This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 21, 2011

NEW ISSUE — BOOK-ENTRY ONLY

RATINGS:
Moody's: Aaa
S&P: AAA
(See "RATINGS" herein)

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the City, under existing statutes, interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

$12,335,000*
CITY OF SARATOGA (SANTA CLARA COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2011
(SARATOGA COMMUNITY LIBRARY PROJECT)

Dated: Date of Delivery **Due: August 1, as shown below**

The City of Saratoga (Santa Clara County, California) General Obligation Refunding Bonds, Series 2011 (Saratoga Community Library Project) (the "Bonds"), are being issued by the City of Saratoga (the "City") pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Act"); and a resolution adopted by the City Council of the City (the "Council") on June 1, 2011 (the "Bond Resolution"). See "INTRODUCTION — Authority for Issuance of the Bonds." The proceeds of the Bonds are authorized to be used to refund all of the City of Saratoga (Santa Clara County, California) General Obligation Bonds, Series 2001 (Saratoga Community Library Project) (the "2001 Bonds") which were issued in the aggregate principal amount of $15,000,000. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

The Bonds will be dated and bear interest from their date of delivery at the rates shown below until paid in full. Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2012. The Bonds will be issuable as fully-registered bonds without coupons and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form through DTC participants and no physical delivery of Bonds will be made to purchasers, except as otherwise described herein. Payment of principal, premium, if any, and interest will be made by The Bank of New York Mellon Trust Company, N.A., as Paying Agent (the "Paying Agent") to DTC, which is obligated to remit such payments to its participants for subsequent disbursement to the Beneficial Owners of the Bonds. See APPENDIX C — "DTC AND THE BOOK-ENTRY SYSTEM" herein. The Bonds will be issuable in denominations of $5,000 or any integral multiple thereof.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS — Redemption of the Bonds."

The Bonds will be sold by competitive sale pursuant to the terms of the Notice Inviting Proposals dated June 21, 2011.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

MATURITY SCHEDULE*

(Base CUSIP Number: _______†)

Maturity Date (August 1)	Principal Amount*	Interest Rate	Price or Yield	CUSIP Suffix†	Maturity Date (August 1)	Principal Amount*	Interest Rate	Price or Yield	CUSIP Suffix†

The Bonds are offered when, as and if issued by the City and accepted by the initial purchasers, subject to the approval of validity by Hawkins Delafield & Wood LLP, Bond Counsel to the City, and certain other conditions. Certain legal matters will be passed upon for the City by Richard Taylor, Esq., Shute, Mihaly & Weinberger LLP, City Attorney. Hawkins Delafield & Wood LLP also served as Disclosure Counsel to the City. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about July 14, 2011.

Dated: ______, 2011.

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* *Preliminary, subject to change.*

† *CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. CUSIP numbers are provided for reference only. Neither the County nor the Financial Advisor takes any responsibility for the accuracy of such numbers.*

No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the City. Neither the delivery of this Official Statement nor any sale hereunder will under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

IN CONNECTION WITH THIS OFFERING, THE PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No representation is made that past experience, as it might be shown by financial and other information, will necessarily continue or be repeated in the future. See "FORWARD-LOOKING STATEMENTS" herein.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE PAYING AGENT AGREEMENT HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES COMMISSION OR ANY REGULATORY AUTHORITY OF ANY STATE, NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY OF ANY STATE PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Statements in this Official Statement are made as of the date hereof unless stated otherwise and neither the delivery of this Official Statement at any time, nor any sales thereunder, will under any circumstances create an implication that the information contained herein is correct as of any time subsequent to the date hereof.

In making an investment decision, investors must rely on their own examination of the security for the Bonds, the City and the terms of the offering, including the merits and risks involved. Prospective investors should not construe the contents of this Official Statement as legal, tax or investment advice.

NOTICE INVITING PROPOSALS

CITY OF SARATOGA
(SANTA CLARA COUNTY)

$ 12,335,000*
Series 2011 General Obligation Refunding Bonds

NOTICE IS HEREBY GIVEN that electronic bids only will be received through the Ipreo LLC's BiDCOMP™/PARITY® System ("Parity") by the City of Saratoga (the "City ") on

June 29, 2011, at 8:30 a.m. (Pacific time)

for the purchase of $ 12,335,000* principal amount of City of Saratoga Series 2011 General Obligation Refunding Bonds (the "Bonds"). No bid will be received after the time for receiving bids specified above. The par amount of Bonds to be sold and the amount of principal scheduled per maturity may change as described herein. The receipt of bids on June 29, 2011 may be postponed or canceled at or prior to the time bids are to be received. Notice of such postponement or cancellation and the new date and time for receipt of bids will be given through Parity, as soon as practicable. This Notice Inviting Proposals will be submitted to i-Deal LLC for posting at its website (www.i-dealprospectus.com) and in the Parity bid delivery system. To the extent any instructions or directions posted by i-Deal LLC or set forth in Parity conflict with this Notice Inviting Proposals, the terms of this Notice Inviting Proposals shall control. For further information about the Bonds, potential bidders may contact the Financial Advisor to the City: Sarah Hollenbeck at Public Financial Management, Inc., (415) 982-5544, e-mail: hollenbecks@pfm.com.

The City reserves the right, in its sole discretion, to modify or amend this Notice Inviting Proposals in any respect, including, without limitation, the right to adjust and change the principal amount of any maturity of the Bonds being offered; provided, that any such modification or amendment will be communicated to potential bidders through Parity not later than 1:00 p.m. (Pacific time) on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale. See "TERMS OF SALE—Right to Modify or Amend."

TERMS OF THE BONDS

THE AUTHORITY FOR ISSUANCE, PURPOSE, PRINCIPAL AND INTEREST REPAYMENT, SECURITY, AND SOURCES OF PAYMENT, THE LEGAL OPINION AND ALL OTHER INFORMATION REGARDING THE BONDS ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, DATED JUNE 21, 2011 (THE "PRELIMINARY OFFICIAL STATEMENT") WHICH EACH BIDDER IS DEEMED TO HAVE OBTAINED

* Preliminary, subject to change.

AND REVIEWED PRIOR TO BIDDING FOR THE BONDS. THIS NOTICE INVITING PROPOSALS GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES FOR THE BONDS. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS NOTICE OF INVITING PROPOSALS IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

DATE; FORM; DENOMINATION: The Bonds will be dated as of the delivery date and will be executed and delivered in non-negotiable, fully registered form, without coupons, in the denomination of $5,000 each or any whole multiple thereof and will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC").

PRINCIPAL PAYMENTS: The Bonds shall be serial and/or term Bonds, as specified by each bidder, and principal shall be payable on August 1 and February 1 of each year, commencing on August 1, 2012 as shown below. See "Option to Elect Term Bonds" below. The final maturity of the Bonds shall be August 1, 2031. The principal amount of the Bonds maturing or subject to mandatory sinking fund redemption in any year shall be in integral multiples of $5,000. No serial Bonds may mature following the commencement of the first mandatory sinking fund payment. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term Bond and must be part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term Bond maturity. Subject to adjustment as provided herein, the aggregate principal amount of the serial maturity or mandatory sinking fund payment for the Bonds in each year is as follows:

Maturity Date (August 1)	Principal Amount*	Maturity Date (August 1)	Principal Amount*
2012	$490,000	2022	$590,000
2013	500,000	2023	615,000
2014	510,000	2024	635,000
2015	520,000	2025	660,000
2016	495,000	2026	695,000
2017	505,000	2027	720,000
2018	520,000	2028	750,000
2019	535,000	2029	790,000
2020	550,000	2030	820,000
2021	570,000	2031	865,000

OPTION TO ELECT TERM BONDS: The bidder awarded the Bonds by the City (the "Purchaser") may elect to combine any number of consecutive maturities of Bonds for which an identical interest rate has been specified to comprise Term Bonds by indicating such an election on the bid. The election to create Term Bonds in such manner will require the creation of a mandatory sinking fund so that the sinking fund redemption payments shall equal the corresponding serial bond maturity amounts.

* Preliminary, subject to change.

REDEMPTION: *Optional Redemption.** The Bonds maturing on or before August 1, 2021 are not subject to redemption prior to their fixed maturity dates. The Bonds maturing on or after August 1, 2022 are subject to redemption at the option of the City, from any source of funds, as a whole or in part, on any date on or after August 1, 2021, at a redemption price equal to 100% of the principal amount of Bonds called for redemption, plus interest accrued thereon to the date fixed for redemption, without premium.

*Mandatory Sinking Account Redemption.** Term Bonds, if any, are also subject to redemption prior to their respective stated maturity dates, in part, by lot, from mandatory sinking fund payments, on each August 1 designated by the Purchaser as a date upon which a mandatory sinking fund payment is to be made, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. Any Term Bonds must have a maturity date later than August 1, 2022.

LEGAL OPINION: The legal opinion of Hawkins Delafield & Wood LLP, San Francisco, California, a form of which is attached to the Preliminary Official Statement, will be furnished to the Purchaser without charge.

TERMS OF SALE

FORM OF BID; NO ALLOWABLE DISCOUNT: All bids for the Bonds must be for a minimum price of par; no net discount bids will be accepted. Individual maturities of the Bonds may be reoffered at a premium or a discount. Each bid must be in accordance with the terms and conditions set forth herein. All bids shall be deemed to incorporate all of the terms set forth in this Notice Inviting Proposals.

INTEREST RATES: Interest with respect to the Bonds will be payable from the date of issuance, at such rate or rates to be fixed upon the sale thereof, commencing February 1, 2012, and semiannually thereafter on August 1 and February 1 in each year. Bidders will be permitted to bid different rates of interest, and the same rate or rates may be repeated as often as desired, provided:

(a) Each interest rate specified in any bid must be in a multiple of one-twentieth (1/20) or one-eighth (1/8) of one percent per annum;

(b) No Bond shall bear more than one rate of interest, nor may any Bond bear a zero rate of interest;

(c) Interest with respect to each Bond shall be computed from the expected delivery date of July 14, 2011 (or such later date as specified by the City if the sale is postponed), to its stated maturity date at the interest rate specified in the bid, payable semiannually as set forth above;

(d) Any premium must be paid as part of the purchase price, and no bid will be accepted which contemplates the waiver of any interest or other concession by the bidder as a substitute for payment in full of the purchase price;

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* Preliminary, subject to change.

(e) The maximum interest rate (coupon) bid for any maturity may not exceed twelve percent (12%) per annum; and

(f) No bid will be accepted where the total true interest cost ("TIC") of the Bonds to the City, calculated as provided in "Best Bid" below, exceeds five percent (5%).

WARNINGS REGARDING ELECTRONIC BIDS: BIDS FOR THE BONDS SHALL BE SUBMITTED ELECTRONICALLY VIA PARITY. NONE OF THE CITY, THE FINANCIAL ADVISOR OR BOND COUNSEL ASSUMES ANY RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED BY THE TIME FOR RECEIVING BIDS, AND EACH BIDDER EXPRESSLY ASSUMES THE RISK OF, ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR NONCONFORMING BID SUBMITTED BY ELECTRONIC TRANSMISSION BY SUCH BIDDER, INCLUDING WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSIONS, MECHANICAL FAILURE, ENGAGED TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM SUBMISSION BY ELECTRONIC TRANSMISSION. THE TIME FOR RECEIVING BIDS WILL BE DETERMINED BY THE CITY AT THE PLACE OF BID OPENING, AND THE CITY WILL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY.

IF A BIDDER SUBMITS AN ELECTRONIC BID FOR THE BONDS THROUGH PARITY, SUCH BIDDER THEREBY AGREES TO THE FOLLOWING TERMS AND CONDITIONS: (1) IF ANY PROVISION IN THIS NOTICE INVITING PROPOSALS WITH RESPECT TO THE BONDS CONFLICTS WITH INFORMATION OR TERMS PROVIDED OR REQUIRED BY PARITY, THIS NOTICE INVITING PROPOSALS, INCLUDING ANY AMENDMENTS OR MODIFICATIONS ISSUED THROUGH PARITY, WILL CONTROL; (2) EACH BIDDER WILL BE SOLELY RESPONSIBLE FOR MAKING NECESSARY ARRANGEMENTS TO ACCESS PARITY FOR PURPOSES OF SUBMITTING ITS BID IN A TIMELY MANNER AND IN COMPLIANCE WITH THE REQUIREMENTS OF THIS NOTICE INVITING PROPOSALS; (3) THE CITY WILL NOT HAVE ANY DUTY OR OBLIGATION TO PROVIDE OR ASSURE ACCESS TO PARITY TO ANY BIDDER, AND THE CITY WILL NOT BE RESPONSIBLE FOR PROPER OPERATION OF, OR HAVE ANY LIABILITY FOR, ANY DELAYS, INTERRUPTIONS OR DAMAGES CAUSED BY USE OF PARITY OR ANY INCOMPLETE, INACCURATE OR UNTIMELY BID SUBMITTED BY ANY BIDDER THROUGH PARITY; (4) THE CITY IS PERMITTING USE OF PARITY AS A COMMUNICATION MECHANISM, AND NOT AS AN AGENT OF THE CITY, TO FACILITATE THE SUBMISSION OF ELECTRONIC BIDS FOR THE BONDS; PARITY IS ACTING AS AN INDEPENDENT CONTRACTOR, AND IS NOT ACTING FOR OR ON BEHALF OF THE CITY; (5) THE CITY IS NOT RESPONSIBLE FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH ANY PROCEDURES ESTABLISHED BY PARITY AND (6) INFORMATION PROVIDED BY PARITY TO BIDDERS WILL FORM NO PART OF ANY BID OR OF ANY CONTRACT BETWEEN THE PURCHASER AND THE CITY UNLESS THAT INFORMATION IS INCLUDED IN THIS NOTICE INVITING PROPOSALS.

BEST BID: The Bonds will be awarded to the best responsible bidder, considering the interest rate or rates specified and the premium offered, and the best bid will be determined on the basis of the lowest TIC. The TIC will be that nominal annual discount rate which, when compounded semiannually and when used to discount the sum of all payments of principal and interest at the rate or rates specified in the bid to the date of the Bonds (using the expected delivery date of July 14, 2011), results in the amount equal to the purchase price, which is the principal amount plus the amount of the premium. For the purpose of calculating the TIC, mandatory sinking fund payments for any term Bonds specified by each bidder will be treated as Bonds maturing on the dates of such mandatory sinking fund payments. In the event two or more bids with the same lowest TIC are received, the City Manager, pursuant to authority delegated by the City, reserves the right to exercise his/her own discretion and judgment in making the award. There will be no accrued interest as the Bonds will be dated the date of delivery. Bid evaluations or rankings made by Parity are not binding on the City.

ESTIMATE OF TIC: Each bidder is requested, but not required, to supply an estimate of the TIC based upon its bid, which will be considered as informative only and not binding on either the bidder or the City.

MULTIPLE BIDS: In the event multiple bids are received from a single bidder, the City shall accept the bid representing the lowest TIC to the City, and each bidder agrees by submitting any bid to be bound by the bid representing the lowest TIC to the City.

RIGHT TO MODIFY OR AMEND: The City reserves the right, in its sole discretion, to modify or amend this Notice Inviting Proposals including, but not limited to, the right to adjust and change the principal amount of any maturity of the Bonds being offered; provided, that any such modification or amendment will be communicated to potential bidders through Parity not later than 1:00 p.m. (Pacific Time) on the business day preceding the date for receiving bids.

ADJUSTMENT OF PRINCIPAL PAYMENTS: After bids are received and the winning bid determined, the City reserves the right to increase or decrease the total par amount of the Bonds and to restructure the Bonds per maturity. Each principal payment is subject to increase or decrease in $5,000 increments. In the event of any such adjustment, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn. THE PURCHASER WILL NOT BE PERMITTED TO WITHDRAW ITS BID, CHANGE THE INTEREST RATES IN ITS BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE (DEFINED BELOW) AS A RESULT OF ANY CHANGES MADE TO THE PRINCIPAL PAYMENTS OF THE BONDS IN ACCORDANCE WITH THIS NOTICE INVITING PROPOSALS; PROVIDED, HOWEVER, THAT THE DOLLAR AMOUNT OF THE PRICE BID WILL BE CHANGED SO THAT THE PERCENTAGE OF NET COMPENSATION PAID TO THE PURCHASER DOES NOT INCREASE OR DECREASE FROM WHAT IT WOULD HAVE BEEN IF NO ADJUSTMENTS HAD BEEN MADE TO THE PRINCIPAL AMOUNTS SHOWN IN THE MATURITY SCHEDULE BID UPON BY THE PURCHASER.

RIGHT OF POSTPONEMENT BY CITY: The City reserves the right, in its sole discretion, to postpone, from time to time, the date or time established for the receipt of bids for the Bonds. Any such postponement will be communicated through Parity prior to any announced date and time for receipt of bids. If any sale is postponed, any alternative sale date and time will be announced via Parity prior to such alternative sale date and time. On any such alternative sale date, any bidder may submit an electronic bid for the purchase of the postponed Bonds in conformity in all respects with the provisions of this Notice Inviting Proposals, except for the date and time of sale, the date of closing and changes announced by Parity at the time the sale date and time are announced. Failure of any bidder to receive such notice shall not affect the sufficiency of any required notice or the legality of the sale.

RIGHT OF REJECTION AND WAIVER OF IRREGULARITY: The City reserves the right, in its sole discretion, to reject any and all bids and to waive any irregularity or informality in any bid which does not materially affect such bid or change the rankings of the bids, as determined by the City in its sole discretion.

PROMPT AWARD: The City Manager, pursuant to authority delegated by the City, will take action awarding the sale of the Bonds or reject all bids not later than twenty-six (26) hours after the expiration of time herein prescribed for the receipt of bids and until such expiration of time all bids received shall be irrevocable. Unless such time of award is waived by the Purchaser, the award may be made after the expiration of the specified time if the Purchaser shall not have given to the City notice in writing of the withdrawal of such proposal. Notice of the award will be given promptly to the Purchaser.

CONFLICT WAIVER: Hawkins Delafield & Wood LLP is serving as Bond Counsel and as Disclosure Counsel in connection with the issuance and sale of the Bonds. By submitting a bid, each bidder represents that it understands that Hawkins Delafield & Wood LLP, in its capacity as Bond Counsel and as Disclosure Counsel, represents the City, and the Purchaser agrees to waive any conflict of interest that Hawkins Delafield & Wood LLP's involvement in connection with the issuance and sale of the Bonds to such Purchaser presents.

DELIVERY AND PAYMENT: Delivery of the Bonds will be made to the Purchaser on or about July 14, 2011 (or such later date as may be announced in connection with a postponement of the Bond sale). The Bonds will be delivered in full book-entry form through the facilities of DTC. Payment for the Bonds must be made in immediately available funds to the City. Any expense in providing immediately available funds shall be borne by the Purchaser.

RIGHT OF CANCELLATION: The Purchaser shall have the right, at its option, to cancel its purchase of the Bonds if the City shall fail to cause the execution and delivery of the Bonds and tender of the same for delivery within 60 days from the date of sale thereof, and in such event the Purchaser shall be entitled to the return of the Deposit (defined below), without interest thereon.

GOOD FAITH DEPOSIT: The Purchaser is required to submit its good faith deposit in the amount of $125,000 (the "Deposit") to the City by wire transfer not later than two hours following the award. Wiring instructions will be provided to the winning bidder.

The Deposit of the Purchaser for the Bonds will, immediately upon the City's acceptance of the Purchaser's bid, become the property of the City and will be credited upon the purchase price of the Bonds purchased by such Purchaser at the time of delivery thereof. If the Purchaser fails to comply with any of its obligations under this Notice Inviting Proposals, including but not limited to a failure to pay the purchase price in full on the delivery date of the Bonds, the Purchaser shall have no right to the Bonds or to the recovery of its Deposit, and, upon the occurrence of such failure to comply, its Deposit shall be retained by the City as full liquidated damages for such default and shall constitute a full release and discharge of all claims and rights of the City against the defaulting Purchaser and a waiver of any right the City may have to additional damages for any such default. By submitting a bid, each bidder waives any right to claim that actual damages resulting from any such default are less than such sum.

No interest will be paid upon the Deposit made by any bidder.

CERTIFICATE OF REOFFERING PRICE: Individual maturities of the Bonds may be offered at a discount or a premium, subject to the terms described in this section under the subheading "Form of Bid; No Allowable Discount." The Purchaser of the Bonds must actually reoffer all of the Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers).

The Purchaser will, within one hour after being notified of the award of the Bonds, advise the financial advisor of the initial public offering price of the Bonds. The Purchaser will also be required prior to delivery of the Bonds to furnish to the City a certificate (the "Reoffering Price Certificate"), acceptable to Bond Counsel and in the form attached hereto as Schedule I, which states, among other things, that: (1) on the date of award, such successful bidder made a *bona fide* public offering of all Bonds of all maturities at initial offering prices corresponding to the prices or yields indicated in the information furnished in connection with the successful bid, and (2) as of such date, the first price at which an amount equal to at least ten percent of each maturity of the Bonds of the applicable maturity was sold to the public was a price not higher or a yield not lower than indicated in the information furnished with the successful bid (the "first price rule"), with the exception of those maturities, if any, identified in such certificate, as to which such certificate shall explain the reasons why the first price rule was not satisfied. For the purposes of the Reoffering Price Certificate, the "public" does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers. In making such representations, the Purchaser must reflect the effect on the offering prices of any "derivative products" (*e.g.*, a tender option) used by the bidder in connection with the initial sale of any of the Bonds. Upon written request faxed by the Purchaser to the City and Bond Counsel and received not later than one hour after the award of the Bonds, the Purchaser may request that the City and Bond Counsel consider, in their discretion, revisions to the attached Reoffering Price Certificate requested by the Purchaser; provided that any revision must be supported by written documentation from the Purchaser, which is acceptable to the City and Bond Counsel, as to the need for the requested revision.

Failure to comply with this requirement will constitute a default by the Purchaser, entitling the City to retain the Purchaser's Deposit.

The City and the Financial Advisor will rely on the indication of the reoffering prices in determining the arbitrage yield on the Bonds.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION: The City has duly notified the California Debt and Investment Advisory Commission of the proposed sale of the Bonds. Payment of all fees to the California Debt and Investment Advisory Commission in connection with the execution, sale and delivery of the Bonds shall be the sole responsibility of the Purchaser, and not of the City.

NO LITIGATION: The City will deliver a certificate at closing stating that no litigation is pending with service of process having been accomplished, or, to the knowledge of the officer of the City executing such certificate, threatened, concerning the validity of the Bonds, the authority of the City to have levied the ad valorem tax required to pay debt service on the Bonds, the existence of the City or the entitlement of the officers thereof to their respective offices.

CUSIP NUMBERS: It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms hereof. The CUSIP Service Bureau charge for the assignment of said numbers shall be the responsibility of and shall be paid for by the Purchaser. CUSIP data is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers will be provided for convenience of reference only. The City will take no responsibility for the accuracy of such numbers.

OFFICIAL STATEMENT: A copy of the Preliminary Official Statement and any other information concerning the proposed financing will be furnished or electronically transmitted upon request to the Financial Advisor to the City: Sarah Hollenbeck at Public Financial Management, Inc., (415) 982-5544, e-mail: hollenbecks@pfm.com. The Preliminary Official Statement is in a form "deemed final" by the City for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12") but is subject to revision, amendment and completion. The City will provide the Purchaser for the Bonds up to 100 copies of the final Official Statement for the Bonds (the "Official Statement"), without charge, within seven business days after the award of the bid. The Purchaser must notify the City through the Financial Advisor in writing within three business days of the award if the Purchaser requires additional copies of the Official Statement, which will be provided at the Purchaser's cost.

By making a bid for the Bonds, the Purchaser agrees (1) to disseminate to all members of the underwriting syndicate copies of the Official Statement, including any supplements prepared by the City (2) to promptly file a copy of the Official Statement, including any supplements prepared by the City, with the Municipal Securities Rulemaking Board, and (3) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and the Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

DISCLOSURE CERTIFICATE: The City will deliver to the Purchaser a certificate of an official of the City, dated the date of the Official Statement, stating that as of the date thereof, to the best of the knowledge and belief of said official, the Official Statement does not contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and further certifying that the signatory knows of no material adverse change in the condition of the City which would make it unreasonable for the Purchaser to rely upon the Official Statement in connection with the resale of the Bonds.

CONTINUING DISCLOSURE: In order to assist bidders in complying with Rule 15c2-12, the City will undertake, pursuant to a Disclosure Dissemination Agent Agreement, to provide certain annual financial information and notices of the occurrence of certain events, if material. This agreement is set forth in the Official Statement. The City has not failed to comply in any material respect with Rule 15c2-12.

Dated: June 21, 2011

CITY OF SARATOGA

By: /s/ Dave Anderson
City Manager

SCHEDULE I

CITY OF SARATOGA
(SANTA CLARA COUNTY)
$12,335,000
Series 2011 General Obligation Refunding Bonds

FORM OF CERTIFICATE AS TO ISSUE PRICE OF PORTION OF BONDS

This certificate is being delivered by ____________________, the purchaser (the "Purchaser") in connection with the issuance by the City of Saratoga of $_______ Series 2011 General Obligation Refunding Bonds. The Purchaser hereby certifies and represents that:

A. Issue Price.

1. On ________ __, 2011, (the "Sale Date"), all Bonds of all maturities have been the subject of an initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, those set forth in Schedule A attached hereto.

2. On the Sale Date, to the best of our knowledge based on our records, the first price or yield at which at least ten percent (10%) of each maturity of the Bonds [*if less than ten percent of some maturities of the Bonds has been sold to the public, add:* , except the Bonds maturing in the year[s] [ ],] was sold to the public (excluding such bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) was not greater than the respective price, or was not lower than the respective yield, shown in the Official Statement. [Less than ten percent of the Bonds maturing in the year[s] [ ] was sold to the public following a bona fide public offering at the prices or yields shown in the Official Statement.]

3. On the Sale Date, based on our assessment of the then prevailing market conditions, we had no reason to believe that any of the Bonds would be initially sold to the public (excluding such bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices greater than the prices, or yields lower than the yields, shown in the Official Statement.

4. The prices and yields of the Bonds, maturity-by-maturity, shown in the Official Statement, represented our best judgment of the fair market value of the Bonds.

C. Compensation.

All compensation received for underwriting services (which includes certain expenses) in connection with the sale and delivery of the Bonds is being paid on the date hereof in the form of a purchase discount in the amount of $_____________, and no part of such compensation includes any payment for any property or services other than underwriting services relating to sale and delivery of the Bonds.

We understand that the representations contained herein will be relied upon by the City in connection with the execution and delivery of the Bonds in making certain of the representations contained in the Tax Certificate, and we further understand that Bond Counsel to the issuer may rely upon this certificate, among other things, in providing an opinion with respect to the exclusion from gross income of interest on the Bonds, pursuant to Section 103 of the Internal Revenue Code of 1986, as amended. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Tax Certificate relating to the Bonds to which this certificate is attached as an exhibit.

Dated: _______, 2011

_________________, as Original Purchaser

By: ______________________________________
Name:

SCHEDULE A

CITY OF SARATOGA

Santa Clara County, California

CITY COUNCIL

Howard Miller, Mayor

Chuck Page, Vice Mayor

Jill Hunter, Council Member

Emily Lo, Council Member

Manny Cappello, Council Member

CITY STAFF

Dave Anderson, City Manager

Mary Furey, Finance and Administrative Services Director

Ann Sullivan, City Clerk

Richard Taylor, Esq., Shute, Mihaly & Weinberger LLP, City Attorney

FINANCIAL ADVISOR

Public Financial Management, Inc.
San Francisco, California

BOND AND DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
San Francisco, California

PAYING AGENT

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

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OFFICIAL STATEMENT

$12,335,000*
City of Saratoga
(Santa Clara County, California)
General Obligation Refunding Bonds, Series 2011
(Saratoga Community Library Project)

INTRODUCTION

This introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The purpose of this Official Statement, including the cover page and appendices hereto, is to provide certain information concerning the sale and delivery by the City of Saratoga (the "City") of its General Obligation Refunding Bonds, Series 2011 (Saratoga Community Library Project) (the "Bonds") in the aggregate principal amount of $12,335,000.*

The Official Statement makes reference to resolutions and to other documents and statutes. Such references do not purport to be complete, comprehensive or definite and are qualified in their entirety by reference to each such document.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Except as required by the Continuing Disclosure Certificate to be executed by the City, the City has no obligation to update the information in this Official Statement. See "CONTINUING DISCLOSURE" and APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

The City of Saratoga

The City of Saratoga is located in the County of Santa Clara (the "County"), 26 miles east of the Pacific Ocean, ten miles southwest of San Jose and fifty miles south of San Francisco, and encompasses an area of approximately 12 square miles. The City was incorporated in 1956 and is a general law city pursuant to the California Government Code. The City has a Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff.

The 2010-11 assessed valuation of the City is $9,963,412,097. Upon issuance of the Bonds, the Bonds will be the only City's outstanding general obligation bonds. The total direct and overlapping bonded debt of the City is $245,019,448 or approximately 2.46% of the 2010-11 assessed valuation.

For certain economic, demographic and financial information with respect to the City, see Appendix A – "AUDITED FINANCIAL STATEMENTS OF THE CITY OF SARATOGA FOR FISCAL YEAR 2009-10" attached hereto and "SECURITY FOR THE BONDS – City of Saratoga Recent Developments" herein.

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* Preliminary, subject to change.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Act") and other applicable laws, and according to the terms set forth in the Paying Agent Agreement between the City and The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent"), dated as of July 1, 2011 (the "Paying Agent Agreement"), as authorized by the resolution adopted by the Council on June 1, 2011 (the "Bond Resolution").

Summaries Not Definitive

Brief descriptions of the Bonds and the City are included in this Official Statement, together with summaries of certain resolutions, documents and statutes. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Bonds and such resolutions, documents and statutes are qualified in their entirety by reference to the actual documents, or with respect to the Bonds, the form thereof included in the Bond Resolution, copies of all of which are available for inspection at the offices of the Paying Agent at The Bank of New York Mellon Trust Company, N.A. 700 S. Flower Street Suite 500 Los Angeles, CA 90017.

PLAN OF REFUNDING

The Bonds are being issued to fully refund the $15,000,000 City of Saratoga (Santa Clara County, California) General Obligation Bonds, Series 2001 (Saratoga Community Library Project) (the "2001 Bonds"). The 2001 Bonds were issued to improve, renovate, and expand the Saratoga Community Library and to pay for costs of issuance of the 2001 Bonds. The 2001 Bonds were issued by the City on May 9, 2001, pursuant to Chapter 4 of Division 4 of Title 4 of the California Government Code a resolution of the City Council of the City authorizing the issuance of the 2001 Bonds. The 2001 Bonds were approved by more than two-thirds of the electors of the City voting at a general municipal election held in the City on March 7, 2000.

On the date of issuance of the Bonds, $__________ of proceeds of the Bonds will be deposited with and held in trust by The Bank of New York Mellon Trust Company, N.A., the paying agent for the 2001 Bonds (the “2001 Paying Agent”). The amounts deposited, together with other available moneys held by the 2001 Paying Agent, will be sufficient for the 2001 Paying Agent to redeem the 2001 Bonds in full on August 1, 2011. Funds held in trust by the 2001 Paying Agent will not be available to pay principal of and interest on the Bonds. Upon the deposit of such proceeds and said moneys with the 2001 Paying Agent, the 2001 Bonds will no longer be deemed outstanding.

THE BONDS

General

The Bonds will be dated their date of delivery and will mature at the times and in the principal amounts set forth on the cover page hereof. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof ("Authorized Denominations"). Interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2012. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months. For the debt service schedule for the Bonds, see "DEBT SERVICE SCHEDULE" herein.

The Bonds will be delivered in book-entry only form and, when issued, will be registered in the name of Cede Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. Beneficial ownership interests in the Bonds may be purchased by or through a Direct Participant (as defined in APPENDIX C – "BOOK-ENTRY ONLY SYSTEM") in book-entry form, in denominations of $5,000 or any integral multiple thereof. Beneficial Owners (as defined in APPENDIX C – "BOOK-ENTRY ONLY SYSTEM") of the Bonds will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Bonds. For so long as any purchaser is the Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant to receive payment of the principal or interest on the Bonds. Payments of interest on, principal of and premium, if any, on the Bonds will be made by the Paying Agent to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of the City or the Paying Agent with respect to the principal or redemption price of or interest on the Bonds to the extent of the sum or sums so paid. The City and the Paying Agent cannot and do not give any assurances that Direct Participants or Indirect Participants (as defined in APPENDIX C – "BOOK-ENTRY ONLY SYSTEM") will distribute to Beneficial Owners (i) payments of interest and principal with respect to the Bonds, (ii) confirmation of ownership interests in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as registered owner of the Bonds, or that Direct Participants or Indirect Participants will do so on a timely basis. So long as the Bonds are held in the book-entry only system of DTC, the registered owner, holder or Owner of the Bonds will be DTC, and not the Beneficial Owner. See APPENDIX C – "DTC AND THE BOOK-ENTRY SYSTEM" herein.

Redemption of the Bonds*

Optional Redemption. The Bonds maturing on or before August 1, 2021*, are not subject to redemption prior to their 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, from any source of available funds, as a whole or in part on any date, on or after August 1, 2021* at the principal amount of the Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Redemption. The $________ Term Bond maturing on August 1, 20__, is subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Mandatory Sinking Fund Payment Date (August 1)	Mandatory Sinking Fund Payment Amount
	$
†	

* Preliminary, subject to change.

† Final maturity

The principal amount of each mandatory sinking fund payment of any maturity will be reduced as specified by the City, in $5,000 increments, by the amount of any Bonds of that maturity optionally redeemed prior to the mandatory sinking fund payment date.

Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, the Bonds will be redeemed in inverse order of maturities (or as otherwise directed by the City), and if less than all of the Bonds of any given maturity are called for redemption, the portions of the Bonds of a given maturity to be redeemed will be redeemed by lot.

Notice of Redemption. Notice of redemption of any Bonds will be given by the Paying Agent upon the written request of the City by first class mail to the registered owners of any Bonds designated for redemption at least 30 but not more than 60 days prior to the redemption date. Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity of the Bonds to be redeemed; (vi) (if less than all of the Bonds of any maturity are to be redeemed) the distinctive numbers of the Bonds of each maturity to be redeemed; (vii) (in the case of Bonds redeemed in part only) the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be surrendered by the Owners at the Principal Corporate Trust Office of the Paying Agent, or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice.

Effect of Redemption. A certificate of the Paying Agent or the City that notice of call and redemption has been given to Owners is conclusive as against all parties. The actual receipt by the registered owner of any Bond or by any securities depository or any other party of notice of redemption is not a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption. When notice of redemption has been given substantially as provided for in the Paying Agent Agreement, and when the redemption price of the Bonds called for redemption is set aside as provided in the Paying Agent Agreement, the Bonds designated for redemption will become due and payable on the specified redemption date and interest will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Bonds so called for redemption after such redemption date will look for the payment of such Bonds and the redemption premium thereon, if any, only to the interest and sinking fund (the "Interest and Sinking Fund") or the escrow fund established for such purpose. All Bonds redeemed must be cancelled forthwith by the Paying Agent and will not be reissued.

Conditional Notice of Redemption. Any notice of optional redemption of the Bonds delivered in accordance with the Paying Agent Agreement may be conditional and if any condition stated in the notice of redemption has not been satisfied on or prior to the redemption date, the notice will be of no force and effect and the City will not be required to redeem such Bonds and the redemption will not be made. The Paying Agent will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

Right to Rescind Notice of Redemption. The City may rescind any optional redemption and notice thereof for any reason on any date on or prior to the date fixed for optional redemption by causing written notice of the rescission to be given to the registered owners of the Bonds so called for redemption. In addition, any optional redemption and notice thereof will be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund established pursuant to the Paying Agent Agreement or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption. Any notice of rescission will be given in the same manner in which notice of redemption was originally given. The actual receipt by the registered owner of any Bond of notice of such rescission is not a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Defeasance. If at any time the City pays or causes to be paid or there is otherwise paid to the registered owners of all outstanding Bonds all of the principal, interest and premium, if any, represented by Bonds at the times and in the manner provided in the Paying Agent Agreement and in the Bonds, or as provided pursuant to the provisions of the Paying Agent Agreement described below, or as otherwise provided by law consistent with the Paying Agent Agreement, then the Bond Resolution and other assets made under the Bond Resolution and all agreements and covenants of the City under the Bond Resolution will thereupon be satisfied and discharged and will terminate, except only that the City will remain liable for payment of all principal, interest and premium, if any, represented by the Bonds, but only out of monies on deposit in the Interest and Sinking Fund or otherwise held in trust for such payment.

Pursuant to the Paying Agent Agreement, the City may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent (or an escrow agent) at or before maturity, Defeasance Securities in an amount which, together with the interest to accrue thereon and available monies then on deposit in the Interest and Sinking Fund of the City, will be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates. "Defeasance Securities" means non-callable, non-prepayable obligations of the type listed in clause (i) or (ii) of the definition of Investment Securities herein. See "INVESTMENT OF BOND PROCEEDS" herein.

Payments, Transfers and Exchanges Upon Abandonment of Book-Entry Only System. The book-entry only system for registration of the ownership of the Bonds in book-entry form may be discontinued at any time if: (1) DTC resigns as securities depository for the Bonds; or (2) the City determines that a continuation of the system of book-entry transfers through DTC (or through a successor securities depository) is not in the best interests of the City. In each of such events (unless the City appoints a successor securities depository), the Bonds will be delivered in such denominations and registered in the names of such persons as are requested in a certificate of the City, but without any liability on the part of the City or the Paying Agent for the accuracy of such designation. Whenever DTC requests the City and the Paying Agent to do so, the City and the Paying Agent will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of or to print bonds evidencing the Bonds. Thereafter, all Bonds are transferable or exchangeable as described in the Paying Agent Agreement.

In the event that the book-entry only system is no longer used with respect to the Bonds, payment of interest on the Bonds will be made on each interest payment date to the person whose name appears on the bond registration books of the Paying Agent as the owner of the Bonds as of the close of business on the fifteenth day of the month prior to such interest payment date, whether or not such day is a Business Day (the "Record Date"). Payment of the interest on any Bond will be made by check or draft mailed by first class mail to the registered owner of such Bond at such owner's address as it appears on the bond registration books of the Paying Agent or at such address as such owner may have filed with the Paying

Agent for that purpose; or, upon the written request of the registered owner of Bonds aggregating not less than $1,000,000 in principal amount, given no later than the Record Date preceding the applicable interest payment date, by wire transfer in immediately available funds to an account maintained in the United States at such wire address as such owner specifies in its written notice. Principal of, and premium, if any, on the Bonds will be payable at the principal corporate trust office of the Paying Agent or at such other location as the Paying Agent may designate. The Bonds will be in the form of fully-registered Bonds and will be issued in denominations of $5,000 or any integral multiple thereof.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds with respect to the sale of the Bonds.

Sources

Principal Amount of the Bonds..
Net Original Issue Premium...
Total Sources ....

Uses

Redemption of the 2001 Bonds
Underwriter's Discount ....
Costs of Issuance[1]...
Total Uses ....

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[1] Costs of issuance include printing costs, rating agency fees, legal fees and other miscellaneous expenses. See "SALE OF THE BONDS" herein.

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DEBT SERVICE SCHEDULE

The following table sets forth the annual debt service schedule for the Bonds.

Year Ending August 1,	Principal	Interest	Annual Debt Service
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
Total[1]			

(1) Totals may not add up correctly due to independent rounding.

SECURITY FOR THE BONDS

Paying Agent Agreement

The City and the Paying Agent will enter into the Paying Agent Agreement to provide for the payment of the principal of and interest on the Bonds. Pursuant to the Paying Agent Agreement, the City covenants that the money for the payment of principal and interest on the Bonds will be raised by *ad valorem* taxation without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates) upon all taxable property located within the City, and provision will be made for the levy and collection of such taxes in the manner provided by law, and the City will cause such money to be transferred to the Paying Agent for deposit in the Interest and Sinking Fund.

Levy, Tax Rate and Assessed Valuation

According to the requirements of Article XIII A of the California Constitution (initially adopted by California voters as Proposition 13 in 1978), the County of Santa Clara levies a one percent *ad valorem* property tax on behalf of all taxing agencies in the County and the *ad valorem* property tax for payment of the Bonds and the general obligation bonds of school districts and other governmental entities in Santa Clara County. The one percent *ad valorem* property tax and the property tax for the Bonds are assessed and collected by the County at the same time and on the same tax rolls. The proceeds of the property tax collected for the Bonds would be applied by the City to pay debt service on the Bonds when due. The proceeds of the one percent *ad valorem* property taxes are apportioned on the basis of a formula established by State law. Under this formula, the City and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than countywide or less than citywide special districts. Certain other *ad valorem* property taxes and assessments and other per-parcel taxes and assessments are also included in the levy pursuant to the County's tax rolls.

The assessed valuation of property located within the County is established by the County Assessor, except for public utility property, which is assessed by the State Board of Equalization. Assessed valuations are reported at 100 percent of the full cash value of the property, as defined in Article XIII A of the California Constitution. Full cash value is defined as "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or a reduction in the consumer price index or comparable local data for the area or may be reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The full cash value may also be adjusted due to change of ownership or new construction. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS ON TAXES AND APPROPRIATIONS" herein. The County Assessor may also temporarily reduce assessed values of property within the County. Pursuant to Proposition 8, property owners are entitled to the lower of the fair market value of their property as of January 1 or the assessed value as determined at the time of purchase or construction, and increased by no more than two percent annually. See "–Proposition 8 Reductions and Appeals to Assessed Value" below.

Article XIII A has had the general effect of stabilizing assessed valuation such that it does not fluctuate to the same degree as the market value of property in a taxing area, but instead gradually reflects changes in ownership of longer held properties that are reassessed upon ransfer and other permitted increases and decreases of assessed value. As a result of Article XIII A and its restrictions on the County

Assessor's ability to increase assessed value, property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than the market value of the property. Property that is similarly situated that has recently been acquired may have a substantially higher assessed value reflecting the recent acquisition price. Increases in assessed value in a taxing area may occur due to the change in ownership of property even when the rate of inflation or consumer price index do not permit a full two percent annual increase in assessed valuation of other property located in the taxing area.

The table below shows a history of assessed valuations of property within the City. The total assessed value for Fiscal Year 2010-11 is $9,963,412,097, a decline of 1.03% from Fiscal Year 2009-10.

TABLE 1
CITY OF SARATOGA
ASSESSED VALUATION HISTORY
FISCAL YEARS ENDED JUNE 30, 2006-2010
(In Thousands)

Type of Property	2006	2007	2008	2009	2010
Residential	$7,883,965	$8,467,894	$9,025,628	$ 9,605,309	$ 9,729,087
Commercial	177,149	187,142	208,369	213,951	231,691
Industrial	8,921	9,099	9,281	9,467	9,656
Institutional	38,027	45,706	50,590	51,052	57,495
Vacant	90,611	107,228	110,656	128,898	110,225
Other	32,858	39,536	49,023	43,240	44,856
Unsecured	46,874	39,764	35,775	43,933	58,210
Total Assessed Property	$8,278,405	$8,896,369	$9,489,322	$10,095,850	$10,241,220
Less: Tax Exempt Real Property	(133,951)	(140,859)	(159,369)	(161,488)	(173,628)
Total Taxable Assessed Value	$8,144,454	$8,755,510	$9,329,953	$9,934,362	$10,067,592

Source: City of Saratoga Comprehensive Annual Financial Report, Fiscal Year 2009-10.

Proposition 8 Reductions and Appeals to Assessed Value. The County reviews assessment appeals upon individual request. In November 1978, State voters passed Proposition 8, which provides that property owners are entitled to an assessment based on the lower of the fair market value of their property as of the lien date (January 1), or the assessed value as determined at the time of purchase or construction, and increased by no more than two percent annually. As a matter of policy and in accordance with Proposition 8, the County Assessor has proactively responded to declining market values by temporarily reducing assessed values.

According to the County Assessor, there are 286 active appeals in the City, requesting an aggregate reduction of $206 million in assessed value.

See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A."

Payment Dates and Liens

Taxes are levied for each fiscal year from July 1 to June 30 on taxable real and personal property situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, all property (both real and personal) is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. Property taxes arising on a floating lien date are posted on a supplemental assessment roll (secured or unsecured, as the case may be). The "secured roll" is that part of the assessment roll containing (i) property, the taxes on which are secured by a lien on the real property which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes and (ii) State Board of Equalization assessed (public utilities) property. The "unsecured roll" is that part of the assessment roll containing property, such as business property or leased or rented premises, which is not secured by the underlying real property. California law provides partial exemptions from taxation for owner-occupied residences (the "homeowner's exemption") in an amount of up to $7,000 per single family residence. Under State law, revenues lost to local governments due to this exemption are reimbursed by the State.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared to be in default on or about October 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5 percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is declared to be subject to the County Tax Collector's power of sale and may be subsequently sold within two years by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10 percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5 percent per month begins to accrue beginning November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests, belonging to the assessee.

The City receives the full ad valorem property tax levy regardless of any delinquencies due to the County's Teeter Plan described below. See also Appendix A – "AUDITED FINANCIAL STATEMENTS OF THE CITY OF SARATOGA FOR FISCAL YEAR 2009-10" attached hereto.

Teeter Plan

The Board of Supervisors of the County has approved the implementation if the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The Teeter Plan was effective beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies on secured property for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections.

The ad valorem property tax to be levied to pay the interest on and principal of the Bonds will be subject to the Teeter Plan. The City will receive 100% of the ad valorem property tax on secured property levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year, the Board of Supervisors of the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may, by resolution adopted not later than July 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any tax levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for that agency.

If the Teeter Plan is discontinued, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax collecting agency.

Largest Taxpayers

The twenty largest taxpayers in the City for Fiscal Year 2010-11 and their taxable assessed values are set forth in the following table.

TABLE 2
CITY OF SARATOGA
LARGEST SECURED PROPERTY TAXPAYERS
FISCAL YEAR 2010-11

	Property Owner	Primary Land Use	2010-11 Assessed Valuation	% of Total (1)
1.	Cupertino Village Associates LLC	Office Building	$ 34,806,646	0.35%
2.	Quito Village Associates LLC	Shopping Center	19,000,000	0.19
3.	John I. and Michelle Keller	Residential	18,456,155	0.19
4.	San Jose Water Works	Water Company	14,675,569	0.15
5.	Gregpenn Properties LLC	Residential	14,389,914	0.15
6.	David J. and Terri E. Morrison	Office Building	13,753,273	0.14
7.	John M. and Abby J. Sobrato	Residential	13,288,933	0.13
8.	Argonaut Associates, LLC	Shopping Center	10,485,540	0.11
9.	Ashok Krishnamurthi	Residential	10,414,429	0.11
10.	Public Storage Inc.	Mini Storage	9,395,090	0.09
11.	Coyote Properties IV LLC	Residential	8,305,507	0.08
12.	Ashok K. and Shipra Jain	Residential	8,195,887	0.08
13.	Venkatesh and Neelakantan Harinarayan	Residential	7,897,238	0.08
14.	David L. House	Residential	7,455,760	0.08
15.	JF Plaza Partners LP	Shopping Center	7,379,806	0.07
16.	Brian and Lorilee Dexheimer	Residential	7,372,534	0.07
17.	Ray A. Russo, Sr.	Shopping Center	7,367,323	0.07
18.	Michael A. and Patricia A. Klayko	Residential	7,060,729	0.07
19.	Eliyahou and Britt M. Harari	Residential	6,950,981	0.07
20.	Stephen J. Luczo	Residential	6,942,929	0.07
			$233,594,243	2.36%

(1) Based on 2010-11 Secured Assessed Valuation of $9,911,516,040.
Source: California Municipal Statistics, Inc.

The County Assessor reports that the following top taxpayers have unresolved appeals to their assessed valuations: Cupertino Village Associates has one active appeal with $16.9 million at risk, David House has two active appeals with $1,667,000 at risk, and Ashok Krishnamurthi has one active appeal with $300,000 at risk.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization (the "BOE") and taxed locally. Property valued by the BOE as an operating unit in a primary function of the utility taxpayer is known as "unitary property," a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Assembly Bill 454 ("AB 454") (Chapter 921, Statutes of 1986) provides that revenues derived from unitary property, commencing with Fiscal Year 1988-89, will be allocated as follows: (i) each jurisdiction will receive up to 102 percent of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from unitary property are less than the previous year's revenues or greater than 102 percent of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all unitary property except railroads, the valuation of which continues to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of unitary property to be shared by all jurisdictions in a county.

In the past, the State has passed legislation that resulted in a decrease in the amount of assessed utility property and corresponding tax revenues allocated to the State's local taxing agencies, including the City. The City is unable to predict whether legislation will be proposed or enacted in the future in response to industry restructuring, or whether any future legislation or litigation may affect the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies.

Direct and Overlapping Debt Report

Contained within the City's tax code area are districts providing public services, a number of which have issued general obligation bonds and lease obligations. Direct debt constitutes debt directly issued by the City while overlapping debt constitutes that portion of debt issued by different public entities within the same tax code area as the City's. The City is not responsible for the overlapping debt of other local agencies.

The statement of direct and overlapping debt (the "Debt Report") set forth below was prepared by California Municipal Statistics, Inc., and is dated as of June 30, 2011. The Debt Report includes only such information as has been reported to California Municipal Statistics, Inc. by the issuers of the debt described therein and by others. The Debt Report is included for general information purposes only. The City has not independently verified its completeness or accuracy and makes no representations in connection therewith.

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TABLE 3
CITY OF SARATOGA
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
AS OF JUNE 30, 2011

2010-11 Assessed Valuation: $9,963,412,097

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/11	% Applicable (1)	City's Share of Debt 6/30/11
Santa Clara County	$334,900,000	3.755%	$12,575,495
Santa Clara Valley Water District, Zone W-1	405,000	4.034	16,338
Foothill-De Anza Community College District	466,224,288	1.718	8,009,733
West Valley Community College District	213,049,346	11.820	25,182,433
Campbell Union High School District	167,315,000	5.606	9,379,679
Fremont Union High School District	265,975,108	3.709	9,865,017
Los Gatos-Saratoga Joint Union High School District	55,215,000	40.690	22,466,984
Campbell Union School District	119,646,120	6.953	8,318,995
Cupertino Union School District	122,479,905	6.109	7,482,297
Moreland School District	71,683,662	12.793	9,170,491
Saratoga Union School District	47,550,032	85.966	40,876,861
Saratoga Fire Protection District	4,818,737	97.261	4,686,752
City of Saratoga	12,605,000	100.	12,605,000
Santa Clara Valley Water District Benefit Assessment District	143,160,000	3.755	5,375,658
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$176,011,733
OVERLAPPING GENERAL FUND DEBT:			
Santa Clara County General Fund Obligations	$786,980,000	3.755%	$29,551,099
Santa Clara County Pension Obligations	386,024,822	3.755	14,495,232
Santa Clara County Board of Education Certificates of Participation	12,580,000	3.755	472,379
Santa Clara County Vector Control District Certificates of Participation	3,800,000	3.755	142,690
Foothill-DeAnza Community College District Certificates of Participation	21,215,000	1.718	364,474
West Valley-Mission Community College District General Fund Obligations	56,120,000	11.820	6,633,384
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	9,650,000	40.690	3,926,585
Saratoga Union School District Certificates of Participation	6,110,000	85.966	5,252,523
Midpeninsula Regional Open Space Park District General Fund Obligations	131,003,031	6.236	8,169,349
TOTAL OVERLAPPING GENERAL FUND DEBT			$69,007,715
TOTAL DIRECT DEBT			$12,605,000
TOTAL OVERLAPPING DEBT			$232,414,448
COMBINED TOTAL DIRECT AND OVERLAPPING DEBT			$245,019,448 (2)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:
Direct Debt ($12,605,000)..0.13%

Total Direct and Overlapping Tax and Assessment Debt........................1.77%
Combined Total Direct and Overlapping Debt.......................................2.46%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc.

Factors Affecting Property Tax Security for the Bonds

The annual property tax rate for repayment of the Bonds will be based on the total assessed value of taxable property located within the City and the scheduled debt service on the Bonds in each year. Because of Article XIII A's limitations on the annual increase in assessed values of taxable properties (generally a two percent per year limit on increases in the assessed value of a property absent changes in ownership or new improvements), the assessed value of many properties within the City remains below current market values. In general, Article XIII A may cause assessed values to lag behind both increases and decreases in market values. See "SECURITY FOR THE BONDS – Levy, Tax Rate and Assessed Valuation" and "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property within the City may cause the annual property tax rate applicable to the Bonds to fluctuate. Issuance by the City, the County or other taxing entities of additional authorized bonds payable from *ad valorem* property taxes may cause the overall property tax rate in the City to increase.

Certain factors that may affect the security for the Bonds are discussed in more detail below.

Total Assessed Value of Taxable Property in the City. The greater the assessed value of taxable property located within the City, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on general obligation bonds. Total assessed valuation of taxable property within the City in Fiscal Year 2010-11 was approximately $9,963,412,097. See "SECURITY FOR THE BONDS – Levy, Tax Rate and Assessed Valuation" and accompanying discussion of assessed valuation for Fiscal Year 2010-11.

Natural and economic forces can affect the assessed value of taxable property within the City. The City is located in a seismically active region, and damage from an earthquake in or near the City could cause moderate to extensive damage to taxable property. See "SECURITY FOR THE BONDS – Factors Affecting Property Tax Security for the Bonds – Seismic Risks" below. Other natural or manmade disasters, such as flood, fire, toxic dumping or acts of terrorism, could cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the regional economy generally, can also affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

Reductions in the market values of taxable property may cause property owners to appeal assessed values and may be associated with an increase in delinquency rates for taxes. See "SECURITY FOR THE BONDS – Levy, Tax Rate and Assessed Valuation – Proposition 8 Reductions and Appeals to Assessed Value" herein.

Concentration of Taxable Property Ownership. The more property (by assessed value) owned by any single taxpayer, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. In Fiscal Year 2010-11, no single taxpayer owned more than 0.35% percent of the total taxable property within the City. See "SECURITY FOR THE BONDS – Largest Taxpayers" herein.

Property Tax Rates. One factor in the ability of taxpayers to pay taxes for general obligation bonds is the overall rate of tax. Parcels in the City are subject to a number of tax rate areas, which are specifically defined geographic areas developed to permit the levying of taxes for less than countywide or less than citywide special districts. Each tax area has a unique combination of taxing agencies and special assessments. A typical tax rate area has tax rates per $100 of assessed value that include a base rate of one percent (or $1.00 per $100 of assessed value), plus a levy for school bonds, a levy for water bonds, a levy for the County's pension funding and miscellaneous other levies and assessments for other debt. See "SECURITY FOR THE BONDS – Levy, Tax Rate and Assessed Valuation."

Debt Burden on Owners of Taxable Property within the City. Another measure of the debt burden on local taxpayers is total debt as a percentage of taxable property value. See "SECURITY FOR THE BONDS – Levy, Tax Rate and Assessed Valuation" and "SECURITY FOR THE BONDS – Direct and Overlapping Debt Report."

Seismic Risks. The State, including Santa Clara County, is a seismically active region. Active earthquake faults underlie both Santa Clara County and the surrounding Bay Area, including the San Andreas Fault and the Hayward Fault. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), a major earthquake may cause significant temporary and possibly long-term harm to the City's economy, tax receipts and residential and business real property values.

City of Saratoga Recent Developments

For certain economic, demographic and financial information with respect to the City, see Appendix A – "AUDITED FINANCIAL STATEMENTS OF THE CITY OF SARATOGA FOR FISCAL YEAR 2009-10" attached hereto and "SECURITY FOR THE BONDS – City of Saratoga Recent Developments" herein.

In addition, below is a description of recent developments in the City since June 30, 2010.

The City's General Fund may be negatively impacted under the Fiscal Year 2011-12 State budget. The State Fiscal Year 2011-12 budget proposal does not extend the Supplemental Law Enforcement Services Funds and Citizens' Option for Public Safety Grant, which will result in a $100,000 reduction in funds per year for the City. The Budget also results in a reinstatement of Booking Fees, estimated at $35,000 per year for the City.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

California law permits citizens to effect changes to the State's Constitution and statutes, without involvement by the legislature, through the initiative process. Under this process, initiative supporters submit petitions to State election officials, who are required to submit the initiative to voters if the petitions meet statutory requirements. Many provisions of State law have been added or affected by initiatives. The initiatives described as follows have materially adversely affected the City's ability to raise revenues or spend money.

Article XIII A. Article XIII A of the California Constitution limits the amount of *ad valorem* tax on real property to one percent of the full cash value of the real property plus amounts necessary to pay debt service on specified indebtedness approved by voters. Full cash value means "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or a reduction in the consumer price index or comparable local data for the area or may be reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The full cash value may be adjusted due to change of ownership or new construction. See "SECURITY FOR THE BONDS – Levy, Tax Rate and Assessed Valuation" herein.

Article XIII B. Article XIII B of the California Constitution limits the annual appropriations of governmental agencies. The appropriations limit for the City in each year is based on the limit for the prior year, adjusted for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government, with other provisions applicable in case of emergency. The change in the cost of living is, at the City's option, either (i) the percentage change in State per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college districts. Article XIII B permits the City to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the City, exclusive of State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on specified indebtedness, appropriations required to comply with mandates of courts or the Federal government and appropriations for qualified outlay projects. Debt service on the Bonds, as voter-approved obligations, are not subject to Article XIII B appropriation limitations. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the County from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) State subventions received by the City. The appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

The City's appropriations limit for Fiscal Year 2009-10 was $31,261,971, and the amount subject to the limitation was approximately $9,941,500. The City's appropriations limit for Fiscal Year 2010-11 was $30,851,813 and the amount of appropriations subject to limitation for that year was approximately $9,599,500.

Proposition 62. Provisions of State law added by the voter approval of Proposition 62 in 1986 (a) require that any new or higher taxes for general governmental purposes imposed by the local agency be approved by a two-thirds vote of the Board and by a majority vote of the voters of the local agency voting in an election on the tax, (b) require that any special tax (defined as taxes levied for other than general governmental purposes) imposed by the local agency be approved by a two-thirds vote of the voters of the local agency voting in an election on the tax, (c) restrict the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibit the imposition of *ad valorem* taxes on real property by the local agency except as permitted by Article XIII A of the California Constitution and (e) prohibit the imposition of transaction taxes and sales taxes on the sale of real property by the City.

Article XIII C. Articles XIII C and XIII D of the California Constitution were added in 1996. Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. In addition Article XIII C removed many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. As a result, voters of the City could approve initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's general fund. No such initiative is currently pending, or to the knowledge of the City, proposed.

Article XIII D. Article XIII D imposes requirements and limitations for "assessments" for governmental services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. Article XIII D limits "fees" and "charges," defined to mean "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." Property related fees and charges (i) must not generate revenues exceeding the funds required to provide the property related service, (ii) must not be used for any purpose other than those for which the fees and charges are imposed, (iii) must be for a service actually used by, or immediately available to, the owner of the property in question, or (iv) must not be used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

Proposition 1A. Proposition 1A, proposed by the Legislature in connection with the 2004-05 Budget Act, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to eight percent of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the finances of the City.

Future Initiatives. Article XIII A, Article XIII B, Article XIII C and Article XIII D of the State Constitution and the statutes added by Proposition 62 and Proposition 1A were all adopted pursuant to the State's initiative process. The limitations imposed upon the City by these provisions hinder the City's ability to raise revenues through taxes or otherwise and may therefore prevent the City from meeting increased expenditure requirements. The City expects that other initiative measures will be adopted, some of which may place further limitations on the ability of the State, the City or local districts to increase revenues or to spend money or which could have other financially adverse effects such as requiring the City to undertake new responsibilities. Such other initiatives could have a material adverse effect on the City's financial condition.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City, under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

FINANCIAL STATEMENTS

The audited financial statements of the City for fiscal year 2009-2010 are attached hereto as Appendix A and should be read in their entirety. The City's independent auditor was not requested to consent to the inclusion of its report in Appendix A, nor has such auditor undertaken to update its report or take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this official statement, and no opinion is expressed by such auditor with respect to any event subsequent to the date of its report.

CERTAIN LEGAL MATTERS

Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel to the City, will render an opinion with respect to the validity of the Bonds. A complete copy of the proposed form of the opinion to be delivered by Bond Counsel is contained in Appendix B hereto. Certain legal matters will be passed upon for the City by Richard Taylor, Esq., Shute, Mihaly & Weinberger LLP, City Attorney. Hawkins Delafield & Wood LLP has also served as Disclosure Counsel to the City. Bond Counsel/Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the Bonds.

ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds, and a certification to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or Contesting the City's ability to receive assessments or to collect other revenues or contesting the City's ability to issue and retire the Bonds.

CONTINUING DISCLOSURE

The City will execute a Continuing Disclosure Certificate, to be dated as of the Closing Date (the "Continuing Disclosure Certificate"), which provides for certain disclosure obligations on the part of the City. Under the Continuing Disclosure Certificate, the City will covenant for the benefit of Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than March 30 of each year, commencing with the reports for Fiscal Year 2010-11 which is to be filed by March 30, 2012 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Listed Events"), if material. All Annual Reports and notices of Listed Events must be filed with the MSRB's Electronic Municipal Market Access System. These covenants have been made in order to assist the initial purchasers of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule") For a form of the Continuing Disclosure Certificate, see APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of Listed Events.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend," "projection" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM

ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN THEIR EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR OR DO NOT OCCUR.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Service ("S&P") have assigned the Bonds the ratings of "Aaa" and "AAA," respectively. Certain information was supplied by the City to the rating agencies to be considered in evaluating the Bonds. Such ratings express only the views of the rating agencies and are not a recommendation to buy, sell or hold the Bonds.

There is no assurance that such ratings will continue for any given period of time or that they will not be reduced or withdrawn entirely by the rating agencies, or either of them, if in their, or its, judgment, circumstances so warrant. The City undertakes no responsibility to oppose any such revision or withdrawal, although the City will covenant in the Continuing Disclosure Certificate to provide notice of any rating changes to the MSRB's Electronic Municipal Market Access System. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

SALE OF THE BONDS

The Bonds were sold at competitive bid on __________, 2011. The Bonds were awarded to ________________ (the "Purchaser"), at a purchase price of $___________ (consisting of $___________ aggregate principal amount, plus $___________ of net original issue premium, less underwriter's discount of $___________). The Official Notice of Sale provided that all Bonds would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Bond Counsel, and certain other conditions. The Purchaser of the Bonds has represented to the City that the Bonds have been re-offered to the public at the yields stated on the inside cover page hereof. See "ESTIMATED SOURCES AND USES OF FUNDS."

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and of statutes and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF SARATOGA

By: ______________________________

City Manager

APPENDIX A

CITY OF SARATOGA AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2010

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CITY OF SARATOGA

C A L I F O R N I A

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR 2009/10

Saratoga, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

City Council

Kathleen King .... Mayor
Jill Hunter .... Vice Mayor
Chuck Page .... Council Member
Howard Miller .... Council Member
Manny Cappello .... Council Member

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

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INTRODUCTORY SECTION

CITY OF SARATOGA

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

November 8, 2010

Honorable Mayor and City Council,

The Comprehensive Annual Financial Report (CAFR) of the City of Saratoga for the year ended June 30, 2010 is hereby submitted as mandated by applicable statutes. These statutes require that the City of Saratoga annually issue a report on its financial position and activity, and that an independent firm of certified public accountants audit this report. Responsibilities for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. The information in this report is intended to present the reader with a comprehensive view of the City's financial position and the results of its operations for the fiscal year ending June 30, 2010, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the City's financial activities.

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

THE REPORTING ENTITY AND ITS SERVICES

The City, incorporated in 1956, is located 40 miles south of San Francisco in the Santa Clara Valley. The City currently covers a land area of approximately 12 square miles and contains a population of 31,997 at January 1, 2010 as reported by the Department of Finance. The City is a general law city of the State of California and operates under a council-manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor, Vice Mayor and three additional council members. City Council members are elected at-large for staggered four-year terms. The Mayor is selected annually by the City Council. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing members to the City's seven advisory commissions and hiring the City Manager and City Attorney. The City Manager is responsible for implementing the policies and ordinances of the City Council, overseeing the daily operations of the City, and recommending appointments of the City's department directors to the City Council.

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

Saratoga residents who wish to assist the City Council in forming government policy may do so by serving on an advisory commission. The commissions all 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 FY 2005/06. The Authority's final financial report was issued for FY 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

The financial structure of Saratoga with its mostly built-out residential neighborhoods and limited commercial development means that the two typically largest sources of revenue for cities—property tax and sales tax—will result in minimal growth in future years. In addition, while Proposition 1A protects the city from further ongoing unrestrained State takeaways of tax revenues, under the current budget crisis, the City expects to see shortfalls in unprotected State or County based funding, and temporary borrowings of property tax revenues permitted under Proposition 1A. With this in mind the City continues to restrict operations to minimal services and prepare for funding impacts. Capital improvements will continue to be funded with residual funding and grant moneys as funding levels allow.

On a positive note the City began receiving a significant increase in property tax revenues due to the passage of Assembly Bill 117. This legislation, effective with the 2006/07 fiscal year, increased the property tax percentage allocated to the City as a result of the Tax Equity Allocation (TEA) formula. Assembly Member Cohn sponsored the bill which resulted from a joint effort of the City of Saratoga, Santa Clara County and 3 other affected cities – Cupertino, Monte Sereno and Los Altos Hills. While the TEA legislation restored the cities to the full "low tax" level of 7%, the State required the cities to continue to remit the County's ERAF rate on these funds so that the bill would have no effect on the State budget. The ERAF rate the County remits is 47.7%, compared to the City of Saratoga's rate of 17.14%, resulting in a significant impact to the revenues received.

FINANCIAL INFORMATION AND MAJOR INITIATIVES

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data 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.

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

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

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

The FY 2009/10 budget focused on maintaining service levels in anticipation of further reductions in the City's revenue sources due to the weakening economy. Departmental budgets were held or reduced to non-expansive levels. The City prepared for additional takeaways by the State due to the publicity of the State's struggle with their budget. With decreasing resources, the FY 2009/10 budget process continued its focus on operational efficiencies to streamline services, the alignment of fees with services provided to the public, short-term eliminations of operational resources where available, and strengthening the organization's tracking and communication of City operations.

OTHER INFORMATION

Independent Audit – California law requires cities to prepare an annual audit by an independent certified public accountant. In addition to meeting the requirements set forth in statutes, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984, as amended, and the related U.S. Office of Management and Budget's Circular. Generally accepted auditing standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's unqualified report is included in the financial section of this report. Vavrinek, Trine, Day & Co., LLP Certified Public Accountants performed the City's Fiscal Year 2009/10 financial audit.

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, 2009. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements – This CAFR represents the culmination of numerous hours of hard work expended by many individuals in the Finance & Administrative Services Department. In particular, we would like to express our appreciation to Robert Edris, Sr. Accountant for his exemplary preparation of this annual financial report, and to our supporting staff members: Ann Xu, Accountant; Julie Ingraham, Karen Caselli, and Melanie Whitaker, Accounting Technicians for all their assistance with the audit and exemplary services throughout the year. Furthermore, we would like to thank Vavrinek, Trine, Day & Co. LLP, CPA's for their helpful assistance in the preparation of this report. Finally, we would like to give credit to the City Council for their ongoing interest and support in planning, conducting and advising on the operations of the City in a responsible and representative manner.

Respectfully submitted,

Dave Anderson	Mary M. Furey
Dave Anderson	Mary Furey
City Manager	Finance and Administrative Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Saratoga California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

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

President

Executive Director

CITY OF SARATOGA
ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

As of June 30, 2010

CITY COUNCIL

Kathleen King - Mayor
Jill Hunter – Vice Mayor
Chuck Page
Howard Miller
Manny Cappello

CITY STAFF

Dave Anderson – City Manager
Barbara Powell – Assistant City Manager
Ann Sullivan – City Clerk
Mary Furey – Finance & Administrative Services Director
John Livingstone – Community Development Director
John Cherbone – Public Works Director
Michael Taylor – Recreation & Facilities Director

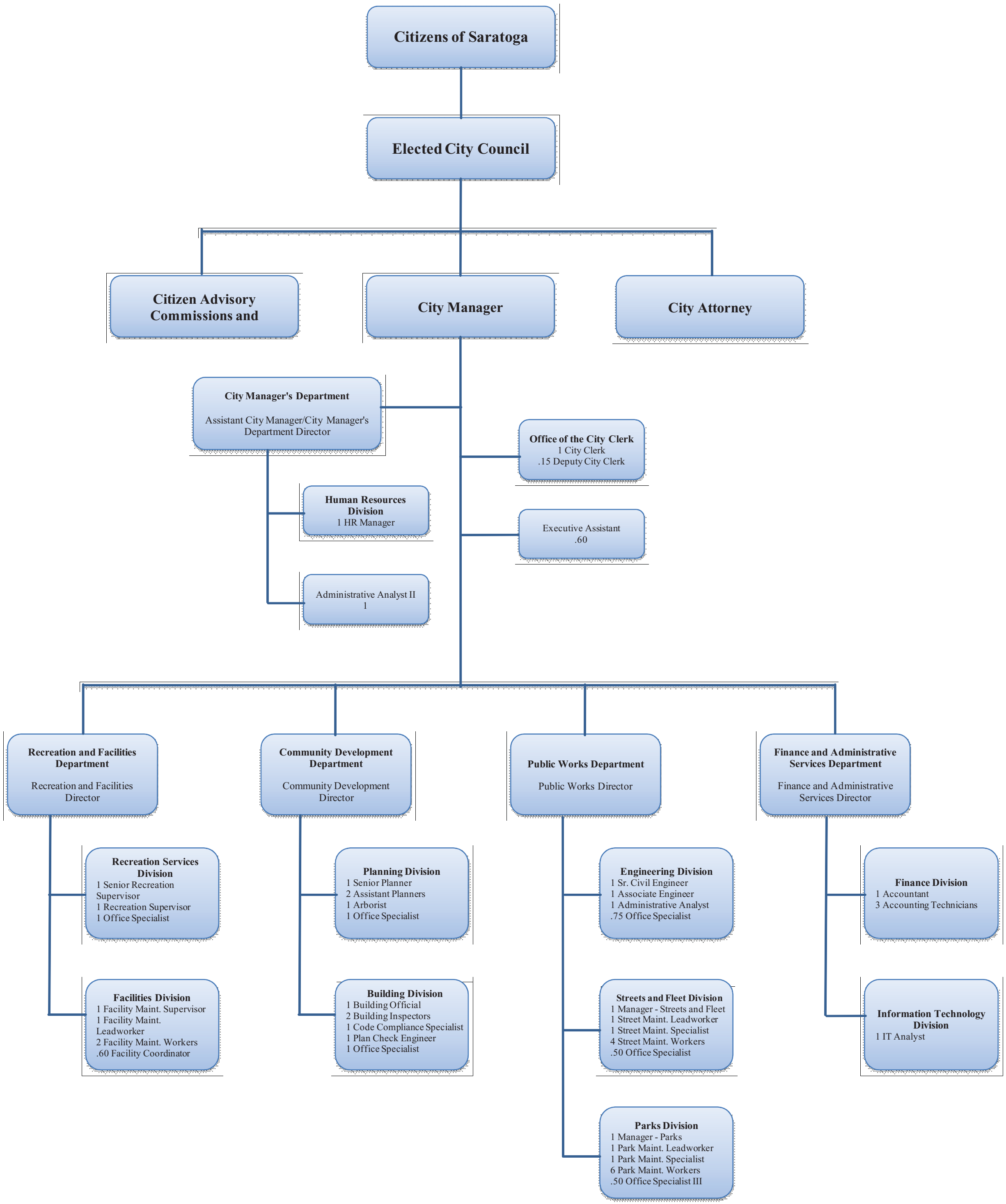
CITY ATTORNEY

Richard S. Taylor – Shute, Mihaly & Weinberger

INDEPENDENT AUDITORS

Vavrinek, Trine, Day & Co., LLP, CPA

City of Saratoga - Organization Chart



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FINANCIAL SECTION

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Saratoga (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PLEASANTON • RANCHO CUCAMONGA • PALO ALTO • SACRAMENTO

The required supplementary information, such as management's discussion and analysis, and the required supplementary information as listed on the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, and the 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 basic 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 express no opinion on them.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
November 8, 2010

INTRODUCTION

The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2010 for the City of Saratoga. The Management Discussion and Analysis (MD&A) is to be read in conjunction with the annual Transmittal Letter and the Basic Financial Statements.

FISCAL YEAR 2009/10 FINANCIAL HIGHLIGHTS

- The City's total net assets were $123,017,751, comprised of $108,965,864 for investment in capital assets, net of depreciation and related debt; $5,519,025 restricted for specific purposes; and $8,532,862 unrestricted net assets (reference pg #23).
- Total City revenues were $18,901,842 which consists of program revenue of $6,536,962 and general revenues of $12,364,880 (reference pg #24).
- The City's expenses were $18,741,679 (reference pg #24).
- Total Governmental Fund's fund balances were $13,529,703, consisting of $8,010,678 in the General Fund, $3,705,941 in the Capital Improvement Funds, and $1,813,084 in the Other Governmental Funds (reference pg #25).
- General Fund revenues were $15,245,049, while General Fund expenditures were $15,138,899 (reference pg #27).

THE BASIC FINANCIAL STATEMENTS

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

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

All of the City's activities are required to be grouped into government activities and business-type activities. The entire amount in the *Statement of Net Assets* and the *Statement of Activities* are also required to be separated into governmental activities or business-type activities in order to provide a summary of these two activities of the City as a whole. In the case of the City of Saratoga, there are no business-type activities as of June 30, 2010.

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

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

The Government-Wide Financial Statements

Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole. The *Statement of Net Assets* and the *Statement of Activities* present information about the following:

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

Business-Type Activities - This category includes enterprise activities such as water, sewer, and utilities. Unlike governmental services, these services are fully supported by charges paid by users based on the amount of services they use. The City of Saratoga does not have any business-type activities at this time.

Fund Financial Statements

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

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

Governmental Funds - The City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances available at year-end. Financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Carrying amounts for capital assets and other long-lived assets, along with long-term liabilities are not presented on the balance sheet in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

Fiduciary Funds – These funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Fiduciary funds are not reflected in the government-wide financial statements because these resources are not available to support the City's programs. The City maintains one such fund, the Community Access Television Fund, which acts as trustee for the CATV Foundation Board for investment purposes.

NOTES TO THE FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

SUPPLEMENTARY INFORMATION

Combining and individual fund statements and schedules are included to provide information for non-major governmental funds, special revenue funds, fiduciary funds, 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 assets may serve over time as an indicator of the City's financial position. The City's Total Net Assets increased $160,163, from $122,857,588 in FY 2008/09 to $123,017,751 in FY 2009/10.

The most significant portion of the City's net assets ($108,965,864 or 88.6%) 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.

$5,519,025 or 4.5% of the City's net assets are subjected to external restrictions on how they may be used. Of these restricted net assets, $4,057,300 is restricted for capital projects, $892,593 is for repayment of long-term debt and $569,132 is restricted for housing activities and lighting and landscaping assessment districts.

The remaining $8,532,862 or 6.9% of the City's net assets are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

Net Assets

	Governmental Activities	
	2010	2009
Assets		
Current assets	$ 16,740,241	$ 18,182,606
Non-current assets	58,337	71,670
Capital assets	121,920,864	122,102,516
Total Assets	138,719,442	140,356,792
Liabilities		
Current liabilities	2,794,845	4,317,341
Long-term debt	12,906,846	13,181,863
Total Liabilities	15,701,691	17,499,204
Net Assets		
Investment in capital assets, net of related debt	108,965,864	108,817,516
Restricted for Capital Project	4,057,300	3,865,374
Restricted for Debt Service	892,593	931,361
Restricted for Special Projects	569,132	484,088
Unrestricted	8,532,862	8,759,249
Total Net Assets	$ 123,017,751	$ 122,857,588

Statement of Changes in Net Assets

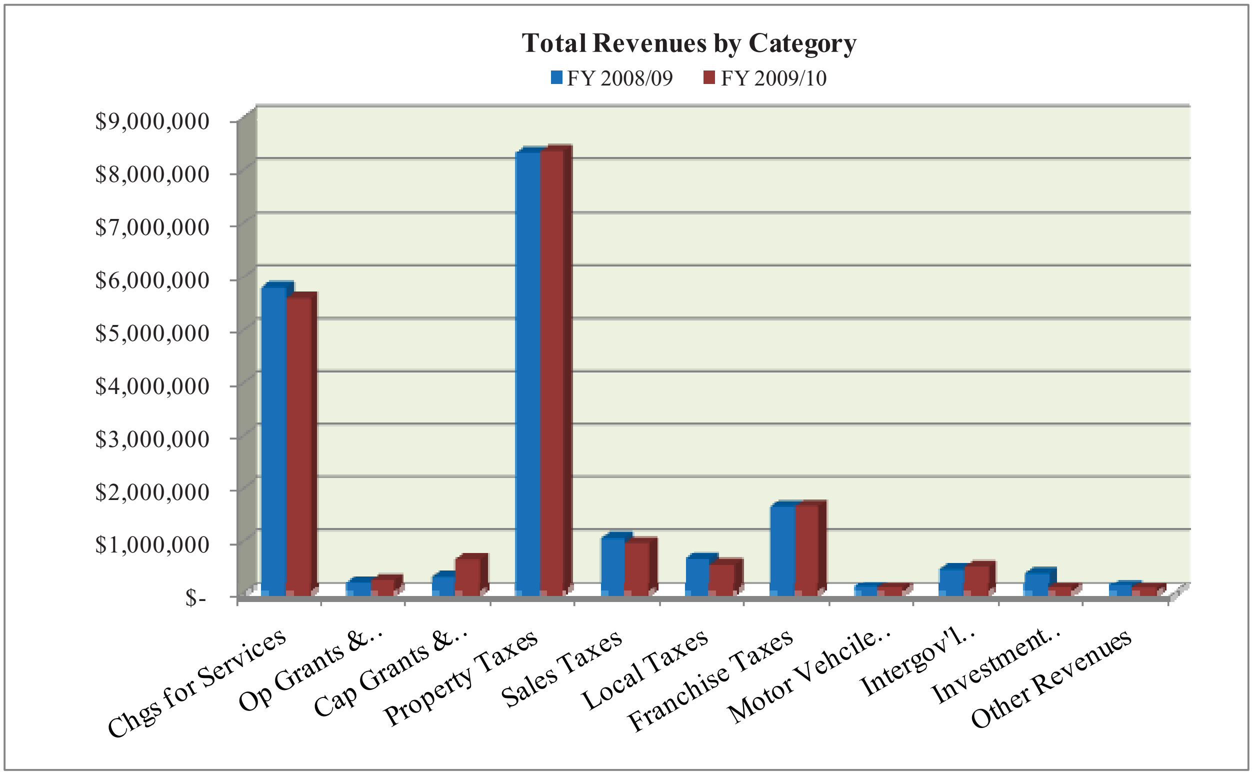
Functions/Programs	Governmental Activities 2010	Governmental Activities 2009	Increase (Decrease)
Program Revenues			
Charges for services	$ 5,588,740	$ 5,768,277	$ (179,537)
Operating grants and contributions	275,035	228,534	46,501
Capital grants and contributions	673,187	338,768	334,419
Total Program Revenues	6,536,962	6,335,579	201,383
General Revenues			
Property taxes	8,371,322	8,335,805	35,517
Sales taxes	954,574	1,043,034	(88,460)
Local taxes	560,040	663,053	(103,013)
Franchise taxes	1,663,657	1,656,716	6,941
Motor vehicle in-lieu	101,218	116,273	(15,055)
Intergovernmental revenues	521,852	473,989	47,863
Investment earnings	100,731	397,116	(296,385)
Other revenues	91,486	148,284	(56,798)
Total General Revenues	12,364,880	12,834,270	(469,390)
Expenses			
General and intergovernmental services	3,729,036	5,595,474	(1,866,438)
Public safety	4,338,598	4,210,763	127,835
Public works	6,534,902	7,643,545	(1,108,643)
Community services	1,710,769	1,633,997	76,772
Community development services	1,751,348	1,999,754	(248,406)
Interest on long-term debt (unallocated)	677,026	696,800	(19,774)
Total Expenses	18,741,679	21,780,333	$ (3,038,654)
Increase / (Decrease) in Net Assets	160,163	(2,610,484)	
Net Assets, Beginning of Year	122,857,588	125,468,072	
Net Assets, End of Year	$ 123,017,751	$ 122,857,588	

As shown in the above *Statement of Changes in Net Assets* schedule, the net change in program revenues from the prior fiscal year for governmental activities is an increase of $201,383. The net change in general revenues from the prior year is a decrease of $469,390, for a total decrease in revenues of $268,007. The net change in expenses from the prior year is a decrease of $3,038,654.

With total program and general revenues for fiscal year 2009/10 at $18,901,842 and total expenses at $18,741,679, the net activity resulted in an increase in Net Assets of $160,163.

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

CHART OF REVENUE INCREASE OR (DECREASE)



Increases in Revenues

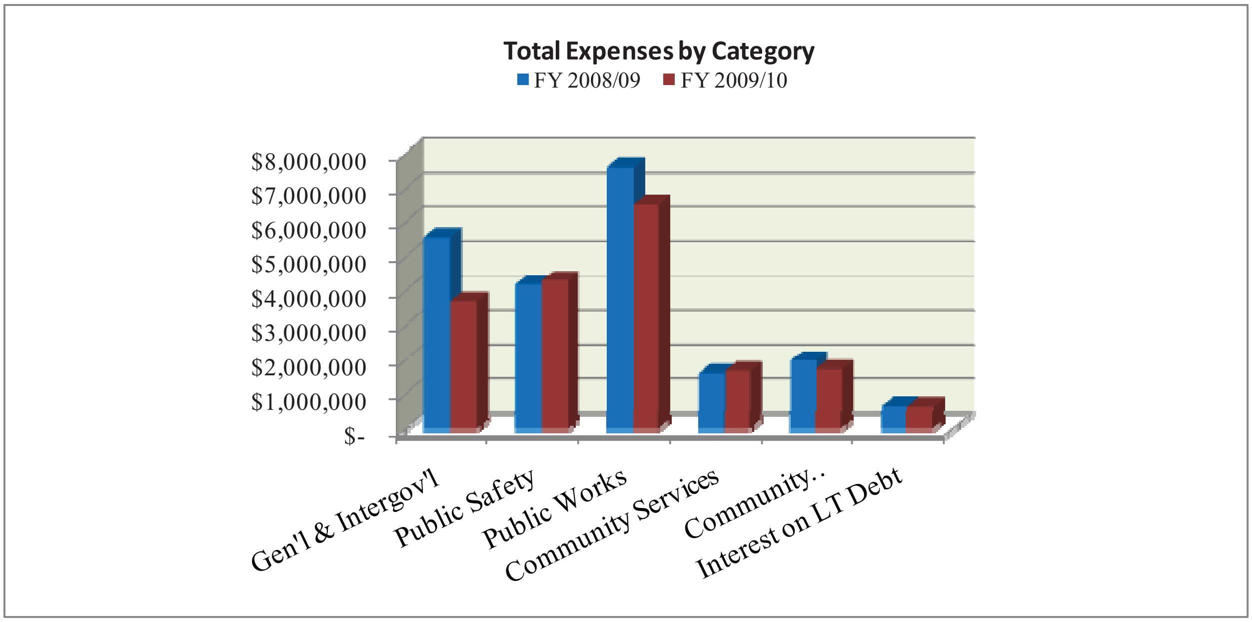
- A $46,501 increase in operating grants is primarily the result of the State's payment delay for COPS/SLESF funds as funding due in fiscal year 2008/09 was made in fiscal year 2009/10. A $334,419 increase in capital grants reflects a large street resurfacing grant reimbursement completed in FY 2009/10.
- The small increase of $35,517 (.43%) in property tax revenue is the net of increases in property tax assessment values from real estate turnover of long-held properties, against decreases in overall assessed property values. The increase is significantly lower than in previous years due to the ongoing decrease in housing prices during FY 2009/10.
- Intergovernmental revenues reflect an increase of $47,863 due primarily to an increase in Gas Tax revenues from the prior fiscal year.

Decreases in Revenues

- A decrease of $179,537 in Charge for Services reflects the ongoing impact to development service revenues caused by the economic downturn and credit crunch. The continued decline was offset by an approximate $80,000 increase in recreation revenues resulting from new dance programs.

- Sales tax and local taxes also decreased in fiscal year 2009/10 as a result of the economic downturn. Sales tax decreased by $88,460 and local taxes by $103,013. The portion of the business license tax and the construction tax that are based on building permits comprised the majority of the decrease in local taxes, with the remainder of the decrease from the City's hotel tax.
- Investment Earnings decreased by $296,385 (75%) from the prior year due to historically low interest rates at under 1% during the fiscal year
- Other Revenues represents miscellaneous refunds and reimbursements, proceeds from sales, cell tower leases, and minor oddities. Revenues will fluctuate from year to year as these types of receipts are typically unplanned and one-time occurrences. A continued emphasis on categorizing revenues into proper programs and categories has also contributed to the $56,798 decrease in this category.

CHART OF EXPENSE INCREASE OR (DECREASE)



The net change in expenses for Governmental Activities was a decrease of $3,038,654. Expenditures with significant events include:

Increases in Expenses

- Public Safety expenses increased by $127,835 due to an increase in the Sheriff's Office contract cost.
- The $76,772 increase in Community Services expenses is due to increases in Recreation program costs resulting from additional dance program activities and staffing costs.

Decreases in Expenses

- A $1,866,438 decrease in the General and Intergovernmental Services category from the prior year is the result of strategic reductions in administrative staffing costs, operational expenses, and internal service charges to offset reductions in revenues.

- A $1,108,643 decrease in the Public Works category reflects reductions in non-capital maintenance costs with the emphasis shifting to capital improvements rather than maintenance projects during the fiscal year.
- The community development category of expenditures decreased by $248,406 with the continued downturn in services provided.

MAJOR AND OTHER GOVERNMENTAL FUNDS: CHANGE IN FUND BALANCE

A summary of the changes in fund balance of the major and other government funds are presented below:

	Major Funds		
	General	Capital Improvement	Other Governmental Funds
Total Revenues	$ 15,245,049	$ 2,160,466	$ 1,573,432
Total Expenditures	15,138,899	2,578,501	1,396,353
Revenues Over (Under) Expenditures	106,150	(418,035)	177,079
Transfers in	325,842	845,979	-
Transfers out	(650,000)	(232,983)	(133,838)
Net change in fund balances	(218,008)	194,961	43,241
Beginning of year	8,228,686	3,510,980	1,769,843
End of year	$ 8,010,678	$ 3,705,941	$ 1,813,084

Included in the Major Funds are the General Fund and the Capital Improvement Fund. The Other Governmental funds include twenty-four Lighting and Landscape Assessment Districts, accounted for as one fund in the financials, the Community Development Block Grant Fund, the Library Bond Debt Service Fund, and the Library Expansion Capital Project Fund. The net change of the Major and Other Governmental Funds fiscal year transactions is an increase of $20,194.

General Fund - As shown in the preceding *Major Funds* table, the net change in the General Fund's Fund Balance was a decrease of $218,008. A net loss resulted from the net of operating revenues coming in just slightly over operating expenditures, and the transfer out of $650,000 to the Capital Improvement Program.

Revenues are budgeted conservatively based upon prior year experience and specific information, while expenditures are limited to anticipated program needs at not-to-exceed projected funding levels. A large factor which contributed to the net loss was the more than $600,000 decrease in General Fund revenues from the prior year due to continued drops in development permits and fees, construction related taxes, and interest earnings.

Capital Improvement Project Fund - As shown in the table above, the net change in the Capital Improvement Fund has an increase of $194,961 which is due to timely grant reimbursements and a net of $612,996 of transfers into the capital program to offset the operational shortfall.

Other Governmental Funds - As shown in the table, there was a net increase of $43,241 in the Other Governmental Funds, primarily due to lower operational costs in the landscape and lighting funds this fiscal year.

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.

Adopted to Final Budget
Fiscal Year Ended June 30, 2010

	Adopted Budget	Budget Adjustments	Final Budget
Expenditures	$ 15,816,578	(478,033)	$ 15,338,545
Transfers out	$ 253,500	396,500	$ 650,000

The General Fund adopted expenditure budget was $15,816,578. At the City's mid-year review, a revenue shortfall was anticipated so various departmental expenditures were reduced by $310,000 and funding for the City's internal service funds was reduced by $168,033, reducing the General Fund's budget by $478,033.

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.

The City policy is to achieve an average Pavement Condition Index (PCI) rating of 70 for all streets. The City achieved the 70 rating with 86% of streets rated as Excellent to Good, 13% of streets are rated as "Poor", and 1% of streets are rated as "Very Poor". The City spent $771,386 to maintain and preserve eligible infrastructure assets. For more detailed information on Capital Assets activity, please refer to Note 2 in the section entitled "Notes to the Basic Financial Statements" and "Required Supplementary Section". The next assessment study has been contracted for September, 2010.

As of June 30, 2010, the City had $121,920,864 invested in a variety of capital assets, as reflected in the following schedule, which represents a decrease of $181,652 or less than a 1% decrease from the prior year.

Capital Assets at Year End
Net of Depreciation

	Governmental Activities	
	2010	**2009**
Land	$ 12,984,078	$ 10,585,106
Building and structures	17,941,650	18,261,779
Machinery and equipment	680,366	470,646
Infrastructure	85,871,410	86,189,639
Construction in progress	4,443,360	6,595,346
Total Capital Assets, Net of Depreciation	$ 121,920,864	$ 122,102,516

The following reconciliation summarizes the changes in Capital Assets.

Changes in Capital Assets

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Land	$ 10,585,106	$ 2,398,972	$ -	$ 12,984,078
Building and structures	23,156,758	256,005	-	23,412,763
Machinery and equipment	2,026,140	383,494	(127,790)	2,281,844
Infrastructure	103,549,229	876,278		104,425,507
Construction in progress	6,595,346	1,808,376	(3,960,362)	4,443,360
Depreciation	(23,810,063)	(1,944,415)	127,790	(25,626,688)
Total Capital Assets, Net of Depreciation	$ 122,102,516	$ 3,778,710	$ (3,960,362)	$ 121,920,864

Major capital projects in progress during the fiscal year include the following:

- Kevin Moran Park Improvements - $116,132
- Library HVAC Upgrade - $276,548
- Saratoga Avenue Resurfacing - $257,716
- UPPR / DeAnza Trail - $251,007
- Prospect Road Medians - $99,373

Additional information on Capital Assets is included in Note 6 to the financial statements.

DEBT ADMINISTRATION

The net change in outstanding debt for the City of Saratoga is a decrease of $220,747. During the fiscal year, the City did not enter into any new debt structures.

Outstanding Long-Term Obligation at Year End

	Governmental Activities	
	2010	**2009**
2001 General Obligation Bond	$ 12,955,000	$ 13,285,000
Compensated absences	693,668	584,415
Total Outstanding Debt	$ 13,648,668	$ 13,869,415

The current portions of long-term debt ($350,000 and $330,000 for 2010 and 2009, respectively), are classified as current liabilities in the City's *Statement of Net Assets*.

2001 General Obligation Bond - During the fiscal year, the City made debt service payments that include a principal reduction of $330,000 on the City's 2001 General Obligation $15,000,000 bond issue.

Compensated absences are accrued liabilities for vested and unpaid vacation and sick pay. The compensated absences balance increased during the fiscal year by $109,253 due to an increase in unused compensated time off.

Additional information on outstanding obligations can be found in Note 7 to the financial statements.

ECONOMIC FACTORS

In September 2006, the City received a significant increase in new property tax revenues on an annual basis due to the passage of Assembly Bill 117. This legislation effective with FY 2006/07 increases the amount of property taxes allocated to the City as a result of the TEA (Tax Equity Allocation) formula. Assembly Member Cohn sponsored the bill which resulted from a joint effort of the City of Saratoga, Santa Clara County and the three other affected cities - Cupertino, Monte Sereno and Los Altos Hills. These cities are referred to as "no/low tax cities" and will have restored a proportionate share of the property taxes which they lost to special legislation in 1989. This resulted in a permanent increase in general fund property taxes to approximately 5.45% of the 1% ad valorem tax property owners pay.

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

REQUEST FOR FINANCIAL INFORMATION

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

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BASIC FINANCIAL STATEMENTS

CITY OF SARATOGA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and investments	$ 15,864,455
Receivables:	
Accounts	842,425
Interest	20,028
Loans	13,333
Total Current Assets	16,740,241
Noncurrent Assets:	
Loans receivable	58,337
Capital Assets:	
Non-depreciable	66,583,057
Depreciable, net	55,337,807
Total Capital Assets	121,920,864
Total Noncurrent Assets	121,979,201
Total Assets	138,719,442
LIABILITIES	
Current Liabilities:	
Accounts payable	523,533
Accrued payroll	372,018
Other payable	62,173
Interest payable	280,690
Deposits payable	750,387
Unearned revenue	9,621
Claims payable	54,601
Long-term debt - due within one year	741,822
Total Current Liabilities	2,794,845
Noncurrent Liabilities:	
Long-term debt - due in more than one year	12,906,846
Total liabilities	15,701,691
Net Assets	
Investment in capital assets, net of related debt	108,965,864
Restricted for:	
Capital projects funds	4,057,300
Debt service	892,593
Special projects	569,132
Total Restricted	5,519,025
Unrestricted	8,532,862
Total Net Assets	$ 123,017,751

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Program Revenues: Total	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities
Primary Government:						
Governmental Activities:						
General and intergovernmental services	$ 3,729,036	$ 125,076	$ -	$ -	$ 125,076	$ (3,603,960)
Public safety	4,338,598	425,378	144,175	-	569,553	(3,769,045)
Public works	6,534,902	2,534,991	7,048	673,187	3,215,226	(3,319,676)
Community services	1,710,769	916,730	-	-	916,730	(794,039)
Community development services	1,751,348	1,586,565	123,812	-	1,710,377	(40,971)
Interest on long-term debt (unallocated)	677,026	-	-	-	-	(677,026)
Total	$ 18,741,679	$ 5,588,740	$ 275,035	$ 673,187	$ 6,536,962	$ (12,204,717)

General Revenues:	
Taxes	
Property taxes	8,371,322
Sales taxes	954,574
Local taxes	560,040
Franchise taxes	1,663,657
Motor vehicle-in-lieu	101,218
Total taxes	11,650,811
Intergovernmental	521,852
Investment earnings	100,731
Other revenues	91,486
Total General Revenues	12,364,880
Change in Net Assets	160,163
Net Assets - Beginning of Year	122,857,588
Net Assets - End of Year	$ 123,017,751

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
GOVERNMENTAL FUNDS - BALANCE SHEET
JUNE 30, 2010

	Major Funds			
	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 9,032,631	$ 3,502,303	$ 1,830,951	$ 14,365,885
Receivables:				
Accounts	467,810	296,570	11,477	775,857
Interest	17,892	-	2,136	20,028
Loans	-	-	71,670	71,670
Total assets	$ 9,518,333	$ 3,798,873	$ 1,916,234	$ 15,233,440
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 363,550	$ 91,071	$ 21,859	$ 476,480
Accrued payroll	331,531	1,861	-	333,392
Deposits payable	750,387	-	-	750,387
Other payable	62,173	-	-	62,173
Deferred revenue	14	-	81,291	81,305
Total liabilities	1,507,655	92,932	103,150	1,703,737
Fund Balances:				
Reserved for:				
Petty cash	1,300	-	-	1,300
Debt service	-	-	892,593	892,593
Unreserved, designated for:				
Operations	2,889,077	-	-	2,889,077
Economic uncertainty	1,500,000	-	-	1,500,000
Environmental services	563,182	-	-	563,182
Community development services	632,380	-	-	632,380
Grant matching	600,000	-	-	600,000
Hillside Reserve	300,000	-	-	300,000
Uncollected deposits	44,791	-	-	44,791
Carryforward Reserve	68,600			68,600
Capital projects reserve	126,983			126,983
Unreserved, undesignated, reported in:				
General fund	1,284,365	-	-	1,284,365
Special revenue funds	-	-	569,132	569,132
Capital projects funds	-	3,705,941	351,359	4,057,300
Total fund balances	8,010,678	3,705,941	1,813,084	13,529,703
Total liabilities and fund balances	$ 9,518,333	$ 3,798,873	$ 1,916,234	$ 15,233,440

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 ASSETS
JUNE 30, 2010

Total Fund Balances - Total Governmental Funds	$ 13,529,703
Amounts reported for governmental activities in the statement of net assets were different because:	
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:	
Non-depreciable capital assets	66,583,057
Depreciable capital assets, net	55,046,268
Total Capital Assets	121,629,325
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.	(280,690)
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	1,655,207
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.	132,874
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:	
General obligation bonds	(12,955,000)
Compensated absences	(693,668)
Total Long-Term Liabilities	(13,648,668)
Net Assets of Governmental Activities	$ 123,017,751

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010

	Major Funds			
	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	$ 8,185,390	$ -	$ 186,006	$ 8,371,396
Special assessments	8,974		1,237,806	1,246,780
Sales taxes	954,574	-	-	954,574
Other local taxes	560,040	-	-	560,040
Licenses & permits	1,063,946	424,737	-	1,488,683
Fines & forfeiture	350,751	8,010	-	358,761
Intergovernmental - Federal	-	430,387	-	430,387
Intergovernmental - State	323,837	934,083	-	1,257,920
Intergovernmental - Other	34,050	99,712	123,812	257,574
Franchise fees	1,663,657	-	-	1,663,657
Use of money and property	541,305	41,640	12,385	595,330
Other revenue	1,558,525	221,897	13,423	1,793,845
Total revenues	15,245,049	2,160,466	1,573,432	18,978,947
EXPENDITURES:				
Current:				
General and intergovernmental services	3,102,397	-	-	3,102,397
Public safety	4,348,778	-	-	4,348,778
Public works	4,353,903	-	375,619	4,729,522
Community services	1,222,649	-	-	1,222,649
Community development services	2,111,172	-	-	2,111,172
Capital outlay	-	2,578,501	5,458	2,583,959
Debt service:				
Principal	-	-	330,000	330,000
Interest and fiscal charges	-	-	685,276	685,276
Total expenditures	15,138,899	2,578,501	1,396,353	19,113,753
REVENUES OVER (UNDER) EXPENDITURES	106,150	(418,035)	177,079	(134,806)
OTHER FINANCING SOURCES (USES):				
Transfers in	325,842	845,979	-	1,171,821
Transfers out	(650,000)	(232,983)	(133,838)	(1,016,821)
Total other financing sources (uses)	(324,158)	612,996	(133,838)	155,000
Net change in fund balances	(218,008)	194,961	43,241	20,194
FUND BALANCES:				
Beginning of year	8,228,686	3,510,980	1,769,843	13,509,509
End of year	$ 8,010,678	$ 3,705,941	$ 1,813,084	$ 13,529,703

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 ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Total Governmental Funds	$	20,194
Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:		
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		1,622,628
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds.		(1,675,048)
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.		(39,942)
Certain revenues were recorded as deferred revenue in the governmental funds because they did not meet the revenue recognition criteria of availability. However, they were included as revenue in the Government-Wide Statement of Activities and Changes in Net Assets under the full accrual basis.		3,334
Long-term compensated absences and claims payables were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, long-term compensated absences and claims payable were not reported as expenditures in governmental funds.		
Compensated absences		(109,253)
Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.		
Long-term debt repayments		330,000
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the change in accrued interest from prior year.		8,250
Change in Net Assets of Governmental Activities	$	160,163

The accompanying notes are an integral part of these financial statements

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	$ 1,498,570
Accounts receivable	5,378
Total current assets	1,503,948
Noncurrent assets:	
Capital assets:	
Machinery and equipment	714,059
Less: accumulated depreciation	(422,520)
Total capital assets (net of accumulated depreciation)	291,539
Total assets	1,795,487
LIABILITIES	
Liabilities:	
Current assets:	
Accounts payable	47,053
Accrued payroll	38,626
Other payables	54,601
Total current liabilities	140,280
NET ASSETS	
Investment in capital assets	291,539
Unrestricted	1,363,668
Total net assets	$ 1,655,207

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	$ 2,003,010
Other operating revenues	54,618
Total operating revenues	2,057,628
Operating expenses:	
Cost of services	972,136
Administration	828,857
Depreciation	141,577
Total operating expenses	1,942,570
Operating income	115,058
Transfers out	(155,000)
Change in net assets	(39,942)
Total net assets - beginning	1,695,149
Total net assets - ending	$ 1,655,207

The accompanying notes are an integral part of these financial statements

CITY OF SARATOGA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

		Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Receipts from customers and users	$	2,062,188
Payments to suppliers		(1,146,675)
Payments to employees		(703,438)
Net cash provided (used) by operating activities		212,075
Cash flows from noncapital financing activities:		
Operating transfers out		(155,000)
Net cash used in nonoperating activities		(155,000)
Cash flows from capital activities:		
Acquisition of capital assets		(12,345)
Net cash provided for the acquisition of capital assets		(12,345)
Net increase in cash and cash equivalents		44,730
Cash and cash equivalents, beginning of year		1,453,840
Cash and cash equivalents, ending of year	$	1,498,570
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$	115,058
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		141,577
Change in operating assets and liabilities:		
Decrease in accounts receivables		4,560
Increase in accounts payable		(31,658)
Increase in claims payable		(28,615)
Decrease in accured payroll		11,153
Net cash provided (used) by operating activities	$	212,075

CITY OF SARATOGA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Agency Funds
ASSETS	
Cash and investments	$ 91,364
Receivables:	
Accounts	18,352
Interest	126
Total assets	$ 109,842
LIABILITIES	
Deposits payable	$ 109,842

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The City was incorporated as a municipal corporation in 1956 under the general laws of the State of California, and had a population of 31,997 at June 30, 2010. The City is a largely residential community located in the foothills of the Santa Cruz Mountains.

The City operated under the Council-Manager form of government, with five-elected Council members served by a full-time City Manager and staff. At June 30, 2010, the City's staff comprised 55 full-time and ten part-time employees, and numerous recreation seasonal employees who were responsible for the following City provided services:

- Public Safety - The City provides round-the-clock police services under a contract with the County Sheriff's offices. Emergency management and Fire services are provided by special district. Code enforcement and inspection services are provided by one City employee.

- Public Works/Maintenance - The City builds and maintains its parks, streets, curbs, gutters, and related public property with a force of 22 employees. Major projects may be contracted out to reduce costs.

- Community Development - Zoning administration, plan checking and advance planning services are provided by 12 employees.

- Culture, Recreation and Community Support services are provided by a total of ten employees.

- General Government services are provided by a total of 12 employees.

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

The following entity is reported as blended component unit:

Lighting and Landscaping Assessment District - The Lighting and Landscaping Assessment District (the District) was established in 1980, for the levy and the collection of assessments upon the several lots or parcels of land in the District, and for the construction or installation of improvements, including maintenance. The District is reported as a blended component unit of the City because it has the same 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 Assets* and a *Statement of Activities and Changes in Net Assets*. These statements present summaries of governmental activities for the City. Fiduciary activities of the City are not included in these statements.

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

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

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

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

- Transfers in/Transfers out

Governmental Fund Financial Statements

Governmental fund financial statements include a *Balance Sheet* and a *Statement of Revenues, Expenditures and Changes in Fund Balances* for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

The City has presented all major funds that met the applicable criteria. The following funds are major funds:

General Fund

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

Capital Improvement Capital Projects Fund

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

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

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (up to 60 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.

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

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

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 assets.

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

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

Fiduciary Fund Financial Statements

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

The activity reported in the City's fiduciary fund is for the support of the Saratoga Community Access Television, a non-profit organization responsible for operating the Public, Educational, and Government Access channels for the community of Saratoga.

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

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

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

D. Interfund Transactions

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

E. Capital Assets

Capital assets, which include land, buildings, improvements, furniture, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), were reported in the applicable governmental activities in the government-wide financial statements. Capital assets were recorded at historical cost or estimated historical cost if actual cost was not available. Donated assets were valued at their fair market value on the date of donation. City policy has set the capitalization threshold for reporting capital assets at $10,000. The City has chosen the Modified Approach for reporting the streets subsystem of infrastructure capital assets.

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

Buildings and structures	40 Years
Machinery and equipment	5 to 10 Years
Infrastructure	15 to 50 Years

In June 1999, GASB issued Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure in its basic financial statements.

The City defines infrastructure as the basic physical assets that allow the City to function, which includes the street system, park and recreation lands and improvements system; storm water conveyance and drainage system, buildings combined with site amenities such as parking and landscaping areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the 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, 2007. This condition assessment is to be performed approximately every 3 years. The next condition assessment is scheduled for September 2010. 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:

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

The City's policy relative to maintaining the street assets is to achieve an average rating of 70 for all street segments. This acceptable rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. For all other infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2001, and will complete an internal update in January, 2011. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

F. Interest Payable

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

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Interest on long-term debt is recorded in the fund statements when payment is made.

G. Claims Payable

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

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 financials 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 the fund financial statements, governmental funds report both reserved and unreserved fund balances. Reserved fund balances are reservations of fund balances for amounts that are not available for appropriation, or are legally restricted by outside parties for use for a specific purpose. Unreserved fund balances are comprised of both designated and undesignated fund balances. Designations represent funds identified by Council for an intended use, but are not legally obligated. Undesignated fund balance represents funds available to offset budgetary shortfalls or provide for unanticipated uses during the year.

City Council has designated an amount for “Operations Reserve” to provide working capital cash flow. This designation was established at $2,000,000 on July 1, 1999, to be increased annually by an amount equal to the interest the City earned on an equivalent amount of cash and investments. As of June 30, 2010 this fund balance has grown to $2,889,077.

City Council has designated $1,500,000 for an “Economic Uncertainty” reserve. This amount provides funding for emergency uses and economic downturns.

The Environmental Services reserve, collected from surcharges on garbage bills is designated specifically 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.

The Development Services reserve is designated supplemental funding for community development services that includes zoning administration, inspection services, and development regulation programs during periods where expenditures exceed revenues.

The Uncollected Deposits reserve is designated funding to offset development applicant deposits with outstanding balances owed to the City.

The Carryforward reserve designation represents prior-year funding held over for one-time operational activities that were not completed by year-end, or to carryforward prior-year funding for specific activities as directed by Council.

The Grant Matching/Capital Improvement reserve designation represents funding set aside for use as the matching funds required for grant based capital improvement projects.

The Hillside Stability reserve designation is funding for use as needed in hillside or landslide repairs or mitigation projects.

K. Net Assets

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

- Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

- Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

- Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

L. Use of Restricted/Unrestricted Net Assets

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

M. Property Tax and Special Assessments

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

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

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

N. Use of Estimates

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

O. Subsequent Events

Management has considered subsequent events through November 8, 2010, the date which the financial statements were available to be issued.

P. New GASB Pronouncements

GASB Statement No. 51 - In June 2008, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The City has no intangibles to which the statement applies.

GASB Statement No. 53 - In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by State and local governments. This Statement is not effective until June 30, 2010. The City has no derivative investments to which the statement applies.

GASB Statement No. 54 - In March, 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement is not effective until June 30, 2011. The City has determined this Statement change will have no effect on the financial statements.

GASB Statement No. 55 - In March, 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standard Board's (GASB) authoritative literature. The City has determined this Statement change did not have an effect on the financial statements.

GASB Statement No. 56 - In March, 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement of Auditing Standards.* The object of this Statement is to incorporate into the Governmental Accounting Standard Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accounts' Statement of Auditing Statements. The City has determined this Statement change did not have an effect on the financial statements.

GASB Statement No. 57 – In December, 2009 GASB issued Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans.* The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer benefit (OPEB) plans. The City has determined this Statement will not have an effect on the financial statements.

GASB Statement No. 59 – In June 2010, GASB issued Statement No 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been indentified in practice. This pronouncement is effective for periods beginning after June 15, 2010. The City does not believe there will be a significant financial statement effect related to this Statement.

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, 2010:

	Statement of Net Assets		
	Governmental Activities	Fiduciary Fund	Total
Cash and investments	$ 15,864,455	$ 91,364	$ 15,955,819

The City's Cash and Investments at June 30, 2010, in more detail:

Cash and cash equivalents:	
Petty cash	$ 1,300
Demand deposits	201,598
Total Cash and Cash Equivalents	202,898
Investments:	
Local Agency Investment Fund (LAIF)	15,752,921
Total Cash and Investments	$ 15,955,819

A. Cash Deposits

The carrying amounts of the City's cash deposits were $201,598 at June 30, 2010. Bank balances before reconciling items were $710,867 at that date due to deposits in transit and outstanding checks. The total amount was collateralized or insured with securities held by the pledging financial institutions.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest, and places the City ahead of general creditors of the institution.

The market value of pledged securities must equal at least 110 percent of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150 percent of the City's total cash deposits. The City has waived the collateral

requirements for cash deposits which are fully insured to $250,000 by the Federal Deposit Insurance Corporation (FDIC). Demand deposits (non-interest bearing checking accounts) have unlimited insurance through the TAG Program. Other accounts are insured up to $250,000 per custodian within agency.
The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

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

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

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

C. External Investment Pool

The City's investments with LAIF at June 30, 2010, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

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

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

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

As of June 30, 2010, the City had $15,752,921 invested in LAIF which had invested 14.71 percent of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.001643776 was used to calculate the fair value of the investments in LAIF.

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, 2010, these investments had a weighted average maturity of 203 days. The City had the following invested in LAIF:

	Fair Value	Investment Maturities in Years Less Than One Year
State of California - Local Agency Investment Fund (LAIF)	$ 15,752,921	$ 15,752,921

Credit Risk

As of June 30, 2010, 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 held by an investment counterparty at the year ended June 30, 2010.

NOTE 3 - LOANS RECEIVABLE

The City had the following loans receivable as of June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year	Due More Than One Year
Housing Rehabilitation Loan Program	$ 85,003	$ -	$ (13,333)	$ 71,670	$ 13,333	$ 58,337

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

In the Governmental Fund Financial Statements, these loans have been offset by deferred revenue as they are not expected to be repaid immediately. In the Government-Wide Financial Statements, the amount of deferred revenue was recognized as revenue.

NOTE 4 – PROPERTY TAXES: PROPOSITION 1A STATE BORROWING

Under the provision of Proposition 1A and as part of the 2009/10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2103. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Saratoga was $674,777.

Authorized with the 2009/10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (“California Communities”), a joint power authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds (“Prop 1A Bonds”) to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equal 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its right under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

NOTE 5 - FUND FINANCIAL STATEMENTS INTERFUND TRANSACTIONS

Transfers In/Out

Transfers for the year ended June 30, 2010 were as follows:

Transfer in	Transfer out	Amount
General Fund	Community Development Block Grant	$ 42,859
	Capital Improvement Fund	232,983
	IT Equipment Replacement Fund	50,000
		325,842
Capital Improvement Fund	General Fund	650,000
	Community Development Block Grant	90,574
	IT Equipment Replacement Fund	105,000
	Library Capital Improvement Fund	405
		845,979
Total		$ 1,171,821

Of the transfers, $650,000 was transferred from the General Fund, $90,574 from the Community Development Block Grant Fund, $105,000 from the IT Equipment Replacement Fund, and $405 from the Library Capital Improvement Fund to fund various projects in the Capital Improvement Plan. A transfer of $106,000 from the Capital Improvement Fund went to the General Fund to reimburse administration and engineering staff services for the Gas Tax funded street program. Additionally, $126,983 was transferred from the Capital Improvement Fund back to the General Fund upon the closeout of two projects. A transfer from the Community Development Block Grant Fund to the General Fund was reimbursement for grants and administrative costs, and the IT Equipment Replacement Fund transferred $50,000 to the General Fund for budget relief.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, consisted of the following:

	Primary Government				
	Balance July 1, 2009	Additions	Retirements	Reclassifications	Balance June 30, 2010
Governmental activities:					
Capital assets, not being depreciated:					
Land and land improvements	$ 10,585,106	$ -	$ -	$ 2,398,972	$ 12,984,078
Construction in progress	6,595,346	1,808,376	(57,958)	(3,902,404)	4,443,360
Infrastructure:					
Street pavement system	48,570,458	-	-	585,161	49,155,619
Total capital assets, not being depreciated	65,750,910	1,808,376	(57,958)	(918,271)	66,583,057
Capital assets, being depreciated:					
Buildings and structures	23,156,758	-	-	256,005	23,412,763
Machinery and equipment		-	-		
Governmental funds	1,324,426	-	(127,790)	371,149	1,567,785
Internal service funds	701,714	12,345	-	-	714,059
Infrastructure:		-	-		
Bridges	1,563,654	-	-	-	1,563,654
Signs and lights	1,820,585	-	-	-	1,820,585
Drainage system	39,912,821	-	-	-	39,912,821
Sidewalks	11,681,711	-	-	291,117	11,972,828
Total capital assets, being depreciated	80,161,669	12,345	(127,790)	918,271	80,964,495
Accumulated depreciation:					
Buildings and structures	(4,894,979)	(576,134)	-	-	(5,471,113)
Machinery and equipment					
Governmental funds	(1,274,551)	(32,197)	127,790	-	(1,178,958)
Internal service funds	(280,943)	(141,577)	-	-	(422,520)
Infrastructure:					
Bridges	(945,168)	(28,034)	-	-	(973,202)
Signs and lights	(723,540)	(68,565)	-	-	(792,105)
Drainage system	(11,531,047)	(798,256)	-	-	(12,329,303)
Sidewalks	(4,159,835)	(299,652)	-	-	(4,459,487)
Total accumulated depreciation	(23,810,063)	(1,944,415)	127,790	-	(25,626,688)
Total capital assets, being depreciated, net	56,351,606	(1,932,070)	-	918,271	55,337,807
Governmental activities capital assets, net	$ 122,102,516	$ (123,694)	$ (57,958)	$ -	$ 121,920,864

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

General Government	$ 1,182,170
Public Works	606,544
Community Services	13,577
Community Development	547
Internal Service Funds	141,577
Total Depreciation Expense	$ 1,944,415

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

NOTE 7 – LONG-TERM OBLIGATIONS

A summary of the City's long-term obligations transactions for the year ended June 30, 2010, is presented below:

					Classification	
Description	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year	Due In More Than One Year
General Obligation Bonds:						
2001 Library Bonds	$ 13,285,000	$ -	$ (330,000)	$ 12,955,000	$ 350,000	$ 12,605,000
Compensated absences	584,415	531,322	(422,069)	693,668	391,822	301,846
Total	$ 13,869,415	$ 531,322	$ (752,069)	$ 13,648,668	$ 741,822	$ 12,906,846

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

On May 1, 2001, the City issued General Obligation Bonds Series 2001 in the amount of $15,000,000. The proceeds of the bonds were used to improve, renovate, and expand the Saratoga Community Library. The bonds are payable from and secured by certain property taxes within the City. Interest on the bonds ranges from 5 percent to 6 percent and is payable on February 1 and August 1 of each year, commencing February 1, 2002. Principal is due annually beginning on August 1, 2002, in amounts ranging from $60,000 to $940,000. The bonds mature on August 1, 2031, and are subject to redemption prior to maturity. The bonds may be called for redemption at the option of the City at redemption prices from 101 percent beginning on or after August 1, 2010 and 100 percent of par on or after August 1, 2011. At June 30, 2010, the outstanding balance of the bonds was $12,955,000.

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

Year Ended	Principal	Interest	Total
2011	$ 350,000	$ 663,156	$ 1,013,156
2012	370,000	641,556	1,011,556
2013	395,000	620,581	1,015,581
2014	415,000	600,331	1,015,331
2015	435,000	579,081	1,014,081
2016-2020	2,350,000	2,555,031	4,905,031
2021-2025	2,970,000	1,887,966	4,857,966
2026-2030	3,840,000	1,005,113	4,845,113
2031-2032	1,830,000	97,388	1,927,388
Total	$ 12,955,000	$ 8,650,203	$ 21,605,203

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) has been accrued and amounts to $693,668 at June 30, 2010. The compensated absences liability will generally be liquidated through the General Fund.

NOTE 8 - RISK MANAGEMENT

The City participates in the 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, 2010, the City contributed $184,614 for current year coverage and received no refund of prior year excess contributions.

The ABAG Workers' Compensation Pool Insurance Authority (ABAG POOL) covers workers' compensation 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, 2010, the City contributed $182,575 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 $54,601 reported at June 30, 2010, are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the basic financial statements indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. Changes in the claims payable amounts were as follows:

	Year Ended June 30, 2010	Year Ended June 30, 2009
Claims payable, beginning of year	$ 83,216	$ 59,908
Fiscal year claims and changes in estimates	49,735	54,366
Claims payments	(78,350)	(31,058)
Claims payable, end of year	$ 54,601	$ 83,216

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

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

The following represents summary audited financial information of ABAG Plan Corporation and the ABAG Workers' Compensation Pool Insurance Authority for the fiscal year ended June 30, 2009 (most recent available):

	Plan Corporation	Comp Shared Risk Pool
Total Assets	$ 48,715,107	$ 3,431,189
Total Liabilities	17,360,134	580,976
Net Assets	$ 31,354,973	$ 2,850,213
Total Revenues	$ 11,211,127	$ 667,365
Total Expenses	7,218,603	482,364
Net Increase in Net Assets	$ 3,992,524	$ 185,001

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

NOTE 9 - RETIREMENT PLANS

Pension Plan

Plan Description - The City contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit plan. CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS act as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95811.

Funding Policy – The City employer is required to contribute an actuarially determined rate of annual covered payroll for its miscellaneous employees (11.652 percent for FY 2009/10). Active plan members are required by State statute to contribute 7 percent (7%) of their annual covered salary. The City employer contributes this required amount on behalf of City employees, which amounted to $339,339 for the year ended June 30, 2010.

Annual Pension Cost - For fiscal year 2009/10, the City's annual pension cost was $564,855. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent (7.75%) investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25 percent to 14.45 percent for miscellaneous employees depending on age, service, and type of employment, and (c) 3.25 percent per year payroll growth adjustments. Both (a) and (b) included an inflation component of 3.00 percent. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. CalPERS unfunded actuarial accrued liability (or surplus) is amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2007, was 20 years for miscellaneous employees for prior and current service unfunded liability.

THREE-YEAR ANNUAL PENSION COSTS TREND INFORMATION FOR CALPERS

Fiscal Year	Annual Pension Cost (APC)	APC Contributed	Net Pension Obligation
2008	$ 538,526	100%	$ -
2009	559,971	100%	-
2010	564,855	100%	-

Required Supplementary Information

In 2004, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations are performed with other participants within the same risk pool. Stand alone information of the Schedule of the Funding Progress for the City is no longer available; therefore, the following information is the CalPERS Risk Pool Information for all entities within the pool (latest available information):

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL) (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/2006	$2,754,396,608	$2,492,226,176	$ 262,170,432	90.5%	$699,897,835	37.5%
6/30/2007	2,611,746,790	2,391,434,447	220,312,343	91.6%	655,522,859	33.6%
6/30/2008	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%

NOTE 10 - NET ASSETS / FUND BALANCES

A. Investment in Capital Assets, Net of Related Debt

As of June 30, 2010, the investment in capital assets, net of related debt consisted of the following:

Capital Assets, Net	$ 121,920,864
2001 General Obligation Library Bonds	(12,955,000)
Investment in Capital Assets, Net of Related Debt	$ 108,965,864

B. Restricted Net Assets

As of June 30, 2010, the restricted net assets consisted of the following:

	Restricted For			
	Capital Projects	Debt Service	Special Projects	Total
Restricted Net Assets	$ 4,057,300	$ 892,593	$ 569,132	$ 5,519,025

NOTE 11 - JOINT POWERS AGREEMENTS

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

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

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

NOTE 12 - EXCESS EXPENDITURES OVER APPROPRIATIONS

There were no excess of expenditures over appropriations in individual funds during fiscal year 2009/10.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Lawsuits

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

B. Federal and State Grant Programs

The City participates in Federal and State grant programs. These programs are audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. 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, 2010. These projects are evidenced by contractual commitments with contractors and include:

Vendor	Original commitment	Commitment Remaining
Fehr & Peers	$ 40,000	$ 29,846
Cotton Shires & Associates	1,011	1,011
O' Grady Paving	751,768	497,156
Labor Consultants	7,000	7,000
BFK Engineers	498,238	426,363
David Gates & Associates	14,092	3,677
Testing Engineers	8,087	8,087
Metropolitan Planning Group	8,540	500
Maggiora Brothers Drilling	47,075	13,548
Steve Benzing Architect	5,250	2,647
Mark Thomas & Company	56,809	35,814
Guerra Construction	70,653	5,475
Hakone Foundation - New Visitor Center	250,000	250,000
	$ 1,758,523	$ 1,281,124

As of June 30, 2010, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the City.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 - BUDGETARY INFORMATION

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.

The following is the budget comparison schedules for General Fund.

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Property taxes	$ 8,169,500	$ 8,169,500	$ 8,185,390	$ 15,890
Special assessments	6,000	6,000	8,974	2,974
Sales taxes	935,000	910,000	954,574	44,574
Other local taxes	655,000	630,000	560,040	(69,960)
Licenses & permits	1,271,400	1,031,400	1,063,946	32,546
Fines & forfeitures	285,000	285,000	350,751	65,751
Intergovermental - state	285,000	245,000	323,837	78,837
Intergovermental - other	23,500	23,500	34,050	10,550
Franchise fees	1,675,000	1,675,000	1,663,657	(11,343)
Use of money & property	684,342	534,342	541,305	6,963
Other revenue	1,756,881	1,606,881	1,558,525	(48,356)
Total revenues	15,746,623	15,116,623	15,245,049	128,426
EXPENDITURES:				
Current:				
General and intergovernmental services	3,495,806	3,276,989	3,102,397	174,592
Public safety	4,345,915	4,345,234	4,348,778	(3,544)
Public works	4,511,348	4,324,168	4,353,903	(29,735)
Community services	1,277,906	1,248,694	1,222,649	26,045
Community development services	2,185,603	2,143,460	2,111,172	32,288
Total expenditures	15,816,578	15,338,545	15,138,899	199,646
REVENUES OVER (UNDER) EXPENDITURES	(69,955)	(221,922)	106,150	328,072
OTHER FINANCING SOURCES (USES):				
Transfers in	153,732	325,842	325,842	-
Transfers out	(253,500)	(650,000)	(650,000)	-
Total other financing sources (uses)	(99,768)	(324,158)	(324,158)	-
Net change in fund balances	$ (169,723)	$ (546,080)	(218,008)	$ 328,072
FUND BALANCES:				
Beginning of year			8,228,686	
End of year			$ 8,010,678	

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 as of June 30, 2007. The study assists the City by providing current inspection data used to evaluate current pavement condition. This helps to maintain a City-defined desirable level of pavement performance while optimizing the expenditure of limited fiscal resources. The entire pavement network within the City is composed of approximately 140 centerline miles of paved surfaces. The City’s road system can be grouped by function class and includes 23.4 centerline miles of arterial, 23.3 centerline miles of collector, and 93.3 miles as residential.

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

The following conditions were defined:

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

The City's policy is to achieve an average rating of 70 for all streets, which is a very good rating. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. As of June 30, 2010, the City's street system was rated at a PCI index of 70 on the average with the detail condition as follows:

Condition	Percent of Streets
Excellent to Good	86%
Poor	13%
Very Poor	1%

The City expended $771,386 on street maintenance for the year ended June 30, 2010. These routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the year 2011 is a minimum of $6,000,000. (Approximately $2,000,000 projected budget each year for the years ending June 30, 2010 and 2011.)

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 nine years is presented below:

			Funded By			
Fiscal Year	Budget	Actual Expenditures	Other Sources	Gas Tax Fund	Total Funded	PCI Index
2000-01	$ 2,520,255	$ 801,160	$ 205,309	$ 595,851	$ 801,160	-
2001-02	3,529,420	2,214,717	1,631,855	582,862	2,214,717	-
2002-03	2,207,922	1,553,674	974,514	579,160	1,553,674	-
2003-04	1,961,844	1,489,667	907,327	582,340	1,489,667	70
2004-05	1,800,000	2,609,648	1,478,216	1,131,432	2,609,648	70
2005-06	1,156,547	1,030,382	353,652	676,730	1,030,382	70
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

As of June 2010, approximately 40 percent of the City's streets were rated below the average standard of 70. The City will continue to rehabilitate these segments of the streets. Total deficiencies (deferred maintenance) identified in the Pavement Management System Report at the end of a five-year period (2007-2011) amounted to approximately $11,600,000 for all streets and are expected to be rehabilitated with a minimum annual budget of $1,000,000.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Lighting and Landscape Assessment District Funds – This combined fund accounts for revenues and expenditures associated with maintaining the 24 Landscape and Lighting districts throughout the city which were approved by consent of property owners living along or within the boundaries of the Districts.

Community Development Block Grant - This fund accounts for grant funds received from the Federal Government for the purpose of assisting programs and building infrastructure for the development of viable urban communities and for the City's rehabilitation loan program.

Debt Service Fund

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

Capital Projects Funds

Library Expansion - This fund accounts for the remaining resources approved for use in the remodel and expansion of the City's library.

CITY OF SARATOGA
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	Special Revenue		Debt Service
	Lighting and Landscaping Assessment District	Community Development Block Grant	Library Bond
ASSETS			
Cash and investments	$ 459,919	$ 128,550	$ 890,341
Receivables:			
Accounts	442	9,621	1,414
Interest	536	192	838
Loans	-	71,670	-
Total assets	$ 460,897	$ 210,033	$ 892,593
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 20,507	$ -	$ -
Deferred revenue	-	81,291	-
Total liabilities	20,507	81,291	-
Fund Balances:			
Reserved for:			
Debt service	-	-	892,593
Unreserved, undesignated, reported in:			
Special revenue funds	440,390	128,742	-
Capital projects funds	-	-	-
Total fund balances	440,390	128,742	892,593
Total liabilities and fund balances	$ 460,897	$ 210,033	$ 892,593

The accompanying notes are an integral part of these financial statements

Capital Projects	
Library Expansion	Total Other Governmental Funds
$ 352,141	$ 1,830,951
-	11,477
570	2,136
-	71,670
$ 352,711	$ 1,916,234
$ 1,352	$ 21,859
-	81,291
1,352	103,150
-	892,593
-	569,132
351,359	351,359
351,359	1,813,084
$ 352,711	$ 1,916,234

CITY OF SARATOGA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue		Debt Service
	Lighting and Landscaping Assessment District	Community Development Block Grant	Library Bond
REVENUES:			
Property taxes	$ 186,006	$ -	$ -
Special assessment	266,609	-	971,197
Intergovernmental - Other	-	123,812	-
Use of money and property	3,388	858	5,311
Other revenue	90	13,333	-
Total revenues	456,093	138,003	976,508
EXPENDITURES:			
Current:			
Public works	375,619	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	330,000
Interest and fiscal charges	-	-	685,276
Total expenditures	375,619	-	1,015,276
REVENUES OVER (UNDER) EXPENDITURES	80,474	138,003	(38,768)
OTHER FINANCING (USES):			
Transfers out	-	(133,433)	-
Total other financing sources (uses)	-	(133,433)	-
Net change in fund balances	80,474	4,570	(38,768)
FUND BALANCES:			
Beginning of year	359,916	124,172	931,361
End of year	$ 440,390	$ 128,742	$ 892,593

The accompanying notes are an integral part of these financial statements

Capital Projects	
Library Expansion	Total Other Governmental Funds
$ -	$ 186,006
-	1,237,806
-	123,812
2,828	12,385
-	13,423
2,828	1,573,432
-	375,619
5,458	5,458
-	330,000
-	685,276
5,458	1,396,353
(2,630)	177,079
(405)	(133,838)
(405)	(133,838)
(3,035)	43,241
354,394	1,769,843
$ 351,359	$ 1,813,084

CITY OF SARATOGA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Licenses & permits	$ 303,903	$ 303,903	$ 424,737	$ 120,834
Fines & forfeitures	-	-	8,010	8,010
Intergovermental - federal	3,772,906	3,772,906	430,387	(3,342,519)
Intergovermental - state	1,844,630	1,844,630	934,083	(910,547)
Intergovermental - other	79,724	79,724	99,712	19,988
Use of money and property	-	-	41,640	41,640
Other revenue	359,940	411,940	221,897	(190,043)
Total revenues	6,361,103	6,413,103	2,160,466	(4,252,637)
EXPENDITURES:				
Capital outlay	10,340,221	10,572,313	2,578,501	7,993,812
Total expenditures	10,340,221	10,572,313	2,578,501	7,993,812
REVENUES OVER (UNDER) EXPENDITURES	(3,979,118)	(4,159,210)	(418,035)	3,741,175
OTHER FINANCING SOURCES (USES):				
Transfers in	332,971	1,045,443	845,979	(199,464)
Transfers out	(106,000)	(232,983)	(232,983)	-
Total other financing sources (uses)	226,971	812,460	612,996	(199,464)
Net change in fund balances	$ (3,752,147)	$ (3,346,750)	194,961	$ 3,541,711
FUND BALANCES:				
Beginning of year			3,510,980	
End of year			$ 3,705,941	

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Property taxes	$ 158,467	$ 158,467	$ 186,006	$ 27,539
Special assessments	269,681	269,681	266,609	(3,072)
Use of money and property	11,210	11,210	3,478	(7,732)
Total revenues	439,358	439,358	456,093	16,735
EXPENDITURES:				
Current:				
Public works	526,560	536,060	375,619	160,441
Total expenditures	526,560	536,060	375,619	160,441
REVENUES OVER (UNDER) EXPENDITURES	(87,202)	(96,702)	80,474	177,176
Net change in fund balances	$ (87,202)	$ (96,702)	80,474	$ 177,176
FUND BALANCES:				
Beginning of year			359,916	
End of year			$ 440,390	

CITY OF SARATOGA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental - Other	$ 332,897	$ 332,897	$ 123,812	$ (209,085)
Use of money and property	3,000	3,000	858	(2,142)
Other revenue	-	-	13,333	13,333
Total revenues	335,897	335,897	138,003	(197,894)
OTHER FINANCING SOURCES (USES):				
Transfers in	13,000	-	-	-
Transfers out	(140,203)	(332,897)	(133,433)	199,464
Total other financing sources (uses)	(127,203)	(332,897)	(133,433)	199,464
Net change in fund balances	$ 208,694	$ 3,000	4,570	$ 1,570
FUND BALANCES:				
Beginning of year			124,172	
End of year			$ 128,742	

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Special assessments	$ 950,000	$ 950,000	$ 971,197	$ 21,197
Use of money and property	10,000	10,000	5,311	(4,689)
Total revenues	960,000	960,000	976,508	16,508
EXPENDITURES:				
Debt service:				
Principal	330,000	330,000	330,000	-
Interest and fiscal charges	685,556	685,556	685,276	280
Total expenditures	1,015,556	1,015,556	1,015,276	280
REVENUES OVER (UNDER) EXPENDITURES	(55,556)	(55,556)	(38,768)	16,788
Net change in fund balances	$ (55,556)	$ (55,556)	(38,768)	$ 16,788
FUND BALANCES:				
Beginning of year			931,361	
End of year			$ 892,593	

CITY OF SARATOGA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
LIBRARY EXPANSION CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Use of money and property	$ 10,000	$ 10,000	$ 2,828	$ (7,172)
Total revenues	10,000	10,000	2,828	(7,172)
EXPENDITURES:				
Current:				
Capital outlay	15,000	15,000	5,458	9,542
Total expenditures	15,000	15,000	5,458	9,542
REVENUES OVER (UNDER) EXPENDITURES	(5,000)	(5,000)	(2,630)	2,370
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(405)	(405)	-
Total other financing sources (uses)	-	(405)	(405)	-
Net change in fund balances	$ (5,000)	$ (5,405)	(3,035)	$ 2,370
FUND BALANCES:				
Beginning of year			354,394	
End of year			$ 351,359	

FIDUCIARY FUND FINANCIAL STATEMENTS

<u>Agency Funds</u>

Community Access Television Trust - This fund accounts for funds of the Saratoga Community Access Television (CATV) Trust Fund Foundation.

CITY OF SARATOGA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2010

Cable T.V. Trust	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
ASSETS				
Cash and investments	$ 69,769	$ 69,060	$ (47,465)	$ 91,364
Receivables:				
Accounts	14,573	18,352	(14,573)	18,352
Interest	261	126	(261)	126
Total assets	$ 84,603	$ 87,538	$ (62,299)	$ 109,842
LIABILITIES				
Deposits payable	$ 84,603	$ 87,538	$ (62,299)	$ 109,842

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

INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010

	Liability / Risk Management	Workers' Compensation	Office Stores
ASSETS			
Current assets:			
Cash and investments	$ 298,431	$ 197,763	$ 27,432
Accounts receivable	3,201	2,177	-
Total current assets	301,632	199,940	27,432
Noncurrent assets:			
Capital assets:			
Machinery and equipment	-	-	-
Less: accumulated depreciation	-	-	-
Total capital assets (net of accumulated depreciation)	-	-	-
Total assets	301,632	199,940	27,432
LIABILITIES			
Liabilities:			
Current assets:			
Accounts payable	778	895	602
Accrued payroll	1,691	454	-
Claims payable	54,601	-	-
Total current liabilities	57,070	1,349	602
NET ASSETS			
Investment in capital assets	-	-	-
Unrestricted	244,562	198,591	26,830
Total net assets	$ 244,562	$ 198,591	$ 26,830

The accompanying notes are an integral part of these financial statements

Information Technology Services	Vehicle and Equipment Maintenance	Building Maintenance	Vehicle and Equipment Replacement	Information Technology Equipment Replacement	Total
$ 231,679	$ 61,264	$ 249,239	$ 236,230	$ 196,532	$ 1,498,570
-	-	-	-	-	5,378
231,679	61,264	249,239	236,230	196,532	1,503,948
-	-	-	623,819	90,240	714,059
-	-	-	(359,352)	(63,168)	(422,520)
-	-	-	264,467	27,072	291,539
231,679	61,264	249,239	500,697	223,604	1,795,487
7,524	3,350	24,058	-	9,846	47,053
10,214	3,655	22,612	-	-	38,626
-	-	-	-	-	54,601
17,738	7,005	46,670	-	9,846	140,280
-	-	-	264,467	27,072	291,539
213,941	54,259	202,569	236,230	186,686	1,363,668
$ 213,941	$ 54,259	$ 202,569	$ 500,697	$ 213,758	$ 1,655,207

CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Liability / Risk Management	Workers' Compensation	Office Stores
Operating revenues:			
Charges for services	$ 250,000	$ 250,000	$ 23,000
Other operating revenues	9,056	27,692	11,693
Total operating revenues	259,056	277,692	34,693
Operating expenses:			
Cost of services	-	-	-
Administration	217,366	202,136	47,496
Depreciation	-	-	-
Total operating expenses	217,366	202,136	47,496
Operating income	41,690	75,556	(12,803)
Transfers out	-	-	-
Change in net assets	41,690	75,556	(12,803)
Total net assets - beginning	202,872	123,035	39,633
Total net assets - ending	$ 244,562	$ 198,591	$ 26,830

The accompanying notes are an integral part of these financial statements

Information Technology Services		Vehicle and Equipment Maintenance		Building Maintenance		Vehicle and Equipment Replacement		Information Technology Equipment Replacement		Total	
$	400,000	$	208,000	$	704,000	$	110,000	$	58,010	$	2,003,010
	963				5,214		-		-		54,618
	400,963		208,000		709,214		110,000		58,010		2,057,628
	-		210,396		715,486		14,640		31,614		972,136
	361,859		-		-		-		-		828,857
	-		-		-		123,529		18,048		141,577
	361,859		210,396		715,486		138,169		49,662		1,942,570
	39,104		(2,396)		(6,272)		(28,169)		8,348		115,058
	-		-		-		-		(155,000)		(155,000)
	39,104		(2,396)		(6,272)		(28,169)		(146,652)		(39,942)
	174,837		56,655		208,841		528,866		360,410		1,695,149
$	213,941	$	54,259	$	202,569	$	500,697	$	213,758	$	1,655,207

CITY OF SARATOGA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	Liability / Risk Management	Workers' Compensation	Office Stores
Cash flows from operating activities:			
Receipts from customers and users	$ 260,198	$ 278,580	$ 34,693
Payments to suppliers	(243,965)	(192,833)	(49,854)
Payments to employees	(21,982)	(8,638)	-
Net cash provided by operating activities	(5,749)	77,109	(15,161)
Cash flows from noncapital financing activities:			
Operating transfers out	-	-	-
Net cash used in nonoperating activities	-	-	-
Cash flows from capital activities:			
Acquisition of capital assets	-	-	-
Net cash used for acquisition of capital assets	-	-	-
Net increase (decrease) in cash and cash equivalents	(5,749)	77,109	(15,161)
Cash and cash equivalents, beginning of year	304,180	120,654	42,593
Cash and cash equivalents, ending of year	$ 298,431	$ 197,763	$ 27,432
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$ 41,690	$ 75,556	$ (12,803)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	-	-	-
Change in operating assets and liabilities:			
Decrease in accounts receivables	1,142	888	-
(Decrease) increase in accounts payable	(21,657)	592	(2,358)
(Decrease) in claims payable	(28,615)	-	-
Increase in accured payroll	1,691	73	-
Net cash provided (used) by operating activities	$ (5,749)	$ 77,109	$ (15,161)

Information Technology Services	Vehicle and Equipment Maintenance	Building Maintenance	Vehicle and Equipment Replacement	Information Technology Equipment Replacement	Total
$ 400,963	$ 208,000	$ 709,214	$ 112,530	$ 58,010	$ 2,062,188
(169,423)	(136,740)	(316,259)	(14,640)	(22,961)	(1,146,675)
(185,740)	(72,520)	(414,558)	-	-	(703,438)
45,800	(1,260)	(21,603)	97,890	35,049	212,075
-	-	-	-	(155,000)	(155,000)
-	-	-	-	(155,000)	(155,000)
-	-	-	(12,345)	-	(12,345)
-	-	-	(12,345)	-	(12,345)
45,800	(1,260)	(21,603)	85,545	(119,951)	44,730
185,879	62,524	270,842	150,685	316,483	1,453,840
$ 231,679	$ 61,264	$ 249,239	$ 236,230	$ 196,532	$ 1,498,570
$ 39,104	$ (2,396)	$ (6,272)	$ (28,169)	$ 8,348	$ 115,058
-	-	-	123,529	18,048	141,577
-	-	-	2,530	-	4,560
2,999	159	(20,046)	-	8,653	(31,658)
-	-	-	-	-	(28,615)
3,697	977	4,715	-	-	11,153
$ 45,800	$ (1,260)	$ (21,603)	$ 97,890	$ 35,049	$ 212,075

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CAPITAL ASSETS
USED IN THE OPERATION OF GOVERNMENTAL FUNDS

CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE
JUNE 30, 2010 AND 2009

	2010	2009
Governmental Funds Capital Assets:		
Land and land improvements	$ 12,984,078	$ 10,585,106
Buildings and structures	23,412,763	23,156,758
Machinery and equipment	1,567,785	1,324,426
Infrastructure	104,425,507	103,549,229
Construction in progress	4,443,360	6,595,346
Total Governmental Funds Capital Assets	146,833,493	145,210,865
Accumulated depreciation	(25,204,168)	(23,529,120)
Total Governmental Funds Capital Assets, Net	$ 121,629,325	$ 121,681,745
Investments in Governmental Funds Capital Assets by Source:		
General Fund	$ 115,548,433	$ 115,642,022
Special revenue funds	974,487	1,008,688
Capital projects funds	30,213,225	28,462,807
Donations	97,348	97,348
Accumulated depreciation	(25,204,168)	(23,529,120)
Total Governmental Funds Capital Assets	$ 121,629,325	$ 121,681,745

[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 assets.

CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY[1]
JUNE 30, 2010

Function and Activity	Land and Land Improvements	Buildings and Structures
General and intergovernmental services:		
Management services	$ -	$ 438,036
Administrative services	-	167,585
Intergovernmental services	118,183	3,138,641
Total General and Intergovernmental Services:	118,183	3,744,262
Public safety:		
Police services	-	-
Code enforcement	-	-
Total Public Safety:	-	-
Public works:		
Streets and sidewalks	835,155	30,628
Parks/open space	2,637,061	2,656,850
Total Public Works:	3,472,216	2,687,478
Community services	7,651,215	2,666,124
Community development services	1,742,464	14,314,899
Total Governmental Funds Capital Assets	12,984,078	23,412,763
Accumulated depreciation	-	(5,471,113)
Total Governmental Funds Capital Assets, Net	$ 12,984,078	$ 17,941,650

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

Machinery and Equipment	Infrastructure	Construction in Progress	Total
$ 405,358	$ -	$ 99,031	$ 942,425
74,491	-	-	242,076
47,560	-	-	3,304,384
527,409	-	99,031	4,488,885
27,813	-	-	27,813
7,548	-	-	7,548
35,361	-	-	35,361
483,632	104,342,490	1,914,299	107,606,204
270,483	-	-	5,564,394
754,115	104,342,490	1,914,299	113,170,598
220,753	83,017	2,402,019	13,023,128
30,147	-	28,011	16,115,521
1,567,785	104,425,507	4,443,360	146,833,493
(1,178,957)	(18,554,098)	-	(25,204,168)
$ 388,828	$ 85,871,409	$ 4,443,360	$ 121,629,325

CITY OF SARATOGA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2010

Function and Activity	Governmental Funds Capital Assets July 1, 2009	Additions	Deletions	Governmental Funds Capital Assets June 30, 2010
General and intergovernmental services:				
Management services	$ 474,684	$ 490,608	$ (22,867)	$ 942,425
Administrative services	252,449	-	(10,373)	242,076
Intergovernmental services	3,304,385	-	(1)	3,304,384
Total General and Intergovernmental Services:	4,031,518	490,608	(33,241)	4,488,885
Public safety:				
Police services	27,813	-	-	27,813
Code enforcement	7,548	-	-	7,548
Total Public Safety:	35,361	-	-	35,361
Public works:				
Streets and sidewalks	107,000,101	653,263	(47,160)	107,606,204
Parks/open space	5,606,449		(42,055)	5,564,394
Total Public Works:	112,606,550	653,263	(89,215)	113,170,598
Community services	12,413,046	659,859	(49,777)	13,023,128
Community development services	16,124,390	4,646	(13,515)	16,115,521
Total Governmental Funds Capital Assets	145,210,865	1,808,376	(185,748)	146,833,493
Accumulated depreciation	(23,529,120)	127,790	(1,802,838)	(25,204,168)
Total Governmental Funds Capital Assets, Net	$ 121,681,745	$ 1,936,166	$ (1,988,586)	$ 121,629,325

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

STATISTICAL SECTION

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

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.

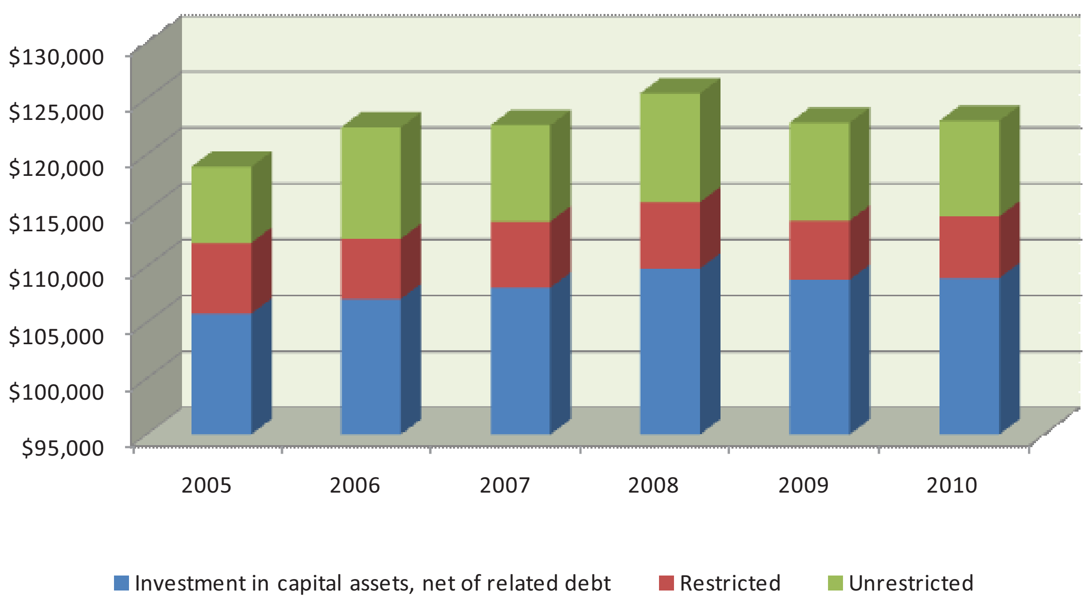
The City of Saratoga implemented GASB Statement No. 44 in fiscal year 2007/08; newly required schedules presenting information in the Statistical Section include the earliest available information.

CITY OF SARATOGA
NET ASSETS BY COMPONENT
LAST SIX YEARS
(ACCRUAL BASIS OF ACCOUNTING)

(amounts expressed in thousands)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Primary government						
Governmental activities						
Investment in capital assets, net of related debt	$ 105,784	$ 107,100	$ 108,102	$ 109,818	$ 108,818	$ 108,966
Restricted	6,328	5,370	5,928	5,940	5,281	5,519
Unrestricted	6,789	9,955	8,593	9,710	8,759	8,533
Total primary government	$ 118,901	$ 122,425	$ 122,623	$ 125,468	$ 122,858	$ 123,018

Net Assets by Component



Source: CAFR

CITY OF SARATOGA
CHANGES IN NET ASSETS
LAST SIX YEARS
(ACCRUAL BASIS OF ACCOUNTING)

(amounts expressed in thousands)

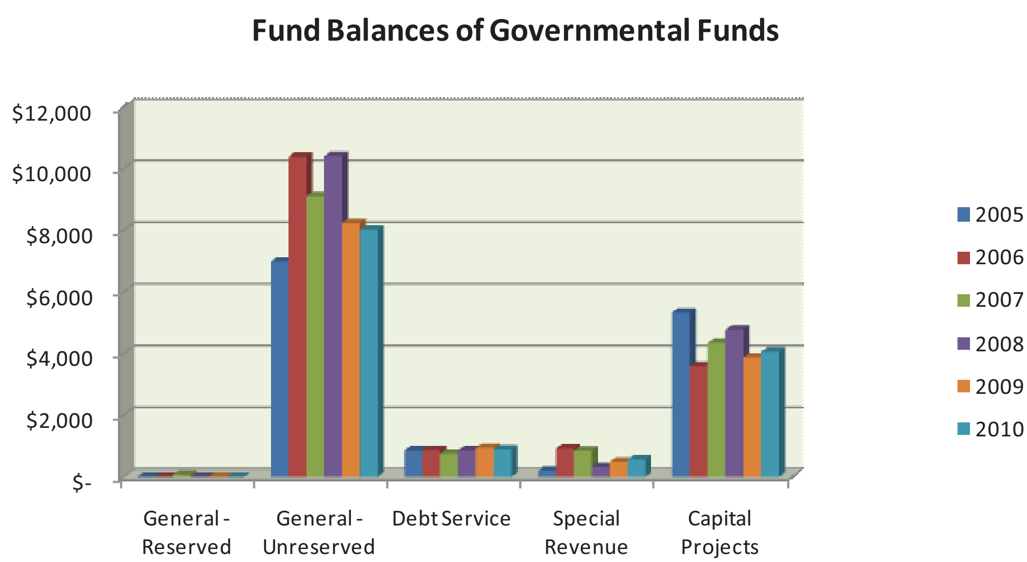
	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Expenses:						
Governmental activities:						
General and intergovernmental services	$ 4,160	$ 3,473	$ 4,532	$ 6,293	$ 5,595	$ 3,729
Public safety	3,736	3,427	3,844	4,166	4,211	4,339
Public works	3,829	4,752	6,425	5,325	7,643	6,535
Community services	1,929	1,395	1,437	1,286	1,634	1,711
Community development services	2,349	2,226	1,993	2,032	2,000	1,751
Interest on long-term debt (unallocated)	760	754	768	714	697	677
Total governmental activities expenses	16,763	16,027	18,999	19,816	21,780	18,742
Program revenues:						
Charges for services:						
General and intergovernmental services	-	31	452	1,787	133	125
Public safety	141	122	-	411	520	425
Public works	1,988	1,890	528	1,705	2,379	2,535
Community services	757	1,008	604	911	935	917
Community development services	1,890	2,665	1,328	2,110	1,802	1,586
Operating grants and contributions	1,218	1,549	2,155	151	228	275
Capital grants and contributions	865	1,568	1,282	1,715	339	674
Total governmental activates program revenues	6,859	8,833	6,349	8,790	6,336	6,537
Net (expense) revenue and change in net assets	(9,904)	(7,194)	(12,650)	(11,026)	(15,444)	(12,205)
General revenue and other changes in net assets						
Taxes:						
Property taxes	4,841	5,652	5,772	8,099	8,336	8,371
Sales taxes	1,011	988	995	1,058	1,043	955
Local taxes	1,143	1,288	1,099	694	663	560
Franchise taxes	995	1,040	1,187	1,625	1,657	1,664
Motor vehicle in-lieu	420	718	177	149	116	101
Total Taxes	8,410	9,686	9,230	11,625	11,815	11,651
Intergovernmental	-	-	673	841	474	522
Investment earnings	283	709	2,813	1,057	397	101
Other revenues	193	323	132	348	148	91
Total general revenues	8,886	10,718	12,848	13,871	12,834	12,365
Change in net assets	(1,018)	3,524	198	2,845	(2,610)	160
Net assets - beginning of year	119,919	118,901	122,425	122,623	125,468	122,858
Net assets - end of year	$ 118,901	$ 122,425	$ 122,623	$ 125,468	$ 122,858	$ 123,018

Source: CAFR

CITY OF SARATOGA
FUND BALANCE OF GOVERNMENTAL FUNDS
LAST SIX YEARS
(ACCRUAL BASIS OF ACCOUNTING)

(amounts expressed in thousands)

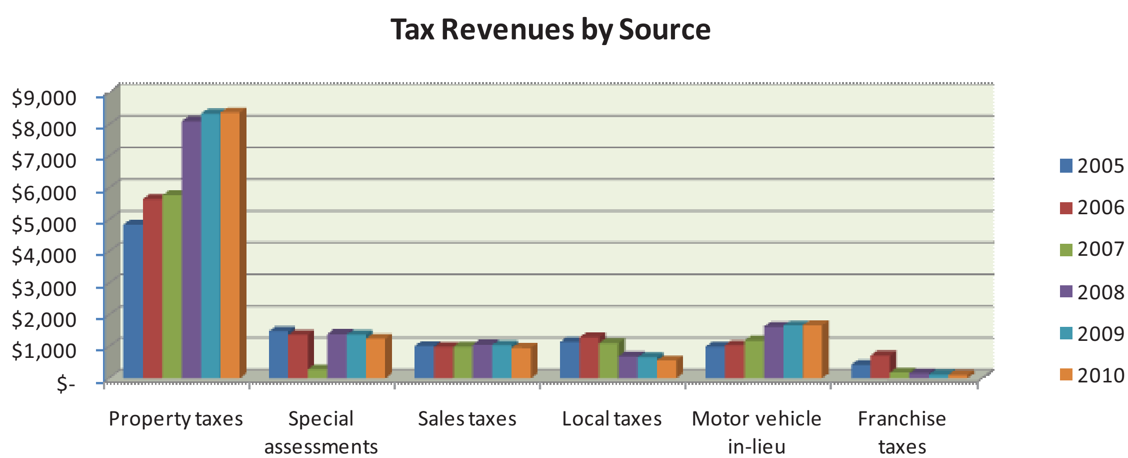
	Fiscal Year					
	2005	2006	2007	2008	2009	2010
General fund:						
Reserved	$ -	$ 1	$ 64	$ 1	$ 1	$ 1
Unreserved	6,979	10,378	9,097	10,396	8,228	8,010
Total general fund	$ 6,979	$ 10,379	$ 9,161	$ 10,397	$ 8,229	$ 8,011
All other governmental funds:						
Reserved						
Debt service funds	$ 855	$ 865	$ 746	$ 854	$ 931	$ 893
Unreserved, reported in:						
Special revenue funds	201	919	844	318	484	569
Capital project funds	5,322	3,586	4,338	4,768	3,865	4,057
Total all other governmental funds	$ 6,378	$ 5,370	$ 5,928	$ 5,940	$ 5,280	$ 5,519



Source: CAFR

(amounts expressed in thousands)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Tax revenues:						
Property taxes	$ 4,841	$ 5,652	$ 5,772	$ 8,099	$ 8,336	$ 8,371
Special assessments	1,476	1,369	271	1,392	1,368	1,247
Sales taxes	1,011	988	995	1,058	1,043	955
Local taxes	1,143	1,288	1,099	694	663	560
Franchise taxes	995	1,040	1,187	1,625	1,657	1,664
Motor vehicle in-lieu	420	718	177	149	116	101
Total tax revenues	$ 9,886	$ 11,055	$ 9,501	$ 13,017	$ 13,183	$ 12,898



Source: CAFR

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

(amounts expressed in thousands)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Revenues:						
Property taxes	$ 4,893	$ 5,652	$ 4,758	$ 7,877	$ 8,335	$ 8,371
Special assessments	1,411	1,370	1,285	1,566	1,368	1,247
Sales taxes	1,011	987	995	1,058	1,043	954
Other local taxes	851	1,288	1,126	773	663	560
Licensed and permits	100	79	1,340	1,671	1,460	1,489
Fines and forfeitures	162	259	396	344	360	359
Intergovernmental - federal	-	-	-	-	-	430
Intergovernmental - state	1,375	2,660	3,631	1,641	1,283	1,258
Intergovernmental - other	671	976	629	777	290	258
Franchise fees	1,294	1,041	1,187	1,622	1,657	1,664
Use of money any property	664	752	2,813	924	794	595
Other revenues	153	1,719	151	326	1,966	1,794
Current services charges	3,093	2,715	900	4,184	-	-
Total tax revenues	15,768	19,498	19,211	22,763	19,219	18,979
Expenditures:						
Current:						
General and intergovernmental services	3,238	3,346	3,806	4,083	3,330	3,102
Public safety	3,731	3,423	3,824	4,166	4,206	4,349
Public works	2,599	3,501	5,714	4,717	4,700	4,730
Community services	1,875	1,210	1,381	1,262	1,424	1,223
Community development services	1,990	1,847	1,962	2,026	2,450	2,111
Capital outlay	1,777	2,908	2,130	4,246	4,060	2,584
Debt service:						
Principal	255	270	280	295	310	330
Interest and fiscal charges	766	760	774	721	705	685
Total expenditures	16,231	17,265	19,871	21,515	21,185	19,114
Excess of revenues over (under) expenditures	(463)	2,233	(660)	1,247	(1,966)	(135)
Other financing sources (uses):						
Transfers in	2,492	499	3,422	2,241	2,043	1,172
Transfers out	(2,492)	(499)	(3,422)	(2,241)	(2,043)	(1,017)
Total other financing sources (uses)	-	-	-	-	-	155
Net change in fund balances	$ (463)	$ 2,233	$ (660)	$ 1,247	$ (1,966)	$ 20
Debt as a percentage of noncapital expenditures	7.06%	7.17%	5.94%	5.62%	4.89%	5.80%

Source: CAFR

CITY OF SARATOGA
PROPERTY TAX RATES – DIRECT AND OVERLAPPING GOVERNMENTS
LAST SIX YEARS
(ACCRUAL BASIS OF ACCOUNTING)

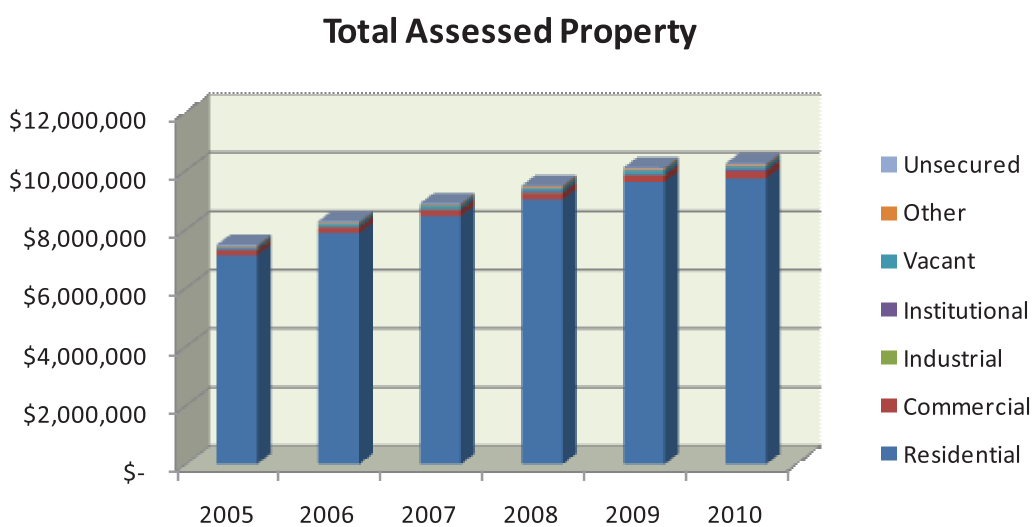
(Property Tax Rates per $100 of Assessed Value)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
General	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
County Retirement Levy	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388
County Library	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024
City of Saratoga	0.0148	0.0117	0.0096	0.0113	0.0104	0.0094
Campbell School District	0.0529	0.0512	0.0508	0.0475	0.0524	0.0552
Cupertino Elementary School District	0.0360	0.0350	0.0289	0.0337	0.0306	0.0312
Moreland Elementary School District	0.0612	0.0561	0.0556	0.0569	0.0565	0.0594
Saratoga School District	0.0361	0.0356	0.0351	0.0363	0.0363	0.0388
Campbell Union High School District	0.0197	0.0224	0.0198	0.0285	0.0299	0.0314
Fremont Union High School District	0.0268	0.0260	0.0243	0.0241	0.0339	0.0306
Los Gatos-Saratoga Joint Union High School District	0.0409	0.0371	0.0651	0.0345	0.0330	0.0352
Foothill-DeAnza Community College District	0.0129	0.0119	0.0346	0.0113	0.0123	0.0322
West Valley-Mission Community College District	-	0.0140	0.0126	0.0118	0.0032	0.0140
Saratoga Fire District	0.0017	0.0052	0.0049	0.0053	0.0053	0.0058
Santa Clara Valley Water District - State Water Project	0.0086	0.0069	0.0070	0.0067	0.0059	0.0071
Santa Clara Valley Water District - Zone W-1	0.0006	0.0009	0.0002	0.0040	0.0002	0.0002

Source: California Municipal Statistics, Inc.

(amounts expressed in thousands)

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Institutional	Vacant Property	Other Property
2005	$ 7,114,095	$ 166,071	$ 8,746	$ 33,509	$ 70,276	$ 35,127
2006	7,883,965	177,149	8,921	38,027	90,611	32,858
2007	8,467,894	187,142	9,099	45,706	107,228	39,536
2008	9,025,628	208,369	9,281	50,590	110,656	49,023
2009	9,605,309	213,951	9,467	51,052	128,898	43,240
2010	9,729,087	231,691	9,656	57,495	110,225	44,856



Source: [1] HdL Coren & Cone, Santa Clara County Assessor 2007/08 Combined Tax Rolls
Other property includes: Irrigated, Dry Farm, Recreational Government, and Miscellaneous
[2] California Municipal Statistics, Inc.

Unsecured Property	Total Assessed Property	Less: Tax Exempt Real Property	Total Taxable[1] Assessed Value	Total[2] Direct Tax Rate
$ 42,965	$ 7,470,789	$ (76,932)	$ 7,393,857	1.0560
46,874	8,278,405	(133,951)	8,144,454	1.0529
39,764	8,896,369	(140,859)	8,755,510	1.0508
35,775	9,489,322	(159,369)	9,329,953	1.0525
43,933	10,095,850	(161,488)	9,934,362	1.0516
58,210	10,241,220	(173,628)	10,067,592	1.0506

CITY OF SARATOGA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND FIVE YEARS AGO
JUNE 30, 2010

(amounts expressed in thousands)

	2010			2005[1]		
Taxpayer	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value
Cupertino Village Associates, LLC	$ 34,889	1	0.35%			
Quito Village Group, LLC	31,110	2	0.31%	12,901	3	0.22%
John M. & Abby J. Sobrato	17,643	3	0.18%			
Gregpenn Properties, LLC	14,424	4	0.14%			
San Jose Water Works	13,308	5	0.13%	9,901	5	0.13%
John I. Keller	12,208	6	0.12%			
David J. & Terri E. Morrison	10,604	7	0.11%	9,423	6	0.13%
Argonaut Associates, LLV	10,510	8	0.10%	12,005	3	0.13%
Ashok Krishnamurthi	10,439	9	0.10%	9,282	7	0.13%
Rakesh & Dipti Bl Mathur	10,200	10	0.10%			
Odd Fellows Home of California				22,325	1	0.53%
Saratoga Office Center Partners, LLC				13,543	2	0.26%
David C. & Roxanne N. Petterschmidt				9,241	8	0.12%
Deloise A. Jordan				8,918	9	0.12%
David L. House				8,800	10	0.12%
Assessed Value	$ 10,067,592			$ 7,393,858		

[1] Earliest information available

Source: California Municipal Statistics, Inc./HdL Coren & Cone

CITY OF SARATOGA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST SIX YEARS

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage		Amount	Percentage
2005	$ 4,972,875	$ 4,839,668	97.3%	$ 133,207	$ 4,972,875	100.0%
2006	5,243,038	5,112,766	97.5%	130,272	5,243,038	100.0%
2007	6,032,558	6,040,230	100.1%	(7,672)	6,032,558	100.0%
2008	8,108,364	8,106,743	100.0%	3,621	8,110,364	100.0%
2009	8,332,184	8,335,805	100.0%	-	8,335,805	100.0%
2010	8,371,396	8,381,134	100.1%	(9,738)	8,371,396	100.0%

Source: City of Saratoga

Note: Information on this schedule is not provided from the County of Santa Clara. An estimate has been used for the total tax levy for the fiscal year based upon collections of prior year property taxes in the next fiscal year.

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

(amounts expressed in thousands, except per capita amounts)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Governmental activities						
General obligation bonds	$ 14,440	$ 14,170	$ 13,890	$ 13,595	$ 13,285	$ 12,955
Total primary government	$ 14,440	$ 14,170	$ 13,890	$ 13,595	$ 13,285	$ 12,955
Percentage of Personal Income[1]	0.00%	0.00%	0.00%	0.00%	n/a	n/a
Per capita[2]	468	460	443	430	419	405

Source: CAFR

[1]Bureau of Economic Analysis - personal income information only available through 2008
San Jose-Sunnyvale-Santa Clara region
[2]Population information from California State Controller's Office

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

(amounts expressed in thousands, except per capita amounts)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
General obligation bonds	$ 14,440	$ 14,170	$ 13,890	$ 13,595	$ 13,285	$ 12,955
Less: Amount available in debt service fund	(855)	(865)	(747)	(854)	(926)	(890)
Total primary government	$ 13,585	$ 13,305	$ 13,143	$ 12,741	$ 12,359	$ 12,065
Percentage of actual taxable value of property	0.18%	0.16%	0.15%	0.14%	0.12%	0.12%
Per capita[1]	440	431	419	403	390	377

Source: CAFR

[1]Population information from California State Controller's Office

CITY OF SARATOGA
DIRECT AND OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT

(amounts expressed in thousands)

	Debt Outstanding	Estimated Percentage Applicable[1]	Estimated Share of Overlapping Debt
Direct Debt:			
City of Saratoga	12,955	100.000%	12,955
Overlapping Tax and Assessment Debt:			
Santa Clara County	$ 350,000	3.729%	$ 13,052
Santa Clara Valley Water District, Zone W-1	910	4.023%	37
Foothill-De Anza Community College District	479,279	1.716%	8,224
West Valley Community College District	215,070	11.726%	25,219
Campbell Union High School District	136,395	5.544%	7,562
Fremont Union High School District	202,415	3.686%	7,461
Los Gatos-Saratoga Joint Union High School District	58,915	40.910%	24,102
Campbell Union School District	98,223	6.846%	6,724
Cupertino Union School District	127,265	6.179%	7,864
Moreland School District	73,272	12.960%	9,496
Saratoga Union School District	49,432	86.175%	42,598
Saratoga Fire Protection District	5,049	97.424%	4,919
Santa Clara Valley Water District Benefit Assessment	152,440	3.729%	5,684
Total Overlapping Tax and Assessment Debt			162,942
Overlapping General Fund Debt:			
Santa Clara County General Fund Obligations	825,070	3.729%	$ 30,767
Santa Clara County Pension Obligations	388,045	3.729%	14,470
Santa Clara County Board of Education Certificates of Participation	13,580	3.729%	506
Santa Clara County Vector Control District Certificates of Participation	3,965	3.729%	148
Foothill-De Anza Community College District Certificates of Participation	23,450	1.716%	402
West Valley-Mission College District General Fund Obligations	56,120	11.726%	6,581
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	10,205	40.910%	4,175
Saratoga Union School District Certificates of Participation	6,380	86.175%	5,498
Midpeninsula Open Space Park District General Fund Obligations	113,788	6.277%	7,142
Total Overlapping General Fund Debt			69,689
Combined Total Debt[2]			$ 245,586

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

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

Source: California Municipal Statistics, Inc.

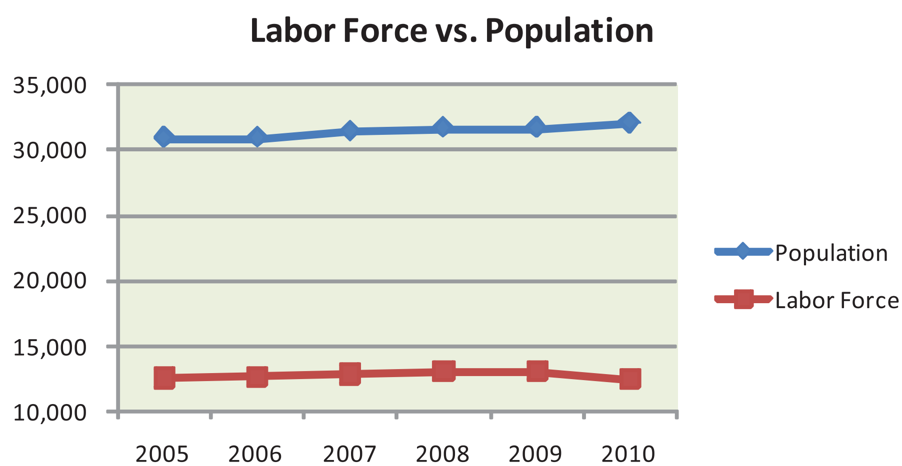
CITY OF SARATOGA
LEGAL DEBT MARGIN INFORMATION
LAST SIX YEARS

(amounts expressed in thousands)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Debt Limit	$ 1,120,618	$ 1,241,761	$ 1,334,455	$ 1,423,398	$ 1,514,378	$ 1,536,183
Total net debt applicable to limit	13,585	13,305	13,143	12,741	12,359	12,065
Legal debt margin	$ 1,107,033	$ 1,228,456	$ 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	1.21%	1.07%	0.98%	0.90%	0.82%	0.79%
Legal debt margin calculation						
Assessed value	$ 7,393,857	$ 8,144,454	$ 8,755,510	$ 9,329,953	$ 9,934,362	$ 10,067,592
Add back: exempt real property	76,932	133,951	140,859	159,369	161,488	173,628
Total assessed value	$ 7,470,789	$ 8,278,405	$ 8,896,369	$ 9,489,322	$ 10,095,850	$ 10,241,220
Debt limit (15% of total assessed value)	$ 1,120,618	$ 1,241,761	$ 1,334,455	$ 1,423,398	$ 1,514,378	$ 1,536,183
Debt applicable to limit:						
General obligation bonds	$ 14,440	$ 14,170	$ 13,890	$ 13,595	$ 13,285	$ 12,955
Less: Amount available in debt service fund	(855)	(865)	(747)	(854)	(926)	(890)
Total net debt applicable to limit	$ 13,585	$ 13,305	$ 13,143	$ 12,741	$ 12,359	$ 12,065
Legal debt margin	$ 1,107,033	$ 1,228,456	$ 1,321,312	$ 1,410,657	$ 1,502,019	$ 1,524,118

Source: CAFR

Fiscal Year	City Population[1]	Personal Income (in thousands)[2]	Per Capita Personal Income[2]	Labor Force[3]	Unemployment Rate[3]
2005	30,850	89,615	51,418	12,600	2.5%
2006	30,835	98,252	55,754	12,700	2.1%
2007	31,352	105,999	59,338	12,900	2.3%
2008	31,592	105,979	58,531	13,100	3.2%
2009	31,679	n/a	n/a	13,300	6.0%
2009	31,997	n/a	n/a	12,500	5.8%



Source: [1]Popluaton information from California State Controller's Office
[2]Bureau of Economic Analysis - San Jose-Sunnyvale-Santa Clara region
[3]State of California - Employment Development Department

CITY OF SARATOGA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND FIVE YEARS AGO AT JUNE 30, 2010

	2010			2005[1]		
Employer	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Gene's Fine Foods	85	1	0.68%	85	1	1.39%
Safeway	65	2	0.52%	65	2	1.06%
Saratoga Country Club	65	3	0.52%	65	3	1.06%
Windermere SVP	27	4	0.22%	27	5	0.44%
Longs Drug	20	5	0.16%	20	6	0.33%
Classic Car Wash	20	6	0.16%	20	7	0.33%
Harmonie European Day Spa	20	7	0.16%	20	8	0.33%
Hinshaw, Draa & Marsh	20	8	0.16%	20	9	0.33%
Jakes of Saratoga	20	9	0.16%			
Bella Saratoga	18	10	0.14%	20	10	0.33%
24 Hour Fitness			0.00%	30	4	0.49%
Total City Employment[2]	12,500			6,129		

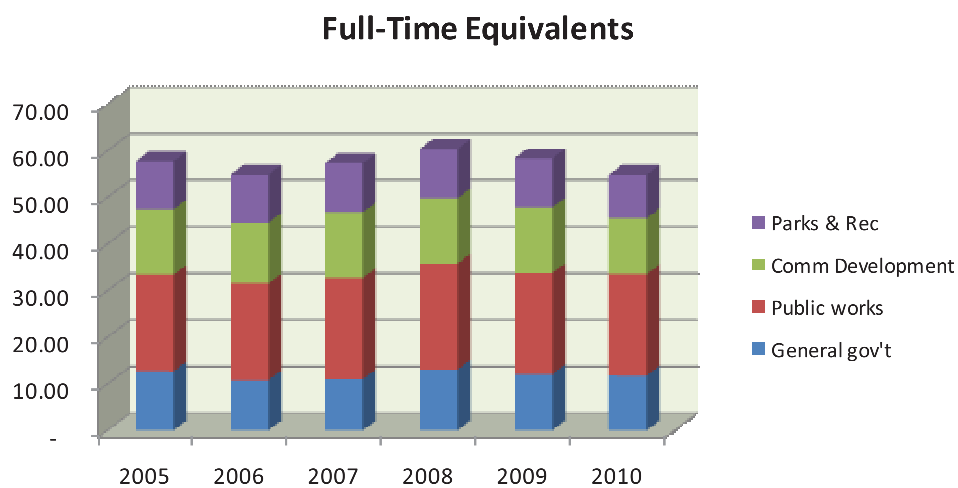
[1] Earliest information available

[2] State of California - Employment Development Department

Source: City of Saratoga

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

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Function						
General government	12.65	10.75	11.00	13.00	12.00	11.75
Public works	20.75	20.75	21.75	22.75	21.75	21.75
Community development	14.00	13.00	14.00	14.00	14.00	12.00
Parks and recreation	10.35	10.35	10.60	10.60	10.60	9.35
Total	57.75	54.85	57.35	60.35	58.35	54.85



Source: City of Saratoga Budget Document

CITY OF SARATOGA
OPERATING INDICATORS BY FUNCTION
LAST SIX FISCAL YEARS

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Function						
Part 1 crimes[1]	463	426	425	381	282	173
Total incidents	42,011	40,567	39,663	41,243	41,384	39,942
Police reports	1,767	1,659	1,767	1,941	1,949	1,273
Public Works						
Street resurfacing (miles)	N/A	5	14	N/A	6	3
Street lights repaired	2	3	3	12	25	24
Potholes filled (sq. ft.)	N/A	5,000	5,000	7,000	10,000	10,000
Community Development						
Total permit valuation ($000)	74,668	94,485	69,935	70,442	61,117	44,658
Parks and Recreation						
Classes, trips (enrollment) community events	5,604	5,712	4,817	4,782	4,698	4,366
Adult Exercise (e.g. JS Dance. Jazzerxcise)	272	312	285	362	515	545
Sports programs (e.g. Adult basketball, softba	470	473	515	591	459	423
Prescholl programs (enrollment)	200	163	159	225	171	161
Day/summer camps (enrollment)	301	287	205	242	225	331
Teen/youth council (enrollment)	2,506	3,798	2,221	94	419	2,110
Senior center (enrollment/attendance days)	22,312	22,591	18,515	17,826	16,325	16,533

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

Source: City of Saratoga various records

CITY OF SARATOGA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST SIX FISCAL YEARS

	Fiscal Year					
Function	2005	2006	2007	2008	2009	2010
Public safety						
Police Station	1	1	-	-	-	-
Fire Station						
Saratoga Fire District	1	1	1	1	1	1
Central Fire District	1	1	1	1	1	1
Public Works						
Street Miles - Private	13	13	13	13	14	14
Street Miles - Public	137	137	137	137	140	140
West Valley Sanitation District						
Number of Connections	8,601	8,621	8,651	8,651	8,683	8,687
Length of Sewer Lines	120	120	127	127	127	127
Cupertino Valley Sanitation District						
Number of Connections	2,118	2,118	2,915	2,927	2,938	2,949
Length of Sewer Lines	36	36	36	36	36.5	36.5
Parks and Recreation						
Parks Acreage	81	81	81	81	84	84
Parks	15	15	15	15	15	15

Source: City of Saratoga various records

APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City of Saratoga
Saratoga, California

Re: $12,335,000 City of Saratoga (Santa Clara County, California) General Obligation Refunding Bonds, Series 2011 (Saratoga Community Library Project)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Saratoga (the "City") in connection with the issuance of its $12,335,000 City of Saratoga (Santa Clara County, California) General Obligation Refunding Bonds, Series 2011 (Saratoga Community Library Project) (the "Bonds").

The Bonds are being issued by the City pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Act"); and a resolution adopted by the City Council of the City (the "Council") on June 1, 2011 (the "Bond Resolution").

In our capacity as bond counsel to the City, we have reviewed: the Resolution; the Paying Agent Agreement (the "Paying Agent Agreement"), dated as of July 1, 2011, by and between the City and The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent"); a tax certificate of the City and a certificate of the original purchaser of the Bonds (the "Purchaser"), each dated the date hereof (collectively, the "Tax Certificate"); certificates of the City, the Purchaser and others; the Act and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the documents, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for Federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the City.

2. The Council has the power and is obligated to levy property taxes without limitation as to rate or amount upon all property within the City's boundaries subject to taxation by the City (except for certain personal property which is taxable at limited rates) for payment of the Bonds and interest thereon.

3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax on such corporations.

In rendering the opinions in paragraph 3, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the City with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Bonds from gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the City with procedures and covenants set forth in the Tax Certificate. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

4. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest with respect to the Bonds, or under state and local tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

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APPENDIX C

DTC AND THE BOOK-ENTRY SYSTEM

The information in numbered paragraphs 1-10 of this Appendix C concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Bonds, "Issuer" means the City, and "Agent" means the Paying Agent.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as

well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Saratoga, California (the "City"), in connection with the issuance by the City of $12,335,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2011 (Saratoga Community Library Project) (the "Bonds"). The Bonds are being issued pursuant to the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Act") and other applicable laws, and according to the terms and in the manner set forth in the Paying Agent Agreement between the City and The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent"), dated as of July 1, 2011 (the "Paying Agent Agreement"), as authorized by the resolution adopted by the City Council on June 1, 2011 (the "Bond Resolution"). The City has covenanted to comply with its obligations hereunder and to assume all obligations for continuing disclosure with respect to the Bonds. The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Paying Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Finance and Administrative Services Director or his or her designee, or such other officer or employee as the City shall designate in writing from time to time.

"Dissemination Agent" shall mean NBS, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent, which may be designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Official Statement" shall mean the Official Statement dated ________, 2011, issued by the City in connection with the sale of the Bonds.

"Participating Underwriter" shall mean any of the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" means the MSRB or any other information repository as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than March 30 of each calendar year, commencing with the report for Fiscal Year 2010-11 (ending June 30, 2011) to be filed by March 30, 2012, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the City shall provide the Annual Report to the Dissemination Agent (if the City is not the Dissemination Agent); provided, however, that the City may distribute the Annual Report to the Repository itself after providing written notice to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection (b).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository, substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall, to the extent the City has provided the Annual Report to the Dissemination Agent, file a report with the City (if the Dissemination Agent is not the City) certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements, operating data with respect to the City for preceding fiscal year, substantially similar to that provided in Table 1 in the official statement for the Bonds describing assessed valuations.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

(1) Principal and interest payment delinquencies;

(2) Nonpayment related defaults, if material;

(3) Unscheduled draws on any debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers or their failure to perform;

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(7) Modifications to the rights of Bondholders, if material;

(8) Bond calls, if material, and tender offers;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the Bonds, if material;

(11) Rating changes;

(12) Bankruptcy, insolvency, receivership or similar event of the obligated person;

(13) Consummation of a merger, consolidation or acquisition involving an obligated person of the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of busienss, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) Appointment of a successor or additional paying agent or the change of name of a paying agent.

(b) The Dissemination Agent (if the City is not the Dissemination Agent) shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f); provided, that failure by the Dissemination Agent to so notify the Disclosure Representative and make such request shall not relieve the City of its duty to report Listed Events as required by this Section 5.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file or cause to be filed a notice of such occurrence, if required, with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

(d) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Paying Agent Agreement.

(e) The Dissemination Agent may conclusively rely on an opinion of counsel that the City's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent. The initial Dissemination Agent shall be the City.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and if the City is not the Dissemination Agent, the Dissemination Agent shall agree to any amendment so requested by the City provided such amendment does not impose any greater duties, nor risk of liability, on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either: (i) is approved by the Holders of the Bonds in the same manner as provided in the Paying Agent Agreement for amendments to the Paying Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Electronic Filing. The City may satisfy its disclosure obligations hereunder to file any notice, document or information by filing the same with the MSRB through its Electronic Municipal Market Access system, in the format and with identifying or other information as may be required by the Securities and Exchange Commission and the MSRB, or any other Repository that may be recognized by the Securities and Exchange Commission, and in such manner as may be specified by the Securities and Exchange Commission and such Repository.

SECTION 11. Default. In the event of a failure of the City or the Dissemination Agent (if the City is not the Dissemination Agent) to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Paying Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City and the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if the City is not the Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City, to the extent permitted by law, agrees to indemnify and save the Dissemination Agent, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and the payment of the Bonds.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the City:	City of Saratoga 13777 Fruitvale Avenue Saratoga, California 95070 Attention: Finance & Administrative Services Director
To the Dissemination Agent:	NBS San Francisco Office 870 Market Street, Suite 1223 San Francisco, CA 94102 Phone: 800.434.8349 Facsimile: 415.391.8439

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: ________, 2011

CITY OF SARATOGA

By______________________________________
Authorized Officer

NBS,
as Dissemination Agent

By______________________________________
Authorized Officer

[Signature Page to the Continuing Disclosure Certificate]

EXHIBIT A

FORM OF NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of City: City of Saratoga

Name of Issue: $12,335,000 City of Saratoga (Santa Clara County, California) General Obligation Refunding Bonds Series 2011 (Saratoga Community Library Project)

Date of Issuance: __________, 2011

NOTICE IS HEREBY GIVEN that the City of Saratoga (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated as of _________, 2011. The City anticipates that the Annual Report will be filed by _____________.

Dated:_______________

CITY OF SARATOGA

By ________[form only; no signature required]________