue date: 06/15. Effective date: the provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

The City does not anticipate a material financial statement impact related to this Statement.

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GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Issue date: 06/15. Effective date: the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

The City does not anticipate a material financial statement impact related to this Statement.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. Issue date: 01/16. Effective date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

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The City is in the process of determining the financial statement impact related to this statement.

GASB Statement No. 81 – Irrevocable Split-Interest Agreements. Issue date: 03/16. Effective date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The City is in the process of determining the financial statement impact related to this Statement.

GASB Statement No. 82 – Pension Issues – An Amendment of GASB Statements No. 67 and No. 68 and No. 73. Issue date: 03/16. Effective date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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Presentation of Payroll-Related Measures in Required Supplementary Information

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

Selection of Assumptions

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

Classification of Employer-Paid Member Contributions

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The City is in the process of determining the financial statement impact related to this Statement.

Q. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government of Example's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value

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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, 2016:

	Statement of Net Position
	<u>Governmental Activities</u>
Cash and investments	<u>\$ 21,923,649</u>

The City's Cash and Investments at June 30, 2016, in more detail:

Cash and cash equivalents:	
Petty cash	\$ 1,300
Demand deposits	240,313
Total Cash and Cash Equivalents	<u>241,613</u>
Investments:	
Local Agency Investment Fund (LAIF)	21,682,036
Total Cash and Investments	<u>\$ 21,923,649</u>

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$240,313 at June 30, 2016. Bank balances before reconciling items were \$339,725 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). 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.

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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.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

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C. External Investment Pool

The City's investments with LAIF at June 30, 2016, 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, 2016, the City had \$21,682,036 invested in LAIF. The LAIF fair value factor of 1.000621222 was used to calculate the fair value of the investments in LAIF in accordance with GASB Statement No. 72, *Fair Measure Value and Application* which requires investments held primarily for the purpose of income or profit, and has a present service capacity based solely on its ability to generate cash or to be sold to generate cash are to be measured at their fair value.

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, 2016, these investments had a weighted average maturity of 167 days. The City had the following invested in LAIF:

	Fair Value	Investment Maturities in Years Less Than One Year
	<u> </u>	<u> </u>
State of California - Local Agency Investment Fund (LAIF)	<u>\$ 21,682,036</u>	<u>\$ 21,682,036</u>

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
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Credit Risk

As of June 30, 2016, 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, 2016.

NOTE 3 - FUND FINANCIAL STATEMENTS INTERFUND TRANSACTIONS

Transfers In/Out

Transfers for the year ended June 30, 2016 were as follows:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
Capital Improvement Fund	General Fund	\$ 1,837,656
		<u>1,837,656</u>
Capital Improvement Fund	Capital Improvement Fund	1,474,637
General Fund	Capital Improvement Fund	<u>267,918</u>
		<u>1,742,555</u>
Total		<u>\$ 3,580,211</u>

The Capital Improvement Fund received monies from the General Fund adopted in the Budget in the amount of \$1,837,656. \$1,088,760 was allocated for street, sidewalk, and storm drain repair, \$295,000 for park and trail improvements, \$53,896 for various facility improvements, and \$400,000 for various administrative projects. \$1,474,637 was transferred between consolidated CIP projects and \$267,918 was transferred from closed projects during the fiscal year.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is illustrated in the following table:

	Primary Government				Balance June 30, 2016
	Balance July 1, 2015	Additions	Retirements	Reclassifications	
Governmental activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 14,885,401	\$ 706,524	\$ -	\$ -	\$ 15,591,924.91
Construction in progress	\$ 7,356,046	\$ 1,288,560	\$ (1,148,650)	\$ -	\$ 7,495,955.03
Infrastructure:					
Street pavement system	\$ 51,619,838	\$ -	\$ -	\$ -	\$ 51,619,838.43
Total capital assets, not being depreciated	\$ 73,861,285	\$ 1,995,084	\$ (1,148,650)	\$ -	\$ 74,707,718.37
Capital assets, being depreciated:					
Buildings and structures	\$ 25,911,869	\$ 74,885	\$ -	\$ -	\$ 25,986,753.66
Machinery and equipment					
Governmental funds	\$ 1,587,456	\$ 367,242	\$ -	\$ -	\$ 1,954,697.23
Internal service funds	\$ 992,560	\$ 193,650	\$ (112,797)	\$ -	\$ 1,073,413.57
Infrastructure:					
Bridges	\$ 1,563,654	\$ -	\$ -	\$ -	\$ 1,563,654.00
Signs and lights	\$ 1,835,142	\$ -	\$ -	\$ -	\$ 1,835,142.32
Drainage system	\$ 40,100,053	\$ -	\$ -	\$ -	\$ 40,100,052.61
Sidewalks	\$ 12,372,322	\$ -	\$ -	\$ -	\$ 12,372,322.23
Total capital assets, being depreciated	\$ 84,363,056	\$ 635,776	\$ (112,797)	\$ -	\$ 84,886,035.62
Accumulated depreciation:					
Buildings and structures	\$ (8,659,349)	\$ (703,150)	\$ -	\$ -	\$ (9,362,498.97)
Machinery and equipment					
Governmental funds	\$ (1,110,172)	\$ (79,186)	\$ -	\$ -	\$ (1,189,358.52)
Internal service funds	\$ (796,662)	\$ (78,384)	\$ 112,797	\$ -	\$ (762,249.40)
Infrastructure:					
Bridges	\$ (1,098,763)	\$ (21,115)	\$ -	\$ -	\$ (1,119,877.50)
Signs and lights	\$ (1,121,214)	\$ (62,040)	\$ -	\$ -	\$ (1,183,254.21)
Drainage system	\$ (16,335,373)	\$ (802,001)	\$ -	\$ -	\$ (17,137,374.01)
Sidewalks	\$ (6,078,267)	\$ (320,540)	\$ -	\$ -	\$ (6,398,807.11)
Total accumulated depreciation	\$ (35,199,800)	\$ (2,066,417)	\$ 112,797	\$ -	\$ (37,153,419.72)
Total capital assets, being depreciated, net	\$ 49,163,256	\$ (1,430,640)	\$ -	\$ -	\$ 47,732,615.90
Governmental activities capital assets, net	\$ 123,024,541	\$ 564,443	\$ (1,148,650)	\$ -	\$ 122,440,334.27

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.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – LONG-TERM OBLIGATIONS

A summary of the City's long-term obligations transactions for the year ended June 30, 2016, is presented below:

Description	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Classification	
					Due Within One Year	Due In More Than One Year
General Obligation Bonds:						
2011 Library bonds	10,560,000	-	(500,000)	10,060,000	475,000	9,585,000
Net original issue premium	372,170	-	(21,892)	350,278	21,892	328,386
Compensated absences	624,500	5,941	-	630,441	-	630,441
Total	<u>\$ 11,556,670</u>	<u>\$ 5,941</u>	<u>\$ (521,892)</u>	<u>\$ 11,040,719</u>	<u>\$ 496,892</u>	<u>\$ 10,543,827</u>

General Obligation 2011 Library Bonds - Original Issue \$11,995,000

On July 14, 2011, the City issued General Obligation Bonds Series 2011 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, 2012. Principal is due annually beginning on August 1, 2012, in amounts ranging from \$455,000 to \$790,000, with a final payment on August 1, 2031 of \$820,000. 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
2017	\$ 475,000	\$ 371,210	\$ 846,210
2018	485,000	356,810	841,810
2019	500,000	339,535	839,535
2020	525,000	319,035	844,035
2021	545,000	297,635	842,635
2022-2026	3,040,000	1,165,938	4,205,938
2027-2031	3,670,000	536,715	4,206,715
2032	820,000	16,400	836,400
Total	<u>\$ 10,060,000</u>	<u>\$ 3,403,278</u>	<u>\$ 13,463,278</u>

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to \$630,441 at June 30, 2016. The compensated absences liability will generally be liquidated through the General Fund.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2014, the City contributed \$182,465 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, 2015, the City contributed \$139,776 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 \$134,254 reported at June 30, 2015, 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, 2016	Year Ended June 30, 2015
Claims payable, beginning of year	\$ 134,254	\$ 39,500
Fiscal year claims and changes in estimates	(75,291)	134,254
Claims payments	-	(39,500)
Claims payable, end of year	<u>\$ 58,963</u>	<u>\$ 134,254</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 operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2015 (most recent available):

	Plan Corporation	Comp Shared Risk Pool
Total Assets	\$ 47,839,048	\$ 4,683,651
Total Liabilities	23,585,370	917,712
Net Position	<u>\$ 24,253,678</u>	<u>\$ 3,765,939</u>
Total Revenues	\$ 10,099,187	\$ 808,615
Total Expenses	484,535	557,280
Net Increase in Net Position	<u>\$ 9,614,652</u>	<u>\$ 251,335</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

Defined Benefit Pension Plan

Plan Description – All CalPERS qualified employees are eligible to participate in the City's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). 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. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or copies of these reports may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95811.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55. All members are eligible for non-duty disability death benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employee's Retirement Law. The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

	Classic Employees		New Employees
	Tier 1	Tier 2	PEPRA
Hire date	Before May 12, 2012	Hired on or after May 12, 2012	Hired on or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0%	2.0%	2.0%
Required employee contribution rates	8%	7%	6.50%
Required employer contribution rates	15.58%	8.77%	6.70%

The amounts reported in the Classic-Tier 2 and PEPRA accounting valuation reports were immaterial to the City's financial statements. Therefore, that information has not been included in this disclosure and the components related to the net pension liability and pension expense from these tiers have not been included in the financial statements.

Employees Covered – At June 30, 2016, the following employees were covered by the benefit terms for the Plan:

	<u>Miscellaneous</u>
Inactive employees receiving benefits	92
Inactive employees entitled to but not receiving benefits	96
Active members	<u>55</u>
Total	<u><u>243</u></u>

Contributions – Section 20814(c) of California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by an actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions, including the UAL payment of \$3.2 million, recognized as part of pension expense for the Plan were as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$ 3,904,479
Contributions - employee	<u>290,903</u>
Total contributions	<u><u>\$ 4,195,382</u></u>

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions
As of June 30, 2016, the City reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	\$ 4,266,268
Total Net Pension Liability	\$ 4,266,268

The City's net pension liability for the Plan is measured as the proportionate share of the Plan's net pension liability. The net pension liability of the Plan is measured at June 30, 2015, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of the contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous
Proportion - June 30, 2014	0.2810%
Proportion - June 30, 2015	0.1555%
Change	-0.1255%

For the year ended June 30, 2016, the City recognized a negative pension expense of (-\$890,789). At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 996,855	\$ -
Changes in assumptions	-	(336,681)
Differences between expected and actual experiences	35,586	-
Change in employer's proportion and differences the employer's contributions and the employer's proportionate share of contributions	-	507,792
Net differences between projected and actual earnings on plan investments	862,977	(1,031,759)
Total	\$ 1,895,418	\$ (860,648)

The City reported \$996,855 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
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The City reported \$35,886 as deferred outflows of resources related to the difference between expected and actual results in pension investments subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The City reported \$336,681 as deferred inflows of resources related to changes in assumptions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows;

For the change in employer's proportion and differences in the employer's contributions and the employer's proportionate share of contributions

	Recognized to Pension Expense
2016	\$ (169,264)
2017	(169,264)
2018	<u>(169,264)</u>
Total	<u>\$ (507,792)</u>

For the net differences between projected and actual earnings on plan investments

	Recognized to Pension Expense
2016	\$ 128,176
2017	128,176
2018	128,176
2019	<u>(215,744)</u>
Total	<u>\$ 168,782</u>

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
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Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plan in the Public Employees' Retirement Fund (PERF). The stress test results are presented in the detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stake holder outreach. For these reason, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least fiscal year 2017/2018. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –

The following presents the City's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 7,154,829
Current Discount Rate	7.65%
Net Pension Liability	\$ 4,266,268
1% Increase	8.65%
Net Pension Liability	\$ 1,881,425

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 8 - NET POSITION

A. Net Investment in Capital Assets

As of June 30, 2016, the net investment in capital assets consisted of the following:

Capital assets, net	\$ 122,440,335
2011 general obligation library bonds	(10,060,000)
Net original issue premium	(350,278)
Net investment in capital assets	<u>\$ 112,030,057</u>

B. Restricted Net Position

As of June 30, 2016, the restricted net position consisted of the following:

	<u>Restricted For</u>			<u>Total</u>
	<u>Environmental Services</u>	<u>Special Assessments</u>	<u>Debt Service</u>	
Restricted Net Position	<u>\$ 313,182</u>	<u>\$ 1,005,791</u>	<u>\$ 922,952</u>	<u>\$ 2,241,925</u>

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
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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 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.

The Silicon Valley Clean Energy Authority (SVCEA) consists of various Silicon Valley agencies formed to address climate change by reducing energy related greenhouse gas emissions and securing energy supply and price stability, energy efficiencies and local economic benefits.

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 was no excess of expenditures over appropriations in individual funds during fiscal year 2015/16.

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.

CITY OF SARATOGA
NOTES TO FINANCIAL STATEMENTS
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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.

C. Commitments

The City had several outstanding contracts or planned construction projects as of June 30, 2016. These projects are evidenced by contractual commitments with contractors and include:

<u>Vendor</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>
Guerra Construction Group	\$ 1,203,867	\$ 143,234
Mark Thomas & Company	397,462	75,658
Amland Corporation	315,200	24,400
Belleci & Associates	291,230	155,723
Heid, W. Jeffrey	27,290	6,888
O'Brien Code Consulting	25,000	3,416
Sungard Public Sector	14,200	13,413
Quality Striping, Inc	10,762	2,678
Metropolitan Planning Group	9,768	3,271
Bear Electrical	5,000	5,000
Labor Consultants	4,375	4,375
	<u>\$ 2,304,154</u>	<u>\$ 438,055</u>

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 as of June 30, 2016.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 - BUDGETARY INFORMATION

The following is the budget comparison schedules for General Fund.

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 10,475,350	\$ 10,475,350	\$ 11,301,176	\$ 825,826
Sales taxes	1,060,000	1,060,000	1,189,398	129,398
Other local taxes	885,000	885,000	897,761	12,761
Licenses & permits	1,446,300	1,446,300	1,524,679	78,379
Fines & forfeitures	141,025	141,025	176,740	35,715
Intergovernmental - state	409,500	409,500	472,800	63,300
Intergovernmental - other	37,000	79,042	74,275	(4,767)
Franchise fees	2,020,000	2,020,000	2,068,401	48,401
Use of money & property	528,602	528,602	606,917	78,315
Other revenue	2,171,849	2,171,849	2,470,448	298,599
Total revenues	<u>19,174,626</u>	<u>19,216,668</u>	<u>20,782,595</u>	<u>1,565,927</u>
EXPENDITURES:				
Current:				
General and intergovernmental services	4,378,151	4,554,753	4,246,424	308,329
Public safety	5,230,431	5,230,431	5,225,854	4,577
Public works	5,101,613	5,323,613	5,239,053	84,560
Community services	1,586,948	1,586,948	1,474,775	112,173
Community development services	2,300,507	2,350,507	2,192,860	157,647
Capital outlay	-	-	-	-
Total expenditures	<u>18,597,650</u>	<u>19,046,252</u>	<u>18,378,966</u>	<u>667,286</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>576,976</u>	<u>170,416</u>	<u>2,403,629</u>	<u>2,233,213</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	267,918	267,918
Transfers out	<u>(1,902,656)</u>	<u>(1,837,656)</u>	<u>(1,837,656)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,902,656)</u>	<u>(1,837,656)</u>	<u>(1,569,738)</u>	<u>267,918</u>
Net change in fund balances	<u>\$ (1,325,680)</u>	<u>\$ (1,667,240)</u>	<u>833,891</u>	<u>\$ 2,501,131</u>
FUND BALANCES:				
Beginning of year			<u>9,806,731</u>	
End of year			<u>\$ 10,640,622</u>	

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016**

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 17, 2014. 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 141.1 centerline miles of paved surfaces. The City's road system can be grouped by function class and includes 24.2 centerline miles of arterial, 23.2 centerline miles of collector, and 93.7 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 the fall of 2013.

**CITY OF SARATOGA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

The following conditions were defined:

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

The City's policy is to achieve an average rating of 70 for all streets, which is a very good rating. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. As of June 30, 2015, the City's street system was rated at a PCI index of 69 on average with the detail condition as follows:

<u>Condition</u>	<u>Percent of Streets</u>
Excellent	0%
Very Good	58%
Good	23%
Poor	16%
Very Poor	3%

The City expended \$1,397,415 on street maintenance for the year ended June 30, 2016. These projects include resurfacing, safety improvements, sidewalks, curbs and gutters, storm drain improvements, beautification projects, and various other routine maintenance projects help to delay deterioration and beautify the City's roadway system. Council policy requires a minimum of \$1,000,000 be budgeted for the CIP Streets program on an annual basis. \$10,164,614 is budgeted for various projects in the five-year CIP cycle for fiscal year 2015/16.

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:

<u>Fiscal Year</u>	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Funded By</u>		<u>Total Funded</u>	<u>PCI Index</u>
			<u>Other Sources</u>	<u>Gas Tax Fund</u>		
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
2013/14	11,191,684	2,079,413	1,651,156	428,256	2,079,413	69
2014/15	10,799,852	2,261,620	1,275,681	985,939	2,261,620	69
2015/16	11,176,888	1,397,415	1,001,104	396,311	1,397,415	69

**CITY OF SARATOGA
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2016**

As of June 2016, approximately 19 percent of the City's streets were rated below the average standard of "Good." 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 (2014-2018) will amount to approximately \$15,400,000 for all streets and are expected to be rehabilitated with a minimum annual budget of \$1,000,000.

NOTE 3 – PENSION INFORMATION

	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 3,904,479	\$ 548,895
Contributions in Relation to Actuarially Determined Contributions	3,904,479	548,895
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll	\$ 6,335,330	\$ 4,856,304
Contributions as a Percentage of Covered Payroll	61.63%	11.30%

Notes to Schedule:

Valuation Date: June 30, 2014
 Assumptions Used: Entry Age Method used for Actuarial Cost Method
 Level Percentage of Payroll (Closed) Used Amortization Method
 3.8 Years Remaining Amortization Period
 Inflation Assumed at 2.75%
 Investment Rate of Returns set at 7.5%
 CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

	2016	2015
City's Proportion of Net Pension Liability	0.15551%	0.28104%
City's Proportionate Share of Net Pension Liability	\$ 4,266,268	\$ 6,945,916
City's Covered Employee Payroll	\$ 6,335,330	\$ 4,856,304
City's Proportionate Share of NPL as a % of Covered Employee Payroll	67.34%	143.03%
Plan's Fiduciary Net Position as a % of the TPL	78.40%	83.03%

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.



SUPPLEMENTARY INFORMATION

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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 28 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 refunded 2011 Library Improvement Bond.

**CITY OF SARATOGA
 COMBINING BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2016**

	Special Revenue	Debt Service	
	Lighting and Landscaping Assessment District	Library Bond	Total Other Governmental Funds
ASSETS			
Cash and investments	\$ 1,027,868	\$ 918,860	\$ 1,946,728
Receivables:			
Accounts	1,064	4,092	5,156
Interest	-	-	-
Total assets	<u>\$ 1,028,932</u>	<u>\$ 922,952</u>	<u>\$ 1,951,884</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 23,141	\$ -	\$ 23,141
Total liabilities	<u>23,141</u>	<u>-</u>	<u>23,141</u>
Fund Balances:			
Restricted:			
Special revenue funds	1,005,791	-	1,005,791
Debt service	-	922,952	922,952
Total fund balances	<u>1,005,791</u>	<u>922,952</u>	<u>1,928,743</u>
Total liabilities and fund balances	<u>\$ 1,028,932</u>	<u>\$ 922,952</u>	<u>\$ 1,951,884</u>

**CITY OF SARATOGA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue	Debt Service	Total Other Governmental Funds
	Lighting and Landscaping Assessment District	Library Bond	
REVENUES:			
Property taxes	\$ 248,037	\$ -	\$ 248,037
Special assessment	322,693	898,820	1,221,513
Use of money and property	4,097	2,542	6,639
Other revenue	25,000	-	25,000
Total revenues	<u>599,827</u>	<u>901,362</u>	<u>1,501,189</u>
EXPENDITURES:			
Current:			
General and ingov't services			
Public works	461,679	-	461,679
Debt service:			
Principal	-	500,000	500,000
Interest and fiscal charges	-	385,010	385,010
Total expenditures	<u>461,679</u>	<u>885,010</u>	<u>1,346,689</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>138,148.09</u>	<u>16,352</u>	<u>154,500</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	138,148	16,352	154,500
FUND BALANCES:			
Beginning of year	867,643	906,600	1,774,243
End of year	<u>\$ 1,005,791</u>	<u>\$ 922,952</u>	<u>\$ 1,928,743</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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses & permits	\$ 318,645	\$ 318,645	\$ 691,245	\$ 372,600
Fines & forfeitures	-	-	70,850	70,850
Intergovernmental - federal	6,198,460	6,552,580	158,090	(6,394,490)
Intergovernmental - state	705,470	705,470	708,773	3,303
Intergovernmental - other	876,293	958,864	2,045	(956,819)
Use of money and property	35,000	35,000	33,326	(1,674)
Other revenue	372,057	372,057	213,940	(158,117)
Total revenues	8,505,925	8,942,616	1,878,269	(7,064,347)
EXPENDITURES:				
Capital outlay	14,128,492	14,638,434	2,590,721	12,047,713
Total expenditures	14,128,492	14,638,434	2,590,721	12,047,713
REVENUES OVER (UNDER) EXPENDITURES				
	(5,622,567)	(5,695,818)	(712,452)	4,983,366
OTHER FINANCING SOURCES (USES):				
Transfers in	2,291,370	2,163,232	3,312,293	1,149,061
Transfers out	(388,714)	(145,576)	(1,742,555)	(1,596,979)
Total other financing sources (uses)	1,902,656	2,017,656	1,569,738	(447,918)
Net change in fund balances	\$ (3,719,911)	\$ (3,678,162)	857,286	\$ 4,535,448
FUND BALANCES:				
Beginning of year			3,858,777	
End of year			<u>\$ 4,716,064</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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 219,897	\$ 219,897	\$ 248,037	\$ 28,140
Special assessments	364,111	364,111	322,693	(41,418)
Use of money and property	1,859	1,859	4,097	2,238
Other revenue	-	-	25,000	25,000
Total revenues	<u>585,867</u>	<u>585,867</u>	<u>599,827</u>	<u>13,960</u>
EXPENDITURES:				
Current:				
Public works	<u>650,800</u>	<u>650,800</u>	<u>461,679</u>	<u>189,121</u>
Total expenditures	<u>650,800</u>	<u>650,800</u>	<u>461,679</u>	<u>189,121</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(64,933)</u>	<u>(64,933)</u>	<u>138,148</u>	<u>203,081</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (64,933)</u>	<u>\$ (64,933)</u>	<u>138,148</u>	<u>\$ 203,081</u>
FUND BALANCES:				
Beginning of year			<u>867,642</u>	
End of year			<u>\$ 1,005,791</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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$ 845,000	\$ 845,000	\$ 898,820	\$ 53,820
Use of money and property	1,300	1,300	2,542	1,242
Total revenues	<u>846,300</u>	<u>846,300</u>	<u>901,362</u>	<u>55,062</u>
EXPENDITURES:				
Debt service:				
General and ingov't services				
Principal	500,000	500,000	500,000	-
Interest and fiscal charges	385,085	385,085	385,010	75
Total expenditures	<u>885,085</u>	<u>885,085</u>	<u>885,010</u>	<u>75</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(38,785)</u>	<u>(38,785)</u>	<u>16,352</u>	<u>55,137</u>
Net change in fund balances	<u>\$ (38,785)</u>	<u>\$ (38,785)</u>	<u>16,352</u>	<u>\$ 55,137</u>
FUND BALANCES:				
Beginning of year			906,600	
End of year			<u>\$ 922,952</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.

Facility Furniture, Fixtures & Equipment Replacement Fund – Established to accumulate funding for the replacement furniture, fixtures and equipment within city facilities. Replacement costs are charged to programs based on that program's share of asset use over the asset's lifespan, reflective of usage.

**CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2016**

	Liability / Risk Management	Workers' Compensation	Office Stores	Information Technology Services
ASSETS				
Current assets:				
Cash and investments	\$ 437,887	\$ 304,687	\$ 97,083	\$ 286,885
Accounts receivable	529	402	-	515
Total current assets	<u>438,417</u>	<u>305,089</u>	<u>97,083</u>	<u>287,400</u>
Noncurrent assets:				
Capital assets:				
Machinery and equipment	-	-	-	-
Less: accumulated depreciation	-	-	-	-
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>438,416.85</u>	<u>305,089.00</u>	<u>97,083</u>	<u>287,400</u>
LIABILITIES				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 543	\$ -	\$ 911	\$ 4,695
Accrued payroll	2,424	688	-	8,482
Claims payable	58,963	-	-	-
Total current liabilities	<u>61,930.39</u>	<u>688</u>	<u>911</u>	<u>13,177</u>
NET POSITION				
Investment in capital assets	-	-	-	-
Unrestricted	376,486	304,401	96,172	274,223
Total net position	<u>\$ 376,486</u>	<u>\$ 304,401</u>	<u>\$ 96,172</u>	<u>\$ 274,223</u>

<u>Vehicle and Equipment Maintenance</u>	<u>Building Maintenance</u>	<u>Vehicle and Equipment Replacement</u>	<u>Information Technology Equipment Replacement</u>	<u>Building Furniture & Fixtures Replacement</u>	<u>Total</u>
\$ 171,823	\$ 406,832	\$ 626,785	\$ 281,036	\$ 339,222	\$ 2,952,241
-	787	-	-	-	2,234
<u>171,823</u>	<u>407,619</u>	<u>626,785</u>	<u>281,036</u>	<u>339,222</u>	<u>2,954,474</u>
-	-	962,948	110,465	-	1,073,414
-	-	(661,897)	(100,353)	-	(762,249)
-	-	301,052	10,113	-	311,164
<u>171,823.09</u>	<u>407,619</u>	<u>927,836.27</u>	<u>291,148.93</u>	<u>339,222</u>	<u>3,265,639</u>
\$ 3,338	\$ 26,948	\$ 15,077	\$ 6,698.00	\$ -	\$ 58,210
2,535	9,956	-	-	-	24,086
-	-	-	-	-	58,963
<u>5,873.25</u>	<u>36,904</u>	<u>15,077</u>	<u>6,698.00</u>	<u>-</u>	<u>141,259</u>
-	-	301,052	10,113	-	311,164
<u>165,950</u>	<u>370,715</u>	<u>611,708</u>	<u>274,338</u>	<u>339,222</u>	<u>2,813,215</u>
<u>\$ 165,950</u>	<u>\$ 370,715</u>	<u>\$ 912,760</u>	<u>\$ 284,451</u>	<u>\$ 339,222</u>	<u>\$ 3,124,379</u>

**CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	Liability / Risk Management	Workers' Compensation	Office Stores	Information Technology Services
Operating revenues:				
Charges for services	\$ 325,001	\$ 175,000	\$ 55,000	\$ 475,000
Other operating revenues	18,807	10,000	10,703	6,485
Total operating revenues	<u>343,808.39</u>	<u>185,000</u>	<u>65,703</u>	<u>481,485</u>
Operating expenses:				
Cost of services	258,585	195,125	44,606	467,584
Administration	-	-	-	-
Depreciation	-	-	-	-
Total operating expenses	<u>258,585</u>	<u>195,125</u>	<u>44,606</u>	<u>467,584</u>
Operating income	<u>85,223</u>	<u>(10,125)</u>	<u>21,097</u>	<u>13,901</u>
Transfers in	-	-	-	-
Change in net position	85,223	(10,125)	21,097	13,901
Total net position - beginning	<u>291,263</u>	<u>314,526</u>	<u>75,075</u>	<u>260,322</u>
Total net position - ending	<u>\$ 376,486.46</u>	<u>\$ 304,401</u>	<u>\$ 96,171.64</u>	<u>\$ 274,222.66</u>

<u>Vehicle and Equipment Maintenance</u>	<u>Building Maintenance</u>	<u>Vehicle and Equipment Replacement</u>	<u>Information Technology Equipment Replacement</u>	<u>Building Furniture & Fixtures Replacement</u>	<u>Total</u>
\$ 275,003	\$ 900,001	\$ 140,831	\$ 125,000	\$ 380,000	\$ 2,850,836
-	6,439	22,734	-	-	75,168
<u>275,003</u>	<u>906,440</u>	<u>163,565</u>	<u>125,000</u>	<u>380,000</u>	<u>2,926,004</u>
224,618	804,050	7,705	44,762	40,778	2,087,814
-	-	-	-	-	-
-	-	74,339	4,045	-	78,384
<u>224,618</u>	<u>804,050</u>	<u>82,044</u>	<u>48,807</u>	<u>40,778</u>	<u>2,166,198</u>
<u>50,385</u>	<u>102,389.75</u>	<u>81,521</u>	<u>76,193</u>	<u>339,222</u>	<u>759,806</u>
-	-	-	-	-	-
50,385	102,390	81,521	76,193	339,222	759,806
115,565	268,326	831,239	208,258.30	-	2,364,574
<u>\$ 165,950</u>	<u>\$ 370,715.38</u>	<u>\$ 912,760</u>	<u>\$ 284,450.93</u>	<u>\$ 339,222</u>	<u>\$ 3,124,379</u>

**CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

	Liability / Risk Management	Workers' Compensation	Office Stores	Information Technology Services
Cash flows from operating activities:				
Receipts from customers and users	\$ 343,279	\$ 185,744	\$ 66,108	\$ 481,566
Payments to suppliers	(254,528)	(165,837)	(44,445)	(223,044)
Payments to employees	(78,222)	(29,362)	-	(242,065)
Net cash provided by operating activities	<u>10,529</u>	<u>(9,455)</u>	<u>21,663</u>	<u>16,457</u>
Cash flows from capital activities:				
Acquisition of capital assets	-	-	-	-
Net cash used for acquisition of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	10,529	(9,455)	21,663	16,457
Cash and cash equivalents, beginning of year	427,358	314,142	75,420	270,427
Cash and cash equivalents, ending of year	<u>\$ 437,887</u>	<u>\$ 304,687</u>	<u>\$ 97,083</u>	<u>\$ 286,885</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 85,223	\$ (10,125)	\$ 21,097	\$ 13,901
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	-	-
Other receipts	-	-	-	-
Change in operating assets and liabilities:				
Accounts receivables	(529)	744	405	81
Accounts payable	531	-	161	251
Claims payable	(75,291)	-	-	-
Accrued payroll	595.39	(74)	-	2,225
Net cash provided (used) by operating activities	<u>\$ 10,529</u>	<u>\$ (9,455)</u>	<u>\$ 21,663</u>	<u>\$ 16,457</u>

Vehicle and Equipment Maintenance	Building Maintenance	Vehicle and Equipment Replacement	Information Technology Equipment Replacement	Building Furniture & Fixtures Replacement	Total
\$ 275,051	\$ 907,154	\$ 140,831	\$ 125,000	\$ 380,000	\$ 2,904,733
(142,677)	(390,302)	7,372	(47,995)	(40,778)	(1,302,233)
(80,793)	(414,984)	-	-	-	(845,426)
<u>51,581</u>	<u>101,868</u>	<u>148,203</u>	<u>77,005</u>	<u>339,222</u>	<u>757,074</u>
-	-	(170,916)	-	-	(170,916)
-	-	(170,916)	-	-	(170,916)
51,581	101,868	(22,713)	77,005	339,222	586,159
120,242	304,964	649,498	204,032	-	2,366,082
<u>\$ 171,823</u>	<u>\$ 406,832</u>	<u>\$ 626,785</u>	<u>\$ 281,036</u>	<u>\$ 339,222</u>	<u>\$ 2,952,241</u>
\$ 50,385	\$ 102,390	\$ 81,521	\$ 76,193	\$ 339,222	\$ 759,806
-	-	74,339	4,045	-	78,384
-	-	(22,734)	-	-	(22,734)
48	715	-	-	-	1,464
473	(2,147)	15,077	(3,233)	-	11,113
674	-	-	-	-	(74,616)
-	911	-	-	-	3,657
<u>\$ 51,581</u>	<u>\$ 101,868</u>	<u>\$ 148,203</u>	<u>\$ 77,005</u>	<u>\$ 339,222</u>	<u>\$ 757,074</u>

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

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**CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Governmental Funds Capital Assets:		
Land and land improvements	\$ 15,591,925	\$ 14,885,401
Buildings and structures	25,986,754	25,911,869
Machinery and equipment	1,954,696	1,587,454
Infrastructure	107,491,009	107,491,010
Construction in progress	<u>7,495,955</u>	<u>7,356,045</u>
Total Governmental Funds Capital Assets	158,520,339	157,231,779
Accumulated depreciation	<u>(36,391,170)</u>	<u>(34,403,138)</u>
Total Governmental Funds Capital Assets, Net	<u><u>\$ 122,129,168</u></u>	<u><u>\$ 122,828,641</u></u>
Investments in Governmental Funds		
Capital Assets by Source:		
General Fund	\$ 115,212,479	\$ 115,212,479
Special revenue funds	960,970	960,970
Capital projects funds	41,499,541	40,210,981
Donations	847,348	847,348
Accumulated depreciation	<u>(36,391,170)</u>	<u>(34,403,138)</u>
Total Governmental Funds Capital Assets	<u><u>\$ 122,129,168</u></u>	<u><u>\$ 122,828,641</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, 2016

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	835,155	62,921
Parks/open space	<u>4,718,585</u>	<u>2,971,928</u>
Total Public Works:	<u>5,553,740</u>	<u>3,034,848</u>
Community services	8,177,537	4,412,660
Community development services	<u>1,742,464</u>	<u>14,314,899</u>
Total Governmental Funds Capital Assets	15,591,925	25,986,754
Accumulated depreciation	<u>-</u>	<u>(9,362,499)</u>
Total Governmental Funds Capital Assets, Net	<u>\$ 15,591,925</u>	<u>\$ 16,624,255</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
\$ 624,241	\$ -	\$ 474,222	\$ 1,663,095
140,332	-	-	661,405
22,225	-	-	3,279,050
<u>786,798</u>	<u>-</u>	<u>474,222</u>	<u>5,603,551</u>
15,434	-	-	15,434
7,548	-	-	7,548
<u>22,982</u>	<u>-</u>	<u>-</u>	<u>22,982</u>
315,275	107,363,771	4,356,094	112,933,215
151,110	-	-	7,841,623
<u>466,385</u>	<u>107,363,771</u>	<u>4,356,094</u>	<u>120,774,838</u>
661,899	127,237	2,592,728	15,972,063
16,632	-	72,910	16,146,906
1,954,696	107,491,009	7,495,955	158,520,339
<u>(1,189,359)</u>	<u>(25,839,313)</u>	<u>-</u>	<u>(36,391,170)</u>
<u>\$ 765,338</u>	<u>\$ 81,651,696</u>	<u>\$ 7,495,955</u>	<u>\$ 122,129,168</u>

CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGE BY FUNCTION AND ACTIVITY
JUNE 30, 2016

Function and Activity	Governmental			Governmental
	Funds Capital Assets July 1, 2015	Additions	Deletions	Funds Capital Assets June 30, 2016
General and intergovernmental services:				
Management services	\$ 1,540,754	\$ 122,341	\$ -	\$ 1,663,095
Administrative services	661,405	-	-	661,405
Intergovernmental services	3,279,050	-	-	3,279,050
Total General and Intergovernmental Services:	5,481,209	122,341	-	5,603,550
Public safety:				
Police services	15,434	-	-	15,434
Code enforcement	7,548	-	-	7,548
Total Public Safety:	22,982	-	-	22,982
Public works:				
Streets and sidewalks	112,531,944	401,271	-	112,933,216
Parks/open space	7,264,519	706,524	(129,420)	7,841,623
Total Public Works:	119,796,464	1,107,795	(129,420)	120,774,838
Community services	15,784,220	371,393	(183,549)	15,972,063
Community development services	16,146,904	-	-	16,146,904
Total Governmental Funds Capital Assets	157,231,779	1,601,529	(312,969)	158,520,338
Accumulated depreciation	(34,403,138)	(1,988,032)	-	(36,391,170)
Total Governmental Funds Capital Assets, Net	\$ 122,828,641	\$ (386,503)	\$ (312,969)	\$ 122,129,168

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

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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.	112-117
Revenue Capacity	
These schedules contain information to help the reader assess the government's most significant local revenue source; property tax.	118-127
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.	128-134
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.	135-136
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.	138-143

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.

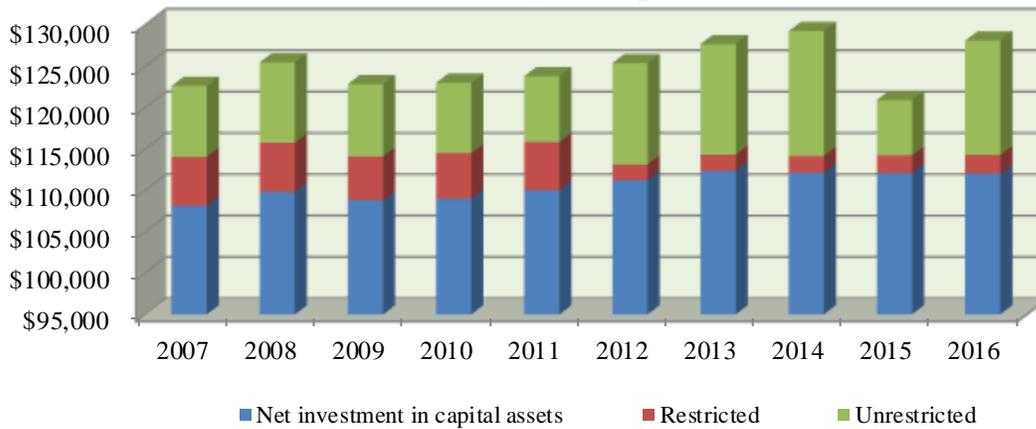
The City of Saratoga implemented GASB Statement No. 44 in fiscal year 2007/08; newly required schedules presenting information in the Statistical Section include the earliest available information.

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

(amounts expressed in thousands)

	Fiscal Year			
	2007	2008	2009	2010
Primary government				
Governmental activities				
Net investment in capital assets	\$ 108,102	\$ 109,818	\$ 108,818	\$ 108,966
Restricted	5,928	5,940	5,281	5,519
Unrestricted	8,593	9,710	8,759	8,533
Total primary government	<u>\$ 122,623</u>	<u>\$ 125,468</u>	<u>\$ 122,858</u>	<u>\$ 123,018</u>

Net Position by Component



Source: CAFR

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 110,016	\$ 111,201	\$ 112,353	\$ 112,116	\$ 112,092	\$ 112,030
5,830	1,938	1,971	2,045	2,138	2,242
7,964	12,248	13,357	15,095	6,691	13,837
<u>\$ 123,810</u>	<u>\$ 125,387</u>	<u>\$ 127,681</u>	<u>\$ 129,256</u>	<u>\$ 120,921</u>	<u>\$ 128,109</u>

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

(amounts expressed in thousands)

	Fiscal Year			
	2007	2008	2009	2010
Expenses:				
Governmental activities:				
General and intergovernmental services	\$ 4,532	\$ 6,293	\$ 5,595	\$ 3,729
Public safety	3,844	4,166	4,211	4,339
Public works	6,425	5,325	7,643	6,535
Community services	1,437	1,286	1,634	1,711
Community development services	1,993	2,032	2,000	1,751
Interest on long-term debt (unallocated)	768	714	697	677
Total governmental activities expenses	18,999	19,816	21,780	18,742
Program revenues:				
Charges for services:				
General and intergovernmental services	452	1,787	133	125
Public safety	-	411	520	425
Public works	528	1,705	2,379	2,535
Community services	604	911	935	917
Community development services	1,328	2,110	1,802	1,586
Operating grants and contributions	2,155	151	228	275
Capital grants and contributions	1,282	1,715	339	674
Total governmental activities program revenue	6,349	8,790	6,336	6,537
Net (expense) revenue and change in net assets	(12,650)	(11,026)	(15,444)	(12,205)
General revenue and other changes in net assets				
Taxes:				
Property taxes	5,772	8,099	8,336	8,371
Sales taxes	995	1,058	1,043	955
Local taxes	1,099	694	663	560
Franchise taxes	1,187	1,625	1,657	1,664
Motor vehicle in-lieu	177	149	116	101
Total Taxes	9,230	11,625	11,815	11,651
Intergovernmental	673	841	474	522
Investment earnings	2,813	1,057	397	101
Other revenues	132	348	148	91
Total general revenues	12,848	13,871	12,834	12,365
Change in net position	198	2,845	(2,610)	160
Net position - beginning of year	122,425	122,623	125,468	122,858
GASB 68 adjustment	-	-	-	-
Net position - beginning of year, as adjusted	122,425	122,623	125,468	122,858
Net position - end of year	\$ 122,623	\$ 125,468	\$ 122,858	\$ 123,018

Source: CAFR

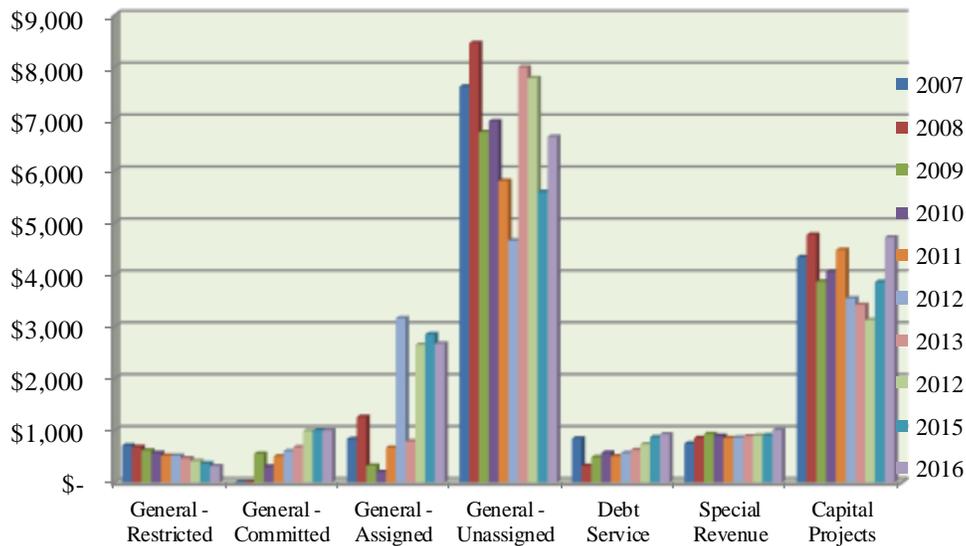
	2011	2012	2013	2014	2015	2016
\$	4,368	\$ 3,486	\$ 4,143	\$ 4,522	\$ 7,566	\$ 5,143
	4,457	4,300	4,382	4,491	4,850	4,787
	6,645	9,121	6,922	7,379	6,273	6,181
	1,846	1,996	1,804	1,586	1,589	1,582
	1,839	1,553	1,713	2,179	1,962	2,012
	656	453	410	400	391	381
	<u>19,811</u>	<u>20,909</u>	<u>19,374</u>	<u>20,557</u>	<u>22,631</u>	<u>20,086</u>
	171	140	102	120	122	98
	561	594	607	330	354	310
	2,771	2,079	3,316	2,768	2,474	3,004
	1,020	890	946	958	952	1,114
	1,734	1,923	2,184	2,220	2,234	2,397
	401	1,319	75	117	107	165
	1,221	2,337	599	808	785	183
	<u>7,879</u>	<u>9,282</u>	<u>7,829</u>	<u>7,321</u>	<u>7,028</u>	<u>7,271</u>
	<u>(11,932)</u>	<u>(11,627)</u>	<u>(11,545)</u>	<u>(13,236)</u>	<u>(15,603)</u>	<u>(12,815)</u>
	8,199	8,457	9,153	9,737	10,669	11,549
	991	1,101	1,051	941	1,224	1,189
	632	683	769	822	866	898
	1,821	1,852	1,920	1,949	2,070	2,069
	146	16	16	14	13	12
	<u>11,789</u>	<u>12,109</u>	<u>12,909</u>	<u>13,463</u>	<u>14,842</u>	<u>15,717</u>
	773	910	766	981	1,023	718
	65	67	51	62	67	101
	97	118	113	305	237	273
	<u>12,724</u>	<u>13,204</u>	<u>13,839</u>	<u>14,811</u>	<u>16,169</u>	<u>16,809</u>
	792	1,577	2,294	1,575	566	3,994
	123,018	123,810	125,387	127,681	129,256	120,921
	-	-	-	-	(8,901)	3,193
	<u>123,018</u>	<u>123,810</u>	<u>125,387</u>	<u>127,681</u>	<u>120,355</u>	<u>124,114</u>
\$	<u><u>123,810</u></u>	<u><u>125,387</u></u>	<u><u>127,681</u></u>	<u><u>129,256</u></u>	<u><u>120,921</u></u>	<u><u>128,109</u></u>

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

(amounts expressed in thousands)

	Fiscal Year		
	2007	2008	2009
General fund:			
Restricted	\$ 711	\$ 679	\$ 613
Committed	-	-	550
Assigned	831	1,258	322
Unassigned	7,619	8,459	6,744
Total general fund	<u>\$ 9,161</u>	<u>\$ 10,396</u>	<u>\$ 8,229</u>
All other governmental funds:			
Restricted			
Special revenue funds	\$ 844	\$ 318	\$ 484
Debt service	746	854	931
Committed			
Capital project funds	4,338	4,768	3,866
Total all other governmental funds	<u>\$ 5,928</u>	<u>\$ 5,940</u>	<u>\$ 5,281</u>

Fund Balances of Governmental Funds



Source: CAFR

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

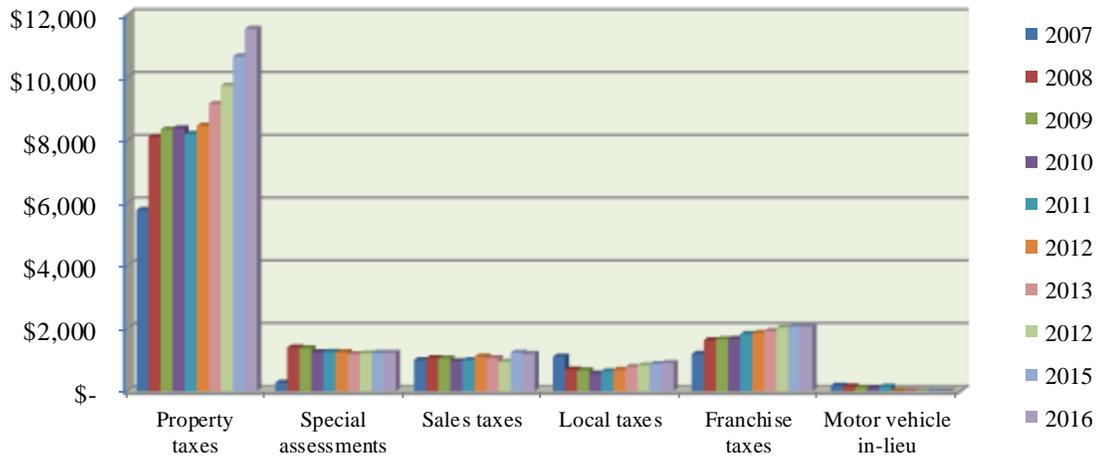
2010	2011	2012	2013	2014	2015	2016
\$ 563	\$ 513	\$ 513	\$ 463	\$ 413	\$ 363	\$ 313
300	500	600	675	993	1,000	1,000
196	667	3,161	792	2,648	2,854	2,672
6,952	5,804	4,655	7,989	7,782	5,589	6,655
<u>\$ 8,011</u>	<u>\$ 7,484</u>	<u>\$ 8,929</u>	<u>\$ 9,919</u>	<u>\$ 11,836</u>	<u>\$ 9,806</u>	<u>\$ 10,640</u>
\$ 569	\$ 504	\$ 563	\$ 622	\$ 734	\$ 868	\$ 1,006
893	851	862	886	898	907	923
4,057	4,475	3,544	3,420	3,126	3,859	4,716
<u>\$ 5,519</u>	<u>\$ 5,830</u>	<u>\$ 4,969</u>	<u>\$ 4,928</u>	<u>\$ 4,758</u>	<u>\$ 5,634</u>	<u>\$ 6,645</u>

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

(amounts expressed in thousands)

	Fiscal Year			
	2007	2008	2009	2010
Tax revenues:				
Property taxes	\$ 5,772	\$ 8,099	\$ 8,336	\$ 8,371
Special assessments	271	1,392	1,368	1,247
Sales taxes	995	1,058	1,043	955
Local taxes	1,099	694	663	560
Franchise taxes	1,187	1,625	1,657	1,664
Motor vehicle in-lieu	177	149	116	101
Total tax revenues	\$ 9,501	\$ 13,017	\$ 13,183	\$ 12,898

Tax Revenues by Source



Source: CAFR

	2011	2012	2013	2014	2015	2016
\$	8,199	\$ 8,457	\$ 9,153	\$ 9,737	\$ 10,669	\$ 11,549
	1,255	1,243	1,185	1,207	1,220	1,222
	991	1,101	1,051	941	1,224	1,189
	632	683	769	822	866	898
	1,821	1,852	1,920	2,024	2,069	2,068
	146	16	16	14	13	12
\$	<u>13,044</u>	<u>\$ 13,352</u>	<u>\$ 14,094</u>	<u>\$ 14,745</u>	<u>\$ 16,061</u>	<u>\$ 16,938</u>

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

(amounts expressed in thousands)

	Fiscal Year			
	2007	2008	2009	2010
Revenues:				
Property taxes	\$ 4,758	\$ 7,877	\$ 8,335	\$ 8,371
Special assessments	1,285	1,566	1,368	1,247
Sales taxes	995	1,058	1,043	954
Other local taxes	1,126	773	663	560
Licenses and permits	1,340	1,671	1,460	1,489
Fines and forfeitures	396	344	360	359
Intergovernmental - federal	-	-	-	430
Intergovernmental - state	3,631	1,641	1,283	1,258
Intergovernmental - other	629	777	290	258
Franchise fees	1,187	1,622	1,657	1,664
Use of money any property	2,813	924	794	595
Other revenues	151	326	1,966	1,794
Current services charges	900	4,184	-	-
Total tax revenues	<u>19,211</u>	<u>22,763</u>	<u>19,219</u>	<u>18,979</u>
Expenditures:				
Current:				
General and intergovernmental services	3,806	4,083	3,330	3,102
Public safety	3,824	4,166	4,206	4,349
Public works	5,714	4,717	4,700	4,730
Community services	1,381	1,262	1,424	1,223
Community development services	1,962	2,026	2,450	2,111
Capital outlay	2,130	4,246	4,060	2,584
Debt service:				
Principal	280	295	310	330
Interest and fiscal charges	774	721	705	685
Total expenditures	<u>19,871</u>	<u>21,515</u>	<u>21,185</u>	<u>19,114</u>
Excess of revenues	(660)	1,248	(1,966)	(135)
Other financing sources (uses):				
Transfers in	3,422	2,241	2,043	1,172
Transfers out	(3,422)	(2,241)	(2,043)	(1,017)
Total other financing sources (uses)	-	-	-	155
Net change in fund balances	<u>\$ (660)</u>	<u>\$ 1,247</u>	<u>\$ (1,966)</u>	<u>\$ 20</u>
Debt as a percentage of noncapital expenditures	6.32%	6.25%	6.30%	6.54%

Source: CAFR

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

	2011	2012	2013	2014	2015	2016
\$	8,199	\$ 8,457	\$ 9,153	\$ 9,737	\$ 10,669	\$ 11,549
	1,255	1,243	1,185	1,207	1,220	1,222
	991	1,101	1,051	941	1,224	1,189
	632	683	769	823	866	898
	1,950	1,728	2,177	2,023	1,613	2,216
	285	234	199	196	175	248
	1,033	1,915	975	796	651	158
	1,480	1,728	1,142	1,410	1,538	1,182
	337	73	269	129	97	76
	1,821	1,852	1,920	1,949	2,070	2,068
	550	589	527	521	557	647
	2,169	2,199	2,421	2,547	2,589	2,709
	-	-	-	-	-	-
	<u>20,702</u>	<u>21,802</u>	<u>21,788</u>	<u>22,279</u>	<u>23,269</u>	<u>24,162</u>
	3,524	3,145	3,269	3,247	6,624	4,246
	4,467	4,310	4,392	4,491	4,860	5,226
	4,717	4,751	4,966	5,243	5,381	5,701
	1,322	1,269	1,318	1,383	1,328	1,475
	2,193	1,888	2,047	2,182	2,087	2,193
	3,704	5,179	3,979	3,096	3,253	2,591
	350	370	455	485	495	500
	665	551	414	405	395	385
	<u>20,942</u>	<u>21,463</u>	<u>20,840</u>	<u>20,532</u>	<u>24,423</u>	<u>22,316</u>
	(240)	339	948	1,747	(1,154)	1,846
	1,725	510	1,291	785	1,768	3,580
	(1,700)	(485)	(1,291)	(785)	(1,768)	(3,580)
	<u>25</u>	<u>245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$	<u>(215)</u>	<u>\$ 584</u>	<u>\$ 948</u>	<u>\$ 1,747</u>	<u>\$ (1,154)</u>	<u>\$ 1,846</u>
	6.26%	5.99%	5.43%	5.38%	4.39%	4.70%

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

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

	Fiscal Year			
	2007	2008	2009	2010
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	0.0096	0.0113	0.0104	0.0094
	<u>1.0508</u>	<u>1.0525</u>	<u>1.0516</u>	<u>1.0506</u>
Campbell School District	0.0508	0.0475	0.0524	0.0285
County Bond 2008 Hospital	0.0000	0.0000	0.0000	0.0122
Campbell Elementary 2002	0.0000	0.0000	0.0000	0.0267
Campbell Elementary 2010	0.0000	0.0000	0.0000	0.0000
Campbell Union High 1999	0.0198	0.0285	0.0299	0.0183
Campbell Union High 2006	0.0000	0.0000	0.0000	0.0131
Cupertino Elementary School District	0.0289	0.0337	0.0306	0.0000
Moreland Elementary School District	0.0556	0.0569	0.0565	0.0000
Saratoga School District	0.0351	0.0363	0.0363	0.0000
Campbell Union High School District	0.0198	0.0285	0.0299	0.0000
Fremont Union High School District	0.0243	0.0241	0.0339	0.0000
Los Gatos-Saratoga Joint Union High School District	0.0651	0.0345	0.0330	0.0000
Foothill-DeAnza Community College District	0.0346	0.0113	0.0123	0.0000
West Valley Community College District 2004	0.0126	0.0118	0.0032	0.0140
West Valley Community College District 2012	0.0000	0.0000	0.0000	0.0000
Mid Peninsula Open Space 2014	0.0000	0.0000	0.0000	0.0000
Saratoga Fire District	0.0049	0.0053	0.0053	0.0000
Santa Clara Valley Water District - State Water Project	0.0070	0.0067	0.0059	0.0071
Santa Clara Valley Water District - Zone W-1	0.0002	0.0040	0.0002	0.0003
	<u>0.3587</u>	<u>0.3291</u>	<u>0.3294</u>	<u>0.1202</u>
Total Tax Rate	<u><u>1.4095</u></u>	<u><u>1.3816</u></u>	<u><u>1.3810</u></u>	<u><u>1.1708</u></u>

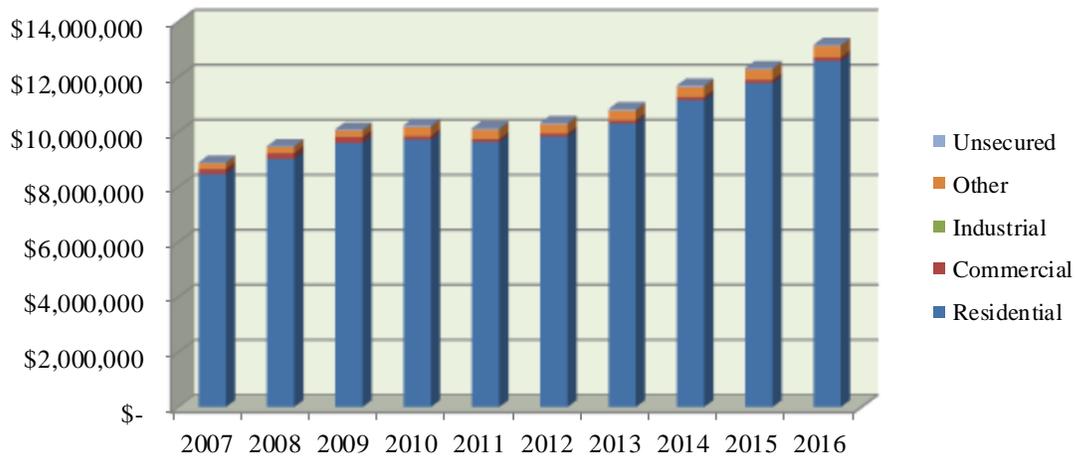
Source: Muniservices, LLC

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

(amounts expressed in thousands)

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Other Property	Unsecured Property	Total Assessed Property
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
2014	11,158,775	113,915	11,684	352,830	59,684	11,696,888
2015	11,775,973	117,466	11,737	361,202	56,354	12,322,732
2016	12,581,463	134,321	11,143	397,318	50,193	13,174,438

Total Assessed Property



Source: Santa Clara County Assessor data, MuniServices, LLC

Less:	Total Taxable	Total
Tax Exempt	Assessed	Direct
Real Property	Value	Tax
		Rate
(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
(238,683)	11,458,205	1.0486
(242,724)	12,080,008	1.0482
(232,693)	12,941,745	1.0477

**CITY OF SARATOGA
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO
 JUNE 30, 2016**

(amounts expressed in thousands)

Taxpayer	2016			2007		
	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value
SHP Saratoga II LLC	\$ 70,020	1	0.54%			
San Jose Water Works	20,687	2	0.16%	11,085	7	0.13%
Keller Trustee	14,765	3	0.11%			
Argonaut Associates, LLC	13,519	4	0.10%	9,904	10	0.11%
House Trustee	13,331	5	0.10%	11,423	6	0.13%
Stormin Norman, LLC	12,910	6	0.10%			
HJJ, LLC	12,677	7	0.10%			
Coyote Properties IV, LLC	11,379	8	0.09%	10,743	8	0.12%
Krishnamurthi Trustee	11,185	9	0.09%			
Public Storage, Inc.	10,115	10	0.08%			
Saratoga Office Center Partners				21,000	1	0.24%
Sobrato Trustee				18,799	2	0.22%
Quito Village Group, LLC				17,312	3	0.20%
Gregpenn Properties, LLC				15,137	4	0.17%
Montalvo Association				11,373	5	0.13%
Morrison Trustee				9,980	9	0.11%
Top Ten Total Assessed Value	<u>\$ 190,588</u>			<u>\$ 136,756</u>		
City Total Assessed Value	<u>\$ 12,941,745</u>			<u>\$ 8,698,807</u>		

Source: Santa Clara County Assessor data, MuniServices, LLC

**CITY OF SARATOGA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN 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
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%
2014	9,737,144	9,737,144	100.0%	-	9,737,144	100.0%
2015	10,669,281	10,669,281	100.0%	-	10,669,281	100.0%
2016	11,549,213	11,549,213	100.0%	-	11,549,213	100.0%

Source: City of Saratoga

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

(amounts expressed in thousands, except per capita amounts)

	Fiscal Year			
	2007	2008	2009	2010
Governmental activities				
General obligation bonds	\$ 13,890	\$ 13,595	\$ 13,285	\$ 12,955
Net original issue premium	-	-	-	-
Total primary government	<u>\$ 13,890</u>	<u>\$ 13,595</u>	<u>\$ 13,285</u>	<u>\$ 12,955</u>
Percentage of Personal Income ¹	0.75%	0.74%	0.76%	0.54%
Per capita ²	443	430	419	405

Source: CAFR

¹US Census Bureau, adjusted for inflation, MuniServices LLC

²Population information from California State Controller's Office

2011	2012	2013	2014	2015	2016
\$ 12,605	\$ 11,995	\$ 11,540	\$ 11,055	\$ 10,560	\$ 10,060
-	438	416	394	372	350
<u>\$ 12,605</u>	<u>\$ 12,433</u>	<u>\$ 11,956</u>	<u>\$ 11,449</u>	<u>\$ 10,932</u>	<u>\$ 10,410</u>
0.57%	0.57%	0.53%	0.49%	0.47%	0.45%
417	409	389	371	355	344

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

(amounts expressed in thousands, except per capita amounts)

	Fiscal Year			
	2007	2008	2009	2010
General obligation bonds	\$ 13,890	\$ 13,595	\$ 13,285	\$ 12,955
Net original issue premium	-	-	-	-
Less: Amount available in debt service fund	(747)	(854)	(926)	(890)
Total primary government	<u>\$ 13,143</u>	<u>\$ 12,741</u>	<u>\$ 12,359</u>	<u>\$ 12,065</u>
Percentage of actual taxable value of property	0.15%	0.14%	0.12%	0.12%
Per capita ¹	419	403	390	377

Source: CAFR

¹Population information from California State Controller's Office

2011	2012	2013	2014	2015	2016
\$ 12,605	\$ 11,995	\$ 11,540	\$ 11,055	\$ 10,560	\$ 10,060
-	438	416	394	372	350
(848)	(860)	(885)	(898)	(906)	(923)
<u>\$ 11,757</u>	<u>\$ 11,573</u>	<u>\$ 11,071</u>	<u>\$ 10,551</u>	<u>\$ 10,026</u>	<u>\$ 9,487</u>

0.12% 0.11% 0.10% 0.09% 0.08% 0.07%

389 381 361 342 326 314

CITY OF SARATOGA
LEGAL DEBT MARGIN INFORMATION
LAST TEN YEARS

(amounts expressed in thousands)

	Fiscal Year			
	2007	2008	2009	2010
Debt Limit	\$ 1,334,455	\$ 1,423,398	\$ 1,514,378	\$ 1,536,183
Total net debt applicable to limit	13,143	12,741	12,359	12,065
Legal debt margin	\$ 1,321,312	\$ 1,410,657	\$ 1,502,019	\$ 1,524,118
Total net debt applicable to the limit as a percentage of debt limit	0.98%	0.90%	0.82%	0.79%
Legal debt margin calculation				
Assessed value	\$ 8,755,510	\$ 9,329,953	\$ 9,934,362	\$ 10,011,093
Add back: exempt real property	140,859	159,369	161,488	230,127
Total assessed value	\$ 8,896,369	\$ 9,489,322	\$ 10,095,850	\$ 10,241,220
Debt limit (15% of total assessed value)	\$ 1,334,455	\$ 1,423,398	\$ 1,514,378	\$ 1,536,183
Debt applicable to limit:				
General obligation bonds	\$ 13,890	\$ 13,595	\$ 13,285	\$ 12,955
Net original issue premium	-	-	-	-
Less: Amount available in debt service fund	(747)	(854)	(926)	(890)
Total net debt applicable to limit	\$ 13,143	\$ 12,741	\$ 12,359	\$ 12,065
Legal debt margin	\$ 1,321,312	\$ 1,410,657	\$ 1,502,019	\$ 1,524,118

Source: CAFR

2011	2012	2013	2014	2015	2016
\$ 1,520,660	\$ 1,550,118	\$ 1,625,261	\$ 1,754,233	\$ 1,848,410	\$ 1,976,166
11,757	11,135	10,655	10,157	9,654	9,137
\$ 1,508,903	\$ 1,538,983	\$ 1,614,606	\$ 1,744,076	\$ 1,838,756	\$ 1,967,029
0.77%	0.72%	0.66%	0.58%	0.52%	0.46%
\$ 9,907,259	\$ 10,103,250	\$ 10,601,175	\$ 11,458,205	\$ 12,080,008	\$ 12,941,745
230,477	230,868	233,895	236,683	242,724	232,693
\$ 10,137,736	\$ 10,334,118	\$ 10,835,070	\$ 11,694,888	\$ 12,322,732	\$ 13,174,438
\$ 1,520,660	\$ 1,550,118	\$ 1,625,261	\$ 1,754,233	\$ 1,848,410	\$ 1,976,166
\$ 12,605	\$ 11,995	\$ 11,540	\$ 11,055	\$ 10,560	\$ 10,060
-	438	416	394	372	350
(848)	(860)	(885)	(898)	(906)	(923)
\$ 11,757	\$ 11,135	\$ 10,655	\$ 10,157	\$ 9,654	\$ 9,137
\$ 1,508,903	\$ 1,538,983	\$ 1,614,606	\$ 1,744,076	\$ 1,838,756	\$ 1,967,029

**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	\$ 10,060	100.000%	\$ 10,060
Total Direct Debt			<u>10,060</u>
Overlapping Tax and Assessment Debt:			
Santa Clara County	792,585	3.349%	26,544
Foothill-De Anza Community College District	584,782	1.537%	8,988
West Valley Community College District	419,930	9.864%	41,422
Campbell Union High School District	142,765	5.619%	8,022
Fremont Union High School District	365,975	3.420%	12,516
Los Gatos-Saratoga Joint Union High School District	70,320	39.303%	27,638
Campbell Union School District	165,271	6.812%	11,258
Cupertino Union School District	292,849	5.753%	16,848
Moreland School District	115,092	13.213%	15,207
Saratoga Union School District	33,775	86.504%	29,217
Saratoga Fire Protection District	3,333	97.598%	3,253
Midpeninsula Regional Open Space District	45,000	5.762%	2,593
Santa Clara Valley Water District Benefit Assessment	99,060	3.349%	3,318
Total Overlapping Tax and Assessment Debt			<u>206,824</u>
Overlapping General Fund Debt:			
Santa Clara County General Fund Obligations	\$ 683,441	3.349%	\$ 22,888
Santa Clara County Pension Obligations	367,118	3.349%	12,295
Santa Clara County Board of Education Certificates of Participation	6,380	3.349%	214
Santa Clara County Vector Control District Certificates of Participation	2,890	3.349%	97
Foothill-De Anza Community College District Certificates of Participation	9,723	1.537%	149
West Valley-Mission College District General Fund Obligations	64,180	9.864%	6,331
Campbell Union High School District Certificates of Participation	15,165	5.619%	852
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	6,260	39.303%	2,460
Campbell Union High School District Certificates of Participation	3,265	6.812%	222
Saratoga Union School District Certificates of Participation	4,600	86.504%	3,979
Midpeninsula Open Space Park District General Fund Obligations	122,306	5.762%	7,047
Total Overlapping General Fund Debt			<u>56,534</u>
Total Overlapping Tax & Assessment and General Fund Debt			<u>263,358</u>
Combined Total Debt ²			<u>\$ 273,418</u>

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

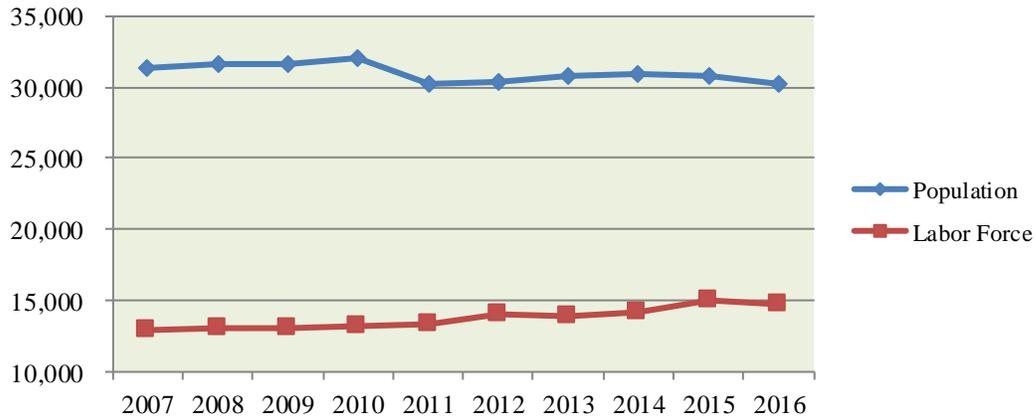
²Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: Muniservices, LLC

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

Fiscal Year	City Population ¹	Personal Income (in thousands) ²	Per Capita Personal Income ²	Labor Force ³	Unemployment Rate ³
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%
2014	30,887	2,243,458	72,634	14,200	3.4%
2015	30,799	2,248,481	73,005	15,100	2.7%
2016	30,219	2,239,926	74,123	14,700	2.9%

Labor Force vs. Population



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 NINE YEARS AGO AT JUNE 30, 2016**

Employer	2016			2007 ¹		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
West Valley Community College	408	1	2.78%	-		
Saratoga Retirement Community	290	2	1.97%	-		
Saratoga Union School District	240	3	1.63%	-		
Mountain Winery	238	4	1.62%	-		
Sub-Acute Saratoga Hospital	146	5	0.99%	-		
YMCA	130	6	0.88%	-		
Saratoga High School	124	7	0.84%	-		
Our Lady Fatima Villa	107	8	0.73%	-		
Prospect High School	100	9	0.68%	-		
Safeway	85	10	0.58%	65	2	0.50%
Gene's Fine Foods				85	1	0.66%
Saratoga Country Club				65	3	0.50%
24 Hour Fitness				30	4	0.23%
Windermere				27	5	0.21%
Longs Drugs				20	6	0.16%
Classic Car Wash				20	7	0.16%
Harmonie European Day Spa				20	8	0.16%
Hinshaw, Draa & Marsh				20	9	0.16%
Bella Saratoga				20	10	0.16%
Total City Employment ¹	14,700			12,900		

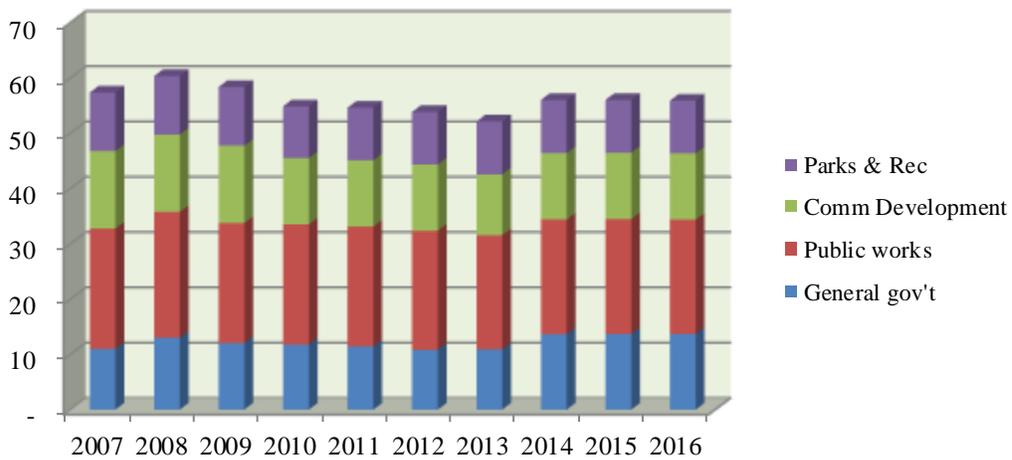
¹EDD Labor Market Information Division, MuniServices LLC

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

Function	Fiscal Year			
	2007	2008	2009	2010
General government	11.00	13.00	12.00	11.75
Public works	21.75	22.75	21.75	21.75
Community development	14.00	14.00	14.00	12.00
Parks and recreation	10.60	10.60	10.60	9.35
Total	57.35	60.35	58.35	54.85

Full-Time Equivalents



Source: City of Saratoga Budget Document

2011	2012	2013	2014	2015	2016
11.45	10.80	10.90	13.65	13.70	13.70
21.65	21.55	20.65	20.75	20.65	20.65
12.00	12.00	11.00	12.00	12.00	12.00
9.50	9.50	9.60	9.60	9.55	9.55
<u>54.60</u>	<u>53.85</u>	<u>52.15</u>	<u>56.00</u>	<u>55.90</u>	<u>55.90</u>

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

Function	Fiscal Year			
	2007	2008	2009	2010
Part 1 crimes ¹	425	381	282	173
Total incidents	39,663	41,243	41,384	39,942
Police reports	1,767	1,941	1,949	1,273
Public Works				
Street resurfacing (miles)	14	-	6	3
Street lights repaired	3	12	25	24
Potholes filled (sq. ft.)	5,000	7,000	10,000	10,000
Community Development				
Total permit valuation (\$000)	69,935	70,442	61,117	44,658
Parks and Recreation				
Classes, trips (enrollment) community events	4,817	4,782	4,698	4,366
Adult Exercise (e.g. JS Dance. Jazzerxcise)	285	362	515	545
Sports programs (e.g. Adult basketball, softball)	515	591	459	423
Preschool programs (enrollment)	159	225	171	161
Staffed Day/summer camps (enrollment)	205	242	225	331
Teen/youth council (enrollment)	2,221	94	419	2,110
Senior center (enrollment/attendance days)	18,515	17,826	16,325	16,533

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

2011	2012	2013	2014	2015	2016
373	287	277	408	315	463
41,642	35,664	40,141	41,228	40,695	39,213
1,549	1,329	1,106	978	917	1,334
-	6	6.2	4.3	2.5	15.2
25	41	29	34	39	33
11,000	10,000	12,060	11,000	10,500	21,010
50,936	59,675	79,896	79,702	89,929	75,599
6,135	5,479	5,365	6,235	8,390	5,898
661	647	1,663	2,173	1,650	2,099
-	-	-	-	-	-
142	132	188	274	186	180
326	-	45	160	90	172
1,323	787	605	673	747	848
14,640	15,221	12,269	12,941	10,786	10,063

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

Function	Fiscal Year			
	2007	2008	2009	2010
Public safety				
Police Station	-	-	-	-
Fire Station				
Saratoga Fire District	1	1	1	1
Central Fire District	1	1	1	1
Public Works				
Street Miles - Private	13	13	14	14
Street Miles - Public	137	137	140	140
West Valley Sanitation District				
Number of Connections	8,651	8,651	8,683	8,687
Length of Sewer Lines	127	127	127	127
Cupertino Valley Sanitation District				
Number of Connections	2,915	2,927	2,938	2,949
Length of Sewer Lines	36	36	37	37
Parks and Recreation				
Parks Acreage	81	81	84	84
Parks	15	15	15	15

Source: City of Saratoga various records

2011	2012	2013	2014	2015	2016
-	-	-	-	-	-
1	1	1	1	1	1
1	1	1	1	1	1
14	14	14	14.5	14.5	14.5
140	140	141	142	142	142
8,664	8,679	8,821	8,919	8,402	8,488
127	127	127	127	128	129
2,954	2,959	2,961	2,963	2,963	2,963
37	37	37	37	37	37
84	84	84	84	84	148
15	15	15	15	15	16