

**CITY OF LOS ALTOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

CITY OF LOS ALTOS

Comprehensive Annual Financial Report
For The Year Ended June 30, 2005

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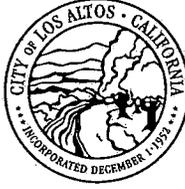
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INTRODUCTORY SECTION



**Administration and Finance Department
One North San Antonio Road
Los Altos, California 94022-3087**

September 30, 2005

**Honorable Mayor and Members of the City Council
City of Los Altos, California**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Los Altos, California (the City) for the fiscal year ended June 30, 2005 with the Independent Auditors' Report. The CAFR was prepared by the City's Finance Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, are accurate in all material respects; that the presentation fairly shows the financial position and the results of the City's operations as measure by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

As in the past two years, we continue to develop our presentations under the format of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion 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 a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

This CAFR is divided into the following three major sections:

The Introductory Section includes this transmittal letter and information about the City's organizational structure and public officials.

The Financial Section is prepared in accordance with the GASB Statement No. 34 requirements by including the MD&A, the Basic Financial Statements including notes and the Required Supplementary Information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental and fiduciary funds. Also included in this section is the Independent Auditors' Report on the financial statements and schedules.

The Statistical Section includes schedules and tables designed to reflect financial trends and fiscal capacity of the City, as well as demographic and economic data.

PROFILE OF THE CITY AND ITS SERVICES

Tree lined streets and a small village atmosphere characterize Los Altos, which is located in the heart of world famous Silicon Valley. Just 40 miles south of San Francisco, Los Altos is a residential community with a population of approximately 28,000 served by seven small retail areas. The seven square mile residential city is developed with small businesses, schools, libraries and churches. Incorporated on December 1, 1952, Los Altos is a general law city operating under the Council-Manager form of government. There are five council members elected at large, serving four-year overlapping terms. The City Manager and the City Attorney are appointed by the City Council. Municipal services provided include police, fire, street maintenance, engineering, community development, parks, recreation, and sewer.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

Although the national and regional economy show signs of growth, the recent rising oil prices will impact the energy costs and will likely slow or even reverse the economic growth. Additionally, as the State continues to find ways in balancing its budget, it's uncertain how this will affect its funding to City. As a result, we anticipate that the economic outlook for the fiscal year 2005-2006 continues to be a modest one.

We estimate the General Fund revenue to increase by 9% due mainly to the continuing growth of the local real estate values; but, we also estimate the General Fund expenditure to increase by 9% compared to the fiscal year 2004-2005 reflecting the higher retirement and health costs.

Unemployment is expected to remain stable. Santa Clara County as a whole has a 5.6% unemployment rate. By comparison, the unemployment rate in the City of Los Altos is 2.7%. The total labor force within the City of Los Altos is estimated at 12,100 or 1.5% of the Santa Clara County labor force of 828,000. Available information indicates that the labor force within the County declined by less than 1% when compared to the same time period last year.

There is no plan for major construction in this upcoming year. Instead, the City will focus on using the existing available resources in providing basic services to our citizens.

As always, the City staff will continue to work with the City Council setting priorities to ensure that the City maintains a sound fiscal condition.

CASH MANAGEMENT POLICIES

In order to maximize investment leverage, it is the City's practice to "pool" available cash from all Funds for investment purposes. In accordance with the annually adopted investment policy, available cash is invested with the goal of safety, meaning protection of principal, as the first priority, insuring adequate liquidity as the second priority, and maximizing yield as the third priority. The average yield on the pooled investment

pooled investment portfolio during the fiscal year ended June 30, 2005 was 2.26%, an increase from the prior year yield of 1.46%.

RISK MANAGEMENT

The City is insured for general liability through the Association of Bay Area Governments (ABAG) that covers claims in an amount up to \$10 million. The City has a deductible or uninsured liability of up to \$100,000 per claim. The City is self insured for workers compensation. In addition, the City has an excess insurance policy for Worker's Compensation claims up to the statutory limits. The City has a \$1,000,000 deductible or uninsured liability.

INDEPENDENT AUDIT

The public accounting firm of Vavrinek, Trine, Day & Co., LLP was selected to perform the annual independent audit. The auditors' report on the City's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

I would like to express my appreciation to the Finance Division staff for the preparation of this report. I would also like to thank our auditor, Vavrinek, Trine, Day & Co., LLP, for their cooperation and support in the preparation of the CAFR. Finally, I want to thank the City Manager and the members of the City Council for their support in planning and conducting the City's financial operations.

Respectfully submitted,



Starla Jerome-Robinson
Assistant City Manager – Administration and Finance

CITY OF LOS ALTOS
LIST OF PRINCIPAL OFFICIALS
AS OF JUNE 30, 2004

ELECTED OFFICIALS

Mayor.....	David Casas
Mayor Pro Tem.....	Ron Packard
City Council.....	Curtis Cole
City Council.....	King Lear
City Council.....	John Moss

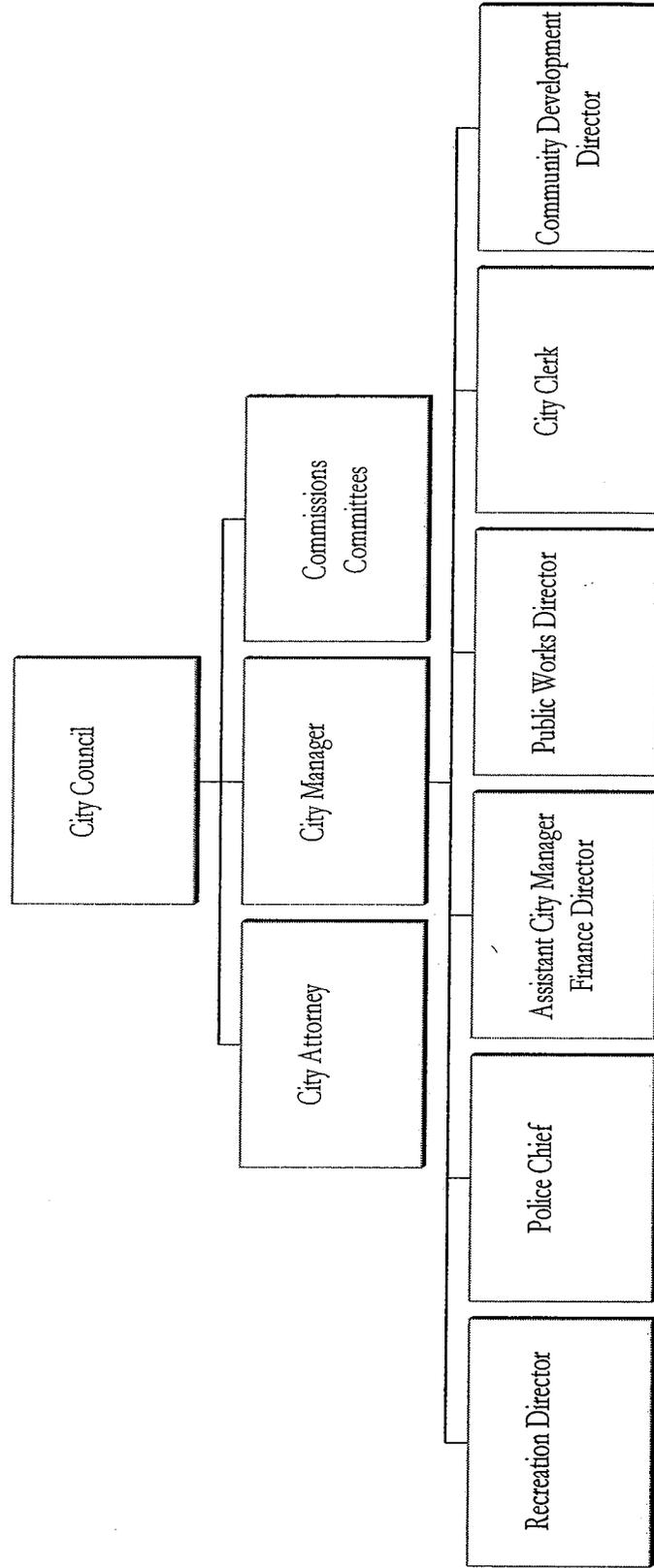
APPOINTED OFFICIALS

City Manager.....	Philip Rose
City Attorney.....	Jolie Houston

DEPARTMENT DIRECTORS

Assistant City Manager.....	Starla Jerome-Robinson
City Clerk.....	Susan Kitchens
Community Development.....	James Walgren
Acting Police Chief.....	Bob Lacey
Public Works.....	Jim Porter
Recreation.....	Dave Brees

City of Los Altos Organizational Chart





INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Los Altos
Los Altos, California

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Los Altos, California (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Los Altos, and 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. 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Los Altos, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 30, 2005, 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 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying required supplementary information, such as management's discussion and analysis budgetary comparison information and other information as listed in the table of contents, are not a required part of the basic financial statements but 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 measurements and presented 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 basic financial statements. The introductory section, combining and individual fund financial statements and statistical tables listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City. These financial statements and schedules are also the responsibility of the management of the City. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The introductory section and statistical tables 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.

Vaccinel, Taine, Day & Co., LLP.

Pleasanton, California
September 30, 2005

City of Los Altos
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2005

The purpose of this discussion and analysis of the City's financial performance is to provide an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS:

- Net assets (excess of assets over liabilities) were \$65.7 million, an increase of 6% or \$3.6 million. Net assets are used towards future capital improvements, and improving the existing infrastructure.
- Governmental activities reported combined ending net assets of \$59 million, an increase of \$2.2 million or 4% growth in comparison to the prior year. The growth occurred primarily as a result of revenues exceeding projections and actual expenditures being less than budgeted.
- Governmental expenditures increased approximately \$2.17 million compared to the prior year or about 11%. About 60% or \$1.3 million of the cost increase is related to salary increases, retirement costs, and health insurance. Much of the remaining increase (\$400,000) is related to accounting for anticipated future workers compensation costs. Approximately \$500,000 is related to the reclassification of capital assets. Although we spent about \$2.2 million on capital projects in both 2003-04 and 2004-05, more of the expenditure in 2004-05 was related to maintenance projects and less to infrastructure improvements – causing a minimal increase in capital assets.
- Business activities reported combined ending net assets of \$6.7 million, about 25% more than 2003-04, or about \$1.4 million. Our intention is to keep the enterprise funds solvent while providing adequate maintenance, and allowing for needed future improvements.
- Sewer fund provides for both the collection and treatment of wastewater. Rates were increased resulting in a 9% increase in Sewer Fees. Expenses were less by about \$426,000 due to a reduction in staffing and a one-time credit adjustment recognized from the prior year. Sewer treatment costs increased approximately 10% or \$190,000.
- Solid Waste Fees increased 3.29% in December 2004. Solid Waste fees were more than sufficient to offset expenses, with an \$184,000 increase in net assets. We will continue to evaluate the adequacy of staffing for this function as external reporting and management issues continue to escalate.
- A Storm Drain and Urban Runoff Pollution Prevention Fund were created for 2004-05 to separately track costs. Our initial expenditures estimates were too high resulting in a residual balance of about \$67,700 in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to provide an introduction to the City's basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **Statement of Net Assets** presents information on all City assets and liabilities, with the difference reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, recreation, community development, and administration and community services. The business-type activities of the City include Sewer services, Storm Drain Services, and Solid Waste Collection Management.

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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and administer money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Most of 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 remaining at year-end. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine changes in financial resources available to finance the City's programs.

Proprietary funds – When the City charges customers for the services it provides, such as Sewer services, the services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Fund Net Assets*. In fact, the City’s enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide self-insurance programs, such as the City’s Dental Reimbursement benefit, Unemployment Insurance, Workers’ Compensation Insurance, and Liability Insurance. Since these programs support governmental programs and activities, the internal service funds are reported with governmental activities in the government-wide financial statement.

Proprietary fund financial statements provide separate information for the Sewer, Storm Drain, and Solid Waste Collection Management activities, all of which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements later in the report.

Fiduciary funds – The City is the trustee, or fiduciary, for the North County Library Authority. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules are also included in the report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. For the City as a whole, assets exceeded liabilities by \$65.7 million at June 30, 2005, an increase of \$3.6 million from the prior year.

The largest portion of the City’s net assets (63%) reflects the investment in capital assets such as land, buildings, machinery and equipment, less any related debt used to acquire those assets that is still outstanding.

These assets are used to provide services to the citizens of the City of Los Altos; therefore, these assets are not available for future spending. An additional portion of the City's net assets (2%) represents resources subject to external restrictions on how they may be used, and resources obligated to capital projects (4%). The remaining balance of unrestricted net assets (31%) may be used to meet the City's ongoing obligations to citizens and creditors. For the City, most of these assets are scheduled for capital projects and improvements that are in the planning stages.

About 33% of the unrestricted reserves in the Governmental Activities are for the Emergency and Operating reserves, and the Public Employee Retirement System (PERS) reserve. The operating reserve provides a pool of 2% of the general fund which is used to fund mid year appropriations. The Emergency Reserve is a 10% set aside designated to provide a funding source during a critical or catastrophic economic period. The PERS reserve provides funding for periods in which the employer rate is greater than the budgeted "normal" cost for miscellaneous and public safety employees.

City of Los Altos' Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 25,050,777	\$ 22,955,642	\$ 4,610,650	\$ 3,078,383	\$ 29,661,427	\$ 26,034,025
Non-Current Assets	42,545,924	42,363,378	2,509,870	2,646,235	45,055,791	45,009,613
Total Assets	67,596,701	65,319,020	7,120,520	5,724,618	74,717,218	71,043,638
Current Liabilities	3,240,881	3,221,972	351,734	309,953	3,592,615	3,531,925
Non-Current Liabilities	5,363,325	5,313,089	30,616	31,965	5,393,941	5,345,054
Total Liabilities	8,604,206	8,535,061	382,350	341,918	8,986,556	8,876,979
Net Assets						
<i>Investments in Capital - Net Of Related Debt</i>	39,023,154	38,588,620	2,509,870	2,646,235	41,533,024	41,234,855
Restricted						
<i>Capital Projects</i>	2,303,096	462,165	-	-	2,303,096	462,165
<i>Debt Service</i>	908,609	903,413	-	-	908,609	903,413
<i>Special Projects</i>	567,999	703,264	-	-	567,999	703,264
<i>Other Purposes</i>	12,000	12,000	-	-	12,000	12,000
Unrestricted	16,177,637	16,114,497	4,228,300	2,736,465	20,405,937	18,850,962
Total Net Assets	\$ 58,992,495	\$ 56,783,959	\$ 6,738,170	\$ 5,382,700	\$ 65,730,665	\$ 62,166,659

Government wide revenues increased 12.5% or \$3.26 million. Expenses increased about \$1.18 million or about 7%.

GOVERNMENTAL ACTIVITIES

The City's programs for governmental activities include General Government, Public Safety (Police services and the contract for Fire services), Public Works, Community Development and Recreation.

- Total revenues increased 10% or \$2.2 million while total expenses increased 11% or \$2.2 million. General Revenues grew at the rate of 11% or \$1.7 million, while program revenues increased 7% or \$421,000.

- Property tax is the City's single largest source of revenue. Currently property tax represents about 49% of all general fund revenue. Compared to last year, property tax increased \$1.8 million or about 25% as a result of changes at the State level, revenues previously received as motor vehicle license fees were backfilled with property tax. Actual growth in secured property tax receipts was about 5%.
- Motor vehicle fees decreased \$950,500 due to the Governor's decision to reduce the vehicle license fees but not the offsetting revenue, discussed above, received as property tax.
- Charges for Service increased only about 2% or \$109,000. Our philosophy is to set service fees to avoid subsidizing service costs. Since expenses grew at a faster rate than revenues in the effected Departments, we need to evaluate whether service fees should be increased in future years.
- Interest earnings began to increase, \$187,000 or 62% more than in fiscal year 2003-04. The City invests almost all funds in the Local Agency Investment Fund (LAIF). LAIF's rates continue to increase slowly but steadily.
- Sales tax increased 10% or about \$222,000 over the prior year – much of the increase appears to be an overpayment by the State for their substitution of diverted sales tax.
- Utility User Tax revenue increases were consistent with the Consumer Price Index at 4%. Transient Occupancy Tax revenues increased 12% or \$112,000.
- Community Development fees increased \$100,000, about 6% as a result of increased activity and an increase in planning fees.
- Recreation fees increased by \$35,000 or 2%, which is consistent with the increase in the cost of living. There were no substantial changes in programming with the exception of the Tiny Tots program. Tiny Tots revenues were down about \$18,000 compared to 2003-04 as a result of program transitions and staffing changes, which impacted enrollment.
- Total expenses for Governmental activities increased in Public Safety (\$1 million), and Public Works (\$950,000) in particular. For Public Safety increased costs were related primarily to salary, overtime and retirement costs. In Public Works increased expenditures were related to the attributed capital projects costs (\$755,000) and personnel expenses related to salary increases, health insurance and retirement costs.
- Community Development expenses increased about \$370,000 or an overall 18% increase due primarily to salary, health insurance and retirement costs and full staffing
- Recreation department expenditures and Administrative/Community Services expenses were comparable to the prior year.

A comparison of the Governmental Activities and Business Activities program's revenues and expenses for the current year and prior year is presented below. The net increase of about 6% is surprisingly strong during a weak economic period.

**City of Los Altos' Changes in Net Assets
Fiscal Year Ending June 30, 2005**

	Governmental Activities		Business Activities		Total	
	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
Revenues						
Program Revenue						
Charges for Service	\$ 4,739,796	\$ 4,630,105	\$ 5,582,564	\$ 4,689,235	\$ 10,322,360	\$ 9,319,342
Operating Grants and Contributions	765,376	898,666	-	-	765,376	898,666
Capital Grants and Contributions	588,266	144,162	-	-	588,266	144,162
General Revenues						
Property Taxes	8,580,233	6,707,236	-	-	8,580,233	6,707,236
Sales Taxes	2,552,529	2,330,608	-	-	2,552,529	2,330,608
Other Taxes	4,473,656	5,066,868	-	-	4,473,656	5,066,868
Franchise Fees	1,048,405	1,011,933	-	-	1,048,405	1,011,933
Interest Income	494,822	307,175	-	-	494,822	307,175
Miscellaneous	558,173	331,007	-	-	558,173	331,007
Transfers	(182,788)	35,281	182,788	(35,281)	-	-
Total Revenues	23,618,468	21,463,041	5,765,352	4,653,954	29,383,820	26,116,997
Expenses						
General Government						
Public Safety	9,855,562	8,853,172	-	-	9,855,562	8,853,172
Public works	4,497,723	3,593,609	-	-	4,497,723	3,593,609
Recreation	2,211,985	2,128,682	-	-	2,211,985	2,128,682
Community development	2,382,837	2,041,791	-	-	2,382,837	2,041,791
Admin/Community Services	2,312,629	2,261,657	-	-	2,312,629	2,261,657
Interest on long-term debt	149,196	365,419	-	-	149,196	365,419
Sewer	-	-	3,166,863	3,711,400	3,166,863	3,711,400
Solid Waste	-	-	1,124,822	1,070,848	1,124,822	1,070,848
Storm Drain	-	-	118,195	-	118,195	-
Total expenses	21,409,932	19,244,330	4,409,880	4,782,248	25,819,812	24,026,578
Change in net assets	2,208,536	2,218,711	1,355,472	(128,294)	3,564,008	2,090,419
Net Assets - at the beginning of year	56,783,959	54,565,248	5,382,698	5,510,992	62,166,657	60,076,240
Net Assets - end of year	\$ 58,992,495	\$ 56,783,959	\$ 6,738,170	\$ 5,382,698	\$ 65,730,665	\$ 62,166,659

BUSINESS TYPE ACTIVITIES

The programs for the business type activities include Sewer, Storm Drain, Urban Runoff Pollution Control Program and Solid Waste Collection Management. The City's net assets from business-type activities increased \$1.5 million, a result of increased fees and deferred capital projects pending acceptance of the Sewer Master Plan. Business type activities represent 10% of the total net assets. Key elements follow:

- Service fees for Solid Waste Collection Management increased by 3.69% in December, increasing revenues by 1.66% or \$144,000. Fees were increased to offset the cost of the street sweeping program and some administrative costs. Fee increases offset expenses, resulting in an \$84,000 increase in net assets.

The City provides management of Solid Waste services for refuse collection and landfill contracts through an agreement with Los Altos Garbage Company for residential and commercial refuse removal services.

-
- The Joint-Sewer System Authority (JSSA) formed in 1968 by a joint exercise of powers among the cities of Palo Alto, Mountain View, and Los Altos, constructed, maintains and operates sewage treatment facilities serving its member cities. The City of Palo Alto acts as administrator for JSSA and bills each member its share of the operating costs. The City is obligated through the year 2018 under an operating agreement with the City of Palo Alto for water treatment plan and sewer services. Payments under this agreement are based on expected usage and are adjusted annually based on actual use and site operating costs. Treatment plant fees increased approximately 10% over 2003-04.
 - Service fees for Sewer Services increased by approximately \$361,000 or 10% in addition to a credit from a prior year expense of \$381,000, which increased revenues an additional 11%. Due to the fee increase, the credit, coupled with reduced net assets increased \$1.1 million.
 - Although, the Storm Drain Services fund is categorized as an Enterprise fund, no offsetting fee has been established yet. Until a funding source is identified, the general fund will transfer funds to subsidize the cost to provide service. For 2004-05, the transfer exceeded actual expenditures resulting in a year-end fund balance of \$67,700.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$20.4 million, an increase of \$2.2 million from the prior year. The increase is simply the result of revenues in excess of expenditures.

Less than 1% constitutes *unreserved fund balance*, which is available for spending at the City Council's discretion. The *reservation* of fund balance is to show that the funds are not available for new spending commitments because it has already been committed. The key reserves have been addressed earlier including the operating reserve and the emergency reserve (\$2.4 million), the reserve for future PERS payments (\$3 million), the reserve to provide for existing and future capital projects (\$7.4 million), for future equipment replacement (\$4.4 million), future facility maintenance improvements (\$2.3 million) and for debt service (\$798,000). The growth occurred primarily in the capital projects reserve increasing by almost \$2.4 million or 20%. This growth is not surprising since all excess General Funds are transferred to Capital Projects.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved and undesignated fund balance of the general fund was \$305,000. The seemingly low balance is the result of a budget philosophy, which directs the transfer of all fund balance at year-end to the Capital Projects fund to pay for future capital projects. The remaining reserves are reasonable safeguards in the event of an immediate financial crisis.

The Capital Projects Fund balance increased almost \$1.8 million as of the June 30, 2005. The Capital Projects fund balance will vary as progress occurs on approved projects and funding availability. The primary funding source for capital projects has been transfers from the General Fund, gas tax and one-time grants for specific projects. The City maintains a pay as you go funding philosophy, in lieu of issuing debt for capital improvements. For fiscal year 2004-05, capital project spending was approximately \$2.2 million, or roughly the same as in the prior year. Substantial progress was made on a number of projects including the annual street resurfacing project (\$586,000), the School District Corp Yard (\$265,000), the Raymundo Curb and Gutter project, (\$254,000), and the El Monte Safe Routes to School Project (\$165,000), the Foothill Expressway Fence was completed (\$129,000) as well as the final payment on the Blach and Egan Gymnasium projects (\$380,000).

Proprietary funds. The City proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year in the Sewer fund were \$3.5 million, in the Storm Drain fund \$68,000, and in the Solid Waste Collection Management were to \$640,000. Factors concerning the changes in fund balance in these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets and Debt Administration –

Capital assets: The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$44.8 million (net of accumulated depreciation).

This investment in capital assets includes land, buildings, improvements, machinery and equipment, and streets. At June 30, 2005 net capital assets of the governmental activities totaled \$42.3 million and the net capital assets of the business-type activities totaled \$2.5 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. Capital assets in this period were substantially unchanged.

Capital Assets at June 30, 2005

	Governmental	Business –Type	Total	
	Activities	Activities	2005	2004
	2005	2005	2005	2004
Land and Construction in Progress	\$ 11,407,908	\$ -	\$ 11,407,908	\$ 12,009,556
Buildings	16,715,387	2,368,608	19,083,995	19,239,643
Improvements	815,332	-	815,332	850,589
Machinery and Equipment	987,986	141,262	1,129,248	1,067,427
Infrastructure	12,371,489	-	12,371,489	11,542,339
Total Assets, net of depreciation	\$ 42,298,102	\$ 2,509,870	\$ 44,807,972	\$ 44,709,554

Additional information on the City's Capital Assets can be found in Note #5.

Debt Administration. At the end of the current fiscal year the City had total bonded debt outstanding of \$3 million for the purchase of Rosita Park (former known as the Saint Williams site) and the parcels of property at First and Main.

	Governmental Activities	Business Activities	2005 Total	2004 Total
Certificate of participation	\$ 3,010,000	\$ -	\$ 3,010,000	\$ 3,115,000
Special assessment debt with City commitment	101,000	-	101,000	146,000
Capital lease	163,948	-	163,948	213,299
Compensated absences	928,938	30,616	959,554	949,174
Total	<u>\$ 4,203,886</u>	<u>\$ 30,616</u>	<u>\$ 4,234,502</u>	<u>\$ 4,423,473</u>

Additional information on the City's debt can be found in footnote #6.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the fiscal year 2004-05 original General Fund expenditure budget amount of \$19.7 million to the final budget amount of \$19.8 million shows a net increase of \$112,000. Key mid-year adjustments included:

- Adjustment to the Police Department budget for grants, emergency preparedness improvements, and additional crossing guard coverage (\$45,000).
- Adjustment to the Public Works Department budget for a new pool car, which was budgeted in the prior fiscal year but not purchased (\$23,000).
- Adjustment for a new Dining Guide (\$5,000), assistance with a new wireless ordinance (\$5,000) and assistance with compliance reporting for developer impact fees (\$6,500).

CAPITAL PROJECT BUDGETARY HIGHLIGHTS

Changes to the fiscal year 2004-05 Capital Projects budget were \$395,000. Changes included funding new projects as well as increasing funding on several existing projects.

- Adjustments to Capital Projects budgets included additional funding of \$97,600 for the Los Altos School District Corporation Yard, \$73,000 for the closeout of the Blach Gymnasium project and \$49,000 for the El Monte Safe Routes to School project.
- Funding for new project for Traffic Light Emitting Diode (LED) conversion (\$60,909), and funding for a variety of smaller capital projects or outside assistance on a special project.

Mid year appropriations are funded based on the intended use of the appropriation. In most cases, funding comes from the Operating Reserve, the Capital Projects reserve or is offset by grant funding or donations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

General Fund revenue is forecast to increase 9% for fiscal year 2005-06. Key assumptions follow:

- Secured property tax will increase substantially, 10.5% based on the current information from the Santa Clara County Assessors Office. Unsecured property tax, Homeowner Property Tax Relief, property tax in lieu of Vehicle License fees and supplemental property tax proceeds are expected to remain consistent with the prior year.
- Sales tax revenues will increase by 6% due to continued slow but steady economic improvement.
- Interest rates will stabilize, resulting in an additional \$175,000 in interest revenue.
- Transient Occupancy Tax (TOT) rate will remain at 11% with continued slow growth in tax receipts as the economy improves.
- Utility User Tax revenues will be relatively flat. Projections were prepared prior to substantial increases in natural gas.
- Employee salaries increases vary. For the first time salaries are budgeted at top step, with a "revenue" offset of 5% savings in salaries since not all employees receive top step.
- Increases in CalPERS employer rates will not adversely affect the budget due to the PERS reserve.
- Four new full time positions were approved but will not be filled until some resolution is reached regarding the fire contract, which is expected to increase substantially in January 2007.
- Improved services will need new funding sources, which will require voter approval.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Assistant City Manager, One North San Antonio Road, Los Altos, CA 94025.

BASIC FINANCIAL STATEMENTS

***GOVERNMENT – WIDE
FINANCIAL STATEMENTS***

CITY OF LOS ALTOS

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 23,105,159	\$ 4,327,886	\$ 27,433,045
Accounts receivable, net	1,156,696	282,764	1,439,460
Interest receivable	174,164	-	174,164
Other receivable	483,972	-	483,972
Deferred charges	119,750	-	119,750
Prepaid items and inventory	11,036	-	11,036
Total current assets	25,050,777	4,610,650	29,661,427
Noncurrent assets:			
Restricted cash and investments	247,822	-	247,822
Capital assets:			
Non depreciable assets	11,407,908	-	11,407,908
Depreciable assets	42,286,640	10,649,411	52,936,051
Total capital assets	53,694,548	10,649,411	64,343,959
Less accumulated depreciation	(11,396,446)	(8,139,541)	(19,535,987)
Capital assets, net	42,298,102	2,509,870	44,807,972
Total noncurrent assets	42,545,924	2,509,870	45,055,794
Total assets	67,596,701	7,120,520	74,717,221
LIABILITIES			
Current liabilities:			
Accounts payable	1,272,702	337,327	1,610,029
Interest payable	129,850	-	129,850
Accrued liabilities	390,567	14,407	404,974
Claims payable	407,223	-	407,223
Deferred revenue	847,629	-	847,629
Long-term-debt-due within one year	192,910	-	192,910
Total current liabilities	3,240,881	351,734	3,592,615
Noncurrent liabilities:			
Compensated absences payable	928,938	30,616	959,554
Claims and Judgments payable	1,352,349	-	1,352,349
Long-term debt - due in more than a year	3,082,038	-	3,082,038
Total noncurrent liabilities	5,363,325	30,616	5,393,941
Total liabilities	8,604,206	382,350	8,986,556
NET ASSETS			
Invested in capital assets, net of related debt	39,023,154	2,509,870	41,533,024
Restricted for:			
Capital projects	2,303,096	-	2,303,096
Debt service	908,609	-	908,609
Special projects and programs	567,999	-	567,999
Other purpose	12,000	-	12,000
Total restricted	3,791,704	-	3,791,704
Unrestricted	16,177,637	4,228,300	20,405,937
Total net assets	\$ 58,992,495	\$ 6,738,170	\$ 65,730,665

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

CITY OF LOS ALTOS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Public safety	\$ 9,855,562	\$ 508,419	\$ 123,207	\$ -	\$ 631,626
Public works	4,497,723	230,703	549,399	588,266	1,368,368
Recreation and culture	2,211,985	1,604,187	10,770	-	1,614,957
Community development	2,382,837	1,853,767	76,000	-	1,929,767
Admin / Community services	2,312,629	542,720	6,000	-	548,720
Interest on long-term activities	149,196	-	-	-	-
Total governmental activities	21,409,932	4,739,796	765,376	588,266	6,093,438
Business-type activities:					
Sewer	3,166,863	4,273,468	-	-	4,273,468
Solid waste	1,124,822	1,309,096	-	-	1,309,096
Storm Drain	118,195	-	-	-	-
Total business-type activities	4,409,880	5,582,564	-	-	5,582,564
Total primary government	\$ 25,819,812	\$ 10,322,360	\$ 765,376	\$ 588,266	\$ 11,676,002

General revenues and transfers:

Taxes:

Property taxes

Sales taxes

Other taxes

Franchise fees

Interest income

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$ (9,223,936)	\$ -	\$ (9,223,936)
(3,129,355)	-	(3,129,355)
(597,028)	-	(597,028)
(453,070)	-	(453,070)
(1,763,909)	-	(1,763,909)
(149,196)	-	(149,196)
<u>(15,316,494)</u>	<u>-</u>	<u>(15,316,494)</u>
-	1,106,605	1,106,605
-	184,274	184,274
-	(118,195)	(118,195)
<u>-</u>	<u>1,172,684</u>	<u>1,172,684</u>
<u>(15,316,494)</u>	<u>1,172,684</u>	<u>(14,143,810)</u>
8,580,233	-	8,580,233
2,552,529	-	2,552,529
2,201,201	-	2,201,201
1,048,405	-	1,048,405
494,822	-	494,822
2,830,628	-	2,830,628
(182,788)	182,788	-
<u>17,525,030</u>	<u>182,788</u>	<u>17,707,818</u>
2,208,536	1,355,472	3,564,008
56,783,959	5,382,698	62,166,657
<u>\$ 58,992,495</u>	<u>\$ 6,738,170</u>	<u>\$ 65,730,665</u>

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements
Proprietary Fund Financial Statements
Fiduciary Fund Financial Statements

CITY OF LOS ALTOS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

JUNE 30, 2005

General Fund - Accounts for all financial resources necessary to carry out basic governmental activities of the City that are not accounted for in another funds. The General Fund supports essential City services such as police, streets and parks maintenance, and recreation activities.

Capital Projects Fund - Accounts for the acquisition and construction of major capital projects and plans that are financed by resources other than proprietary funds.

Equipment Replacement Fund - Accounts for the revenues and expenditures related to the replacement of certain City equipment and vehicles.

Community Improvement Reserve Fund - Accounts for the resources set aside for additions and improvements to the public and community facilities and to provide funding for opportunities, which may improve the City's financial position.

Non-Major Governmental Funds - Non-major Governmental Funds is the aggregate of all the non-major governmental funds.

CITY OF LOS ALTOS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

ASSETS	General	Major Funds			Non-Major Governmental Funds	Total
		Capital Projects	Equipment Replacement Capital Projects	Community Improvement Capital Projects		
Cash and investments	\$ 7,075,094	\$ 7,070,050	\$ 3,376,389	\$ 1,225,405	\$ 2,421,514	\$ 21,168,452
Restricted cash and investments	-	-	-	-	247,822	247,822
Receivables- (net of allowance for uncollectible):						
Accounts	644,519	495,000	-	-	15,447	1,154,966
Interest	174,164	-	-	-	-	174,164
Assessments	-	-	-	-	-	-
Other	483,972	-	-	-	-	483,972
Prepaid Expense	480	-	-	-	-	480
Due from other funds	14,155	-	1,000,000	-	1,000,000	2,014,155
Inventory	10,556	-	-	-	-	10,556
Total assets	\$ 8,402,940	\$ 7,565,050	\$ 4,376,389	\$ 1,225,405	\$ 3,684,783	\$ 25,254,567
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,041,541	\$ 117,730	\$ -	\$ -	\$ 8,895	\$ 1,168,166
Accrued liabilities	390,567	-	-	-	-	390,567
Claims payable	407,223	-	-	-	-	407,223
Deferred revenue	846,878	750	-	-	-	847,628
Due to other funds	-	-	-	2,000,000	14,155	2,014,155
Total liabilities	2,686,209	118,480	-	2,000,000	23,050	4,827,739
Fund Balances:						
Reserved for:						
Encumbrances	15,548	-	-	-	-	15,548
Veteran Memorial	12,000	-	-	-	-	12,000
PERS	3,005,795	-	-	-	-	3,005,795
Emergency and operating	2,367,287	-	-	-	-	2,367,287
Debt service	-	-	-	-	798,222	798,222
Capital projects	-	7,446,570	4,376,389	-	2,303,096	14,126,055
Special programs and projects	-	-	-	-	568,000	568,000
Inventory and prepaids	11,036	-	-	-	-	11,036
Total reserved	5,411,666	7,446,570	4,376,389	-	3,669,318	20,903,943
Unreserved, undesignated reported in:						
General Fund	305,065	-	-	-	-	305,065
Debt service	-	-	-	-	(7,585)	(7,585)
Capital project funds	-	-	-	(774,595)	-	(774,595)
Total fund balances	5,716,731	7,446,570	4,376,389	(774,595)	3,661,733	20,426,828
Total liabilities and fund balance	\$ 8,402,940	\$ 7,565,050	\$ 4,376,389	\$ 1,225,405	\$ 3,684,783	\$ 25,254,567

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

CITY OF LOS ALTOS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS JUNE 30, 2005

Total Fund Balances - Total Governmental Funds	\$ 20,426,828
Accounts reported for governmental activities in the Statement of Net Assets were reported differently because:	
Capital assets used in governmental activities are not current financial resources. Therefore, were not reported in the Governmental Funds Balance Sheet.	
Land, buildings, property, equipment and infrastructure, net of accumulated depreciation	42,298,102
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds Balance Sheet.	
	(129,850)
Internal service funds are used by management to charge the costs of certain activities to individual-fund. The assets and liabilities of the internal service funds are included in governmental activities in the Governmental-Wide Statement of Net Assets.	
	481,553
The costs associated with the issuance of debt, net of amortization, is a use of current resources in the fund statement, therefore it was not reported as an asset in the Governmental Fund Balance.	
	119,750
Long-term liabilities are not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.	
Long-term liabilities - current portion	(192,910)
Long-term liabilities - non-current portion	(3,082,038)
Compensated Absences	(928,940)
Total long-term liabilities	<u>(4,203,888)</u>
Net Assets of Governmental Activities	<u>\$ 58,992,495</u>

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

CITY OF LOS ALTOS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Major Funds					Total
	General	Capital Projects	Equipment Replacement Capital Projects	Community Improvement Capital Projects	Non-Major Governmental Funds	
REVENUES:						
Taxes	\$12,230,431	\$ -	\$ -	\$ -	\$ 32,149	\$ 12,262,580
License, permits and park-in-lieu	2,197,656	-	-	-	-	2,197,656
Intergovernmental	3,413,869	-	-	-	634,562	4,048,431
Grants and donations	37,180	510,281	-	-	153,985	701,446
Charges for services	2,997,370	-	-	-	-	2,997,370
Fines and forfeitures	222,105	-	-	-	46,200	268,305
Interest and rentals	876,167	-	-	-	30,023	906,190
Other	309,544	75,000	-	-	34,737	419,281
Total revenues	22,284,323	585,281	-	-	931,656	23,801,260
EXPENDITURES:						
General government:						
Public safety	9,407,301	17,600	3,073	-	-	9,427,974
Public works	2,801,660	1,119,243	2,338	-	38,135	3,961,376
Recreation and culture	1,772,077	45,032	-	-	2,839	1,819,948
Community development	2,259,851	33,617	-	-	-	2,293,468
Administration/Community services	2,051,626	112,181	76	-	51,116	2,214,998
Capital improvements	-	941,181	301,183	-	105,952	1,348,316
Debt service:						
Principal	-	-	-	-	199,352	199,352
Interest and fiscal charges	-	-	-	-	157,811	157,811
Total expenditures	18,292,515	2,268,854	306,670	-	555,205	21,423,244
REVENUES OVER - (UNDER) EXPENDITURES	3,991,808	(1,683,573)	(306,670)	-	376,451	2,378,016
OTHER FINANCING SOURCES (USES):						
Transfers in	350,740	4,071,561	583,471	5,000	640,801	5,651,573
Transfers out	(4,270,040)	(645,800)	-	-	(918,521)	(5,834,361)
Total other financing sources (uses)	(3,919,300)	3,425,761	583,471	5,000	(277,720)	(182,788)
REVENUES AND OTHER FINANCING SOURCES OVER- (UNDER) EXPENDITURES AND OTHER FINANCING USES	72,508	1,742,188	276,801	5,000	98,731	2,195,228
FUND BALANCES:						
Beginning of year	5,644,223	5,704,382	4,099,588	(779,595)	3,563,002	18,231,600
End of year	\$ 5,716,731	\$ 7,446,570	\$ 4,376,389	\$ (774,595)	\$ 3,661,733	\$ 20,426,828

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

CITY OF LOS ALTOS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT – WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 2,195,228
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Governmental activities in the Statement of Activities were reported differently 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 is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	1,396,606
--	-----------

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expenses is not reported as expenditures in governmental funds.	(1,157,165)
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The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.	(4,258)
---	---------

Long-term compensated absence were reported in the Governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.	(22,385)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the entity wide financial statements. This amount is the net effect of these differences in the treatment of long term debt and related items.	191,369
---	---------

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represents the change in accrued interest from the prior year.	16,595
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	<u>(407,455)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 2,208,536</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF LOS ALTOS

PROPRIETARY FUND FINANCIAL STATEMENTS

JUNE 30, 2005

Sewer - To account for the operation (including waste water treatment) of the City's sewer treatment and urban runoff activities, a self-supporting activity which provides services on a user charge basis.

Solid Waste Collection Management - To account for the collection and disposal of solid waste (including waste collected from street sweeping). Monthly service charges fund the above services.

Storm Drain Fund- To account for the operation of the City's urban runoff and storm drain activities. This fund was created at the beginning of the fiscal year 04-05 at the direction of the City Council.

CITY OF LOS ALTOS

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2005**

ASSETS	Major Funds			Total	Governmental Activities Internal Service Funds
	Sewer	Solid Waste	Storm Drain		
Current assets:					
Cash and investments	\$ 3,589,754	\$ 670,500	\$ 67,632	\$ 4,327,886	\$ 1,936,707
Receivables					
Accounts	146,888	135,876	-	282,764	1,730
Total current assets	3,736,642	806,376	67,632	4,610,650	1,938,437
Noncurrent assets:					
Capital assets:					
Depreciable	10,649,411	-	-	10,649,411	-
Less accumulated depreciation	(8,139,541)	-	-	(8,139,541)	-
Total capital assets, net	2,509,870	-	-	2,509,870	-
Total noncurrent assets	2,509,870	-	-	2,509,870	-
Total assets	6,246,512	806,376	67,632	7,120,520	1,938,437
LIABILITIES					
Current liabilities					
Accounts payable	172,028	165,299	-	337,327	104,535
Accrued liabilities	13,492	915	-	14,407	-
Compensated absences - current portion	7,654	-	-	7,654	-
Total noncurrent liabilities	193,174	166,214	-	359,388	104,535
Non current liabilities					
Claims and judgments	-	-	-	-	1,352,349
Compensated absences - noncurrent portion	22,962	-	-	22,962	-
Total noncurrent liabilities	22,962	-	-	22,962	1,352,349
Total liabilities	216,136	166,214	-	382,350	1,456,884
NET ASSETS					
Investment in capital assets, net of related debt	2,509,870	-	-	2,509,870	-
Unrestricted	3,520,506	640,162	67,632	4,228,300	481,553
Total net assets	\$ 6,030,376	\$ 640,162	\$ 67,632	\$ 6,738,170	\$ 481,553

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

CITY OF LOS ALTOS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005**

	Major Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities Internal Service Funds
OPERATING REVENUES:					
Charges for services	\$ 3,892,126	\$ 1,254,155	\$ -	\$ 5,146,281	\$ 743,711
Other	381,342	54,941	-	436,283	5,291
Total operating revenues	4,273,468	1,309,096	-	5,582,564	749,002
OPERATING EXPENSES:					
Outside services	2,181,896	1,055,884	56,423	3,294,203	-
Employee services	491,958	34,553	60,377	586,888	-
Repairs and maintenance	350,530	34,021	1,041	385,592	-
Claims reimbursement	-	-	-	-	762,612
Insurance	-	-	-	-	334,549
Administration	-	364	354	718	59,296
Depreciation	142,479	-	-	142,479	-
Total operating expenses	3,166,863	1,124,822	118,195	4,409,880	1,156,457
OPERATING INCOME (LOSS)	1,106,605	184,274	(118,195)	1,172,684	(407,455)
OPERATING TRANSFERS:					
Transfers in	-	-	192,600	192,600	-
Transfers out	(3,039)	-	(6,773)	(9,812)	-
Total operating transfers	(3,039)	-	185,827	182,788	-
Change in net assets	1,103,566	184,274	67,632	1,355,472	(407,455)
NET ASSETS:					
Beginning of the year	4,926,810	455,888	-	5,382,698	889,008
End of the year	\$ 6,030,376	\$ 640,162	\$ 67,632	\$ 6,738,170	\$ 481,553

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

CITY OF LOS ALTOS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Major Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers/other funds	\$ 4,304,441	\$ 1,299,037	\$ -	\$ 5,603,478	\$ 748,651
Cash payments to suppliers for goods and services	(2,488,008)	(1,081,622)	(57,818)	(3,627,448)	-
Cash payments to employees for services	(503,962)	(34,553)	(60,377)	(598,892)	-
Cash payments to claimants	-	-	-	-	(768,277)
Insurance premiums and administration	-	-	-	-	(322,434)
Net cash provided (used) by operating activities	1,312,471	182,862	(118,195)	1,377,138	(342,060)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in	-	-	192,600	192,600	-
Operating transfers out	(3,039)	-	(6,773)	(9,812)	-
Net cash provided (used) by noncapital financing activities	(3,039)	-	185,827	182,788	-
CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES:					
Capital asset additions	(6,114)	-	-	(6,114)	-
Net increase (decrease) in cash and cash equivalents	1,303,318	182,862	67,632	1,553,812	(342,060)
CASH AND CASH EQUIVALENTS:					
Beginning of year	2,286,436	487,638	-	2,774,074	2,278,767
End of year	<u>\$ 3,589,754</u>	<u>\$ 670,500</u>	<u>\$ 67,632</u>	<u>\$ 4,327,886</u>	<u>\$ 1,936,707</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 1,106,605	\$ 184,274	\$ (118,195)	\$ 1,172,684	\$ (407,455)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	142,479	-	-	142,479	-
Changes in assets and liabilities:					
Accounts receivable	31,603	(10,059)	-	21,544	(351)
Accounts payable	44,418	8,647	-	53,065	71,373
Accrued liabilities	(12,634)	-	-	(12,634)	-
Claims and judgments	-	-	-	-	(5,627)
Total adjustments	205,866	(1,412)	-	204,454	65,395
Net Cash provided (used) by operating activities	\$ 1,312,471	\$ 182,862	\$ (118,195)	\$ 1,377,138	\$ (342,060)

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

CITY OF LOS ALTOS

FIDUCIARY FUND FINANCIAL STATEMENTS

JUNE 30, 2005

AGENCY FUND – Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. They are used to account for assets held in an agency capacity for others and therefore cannot be used to support the City's Programs.

The City's Agency fund accounts for the operating activities and the special assessment collection pertaining to the North County Library Authority.

CITY OF LOS ALTOS

STATEMENT OF FIDUCIARY FUND ASSETS AND LIABILITIES
JUNE 30, 2005

	Agency Fund
ASSETS	
Cash and investments	\$ 1,326,842
Interest receivable	8,356
Total assets	\$ 1,335,198
LIABILITIES	
Accounts payable	73,551
Due to others	1,261,647
Total liabilities	\$ 1,335,198

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

NOTES TO FINANCIAL STATEMENTS

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Los Altos, California have been prepared in conformity with accounting principles, generally accepted in the United States of America (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 of Los Altos, California (City), incorporated in 1952. The City operates under an elected Council and appointed City Manager form of government and provides the following services: public safety, community development services, engineering services, public works, general administrative services and capital improvements.

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. 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. Each blended component unit has a June 30 year-end. The following entity is reported component unit:

Blended Component Unit

Community Facility District (District):

The Community Facility District was created on November 9, 1976. The District acquired through issuance of a 1981 Series A Water Bond the properties of the North Los Altos Water Company, and has sold the assets to California Water Service Company (Cal Water) to furnish service to customers in the North Los Altos service area.

B. Basis of Presentation, Measurement Focus and Basis of Accounting

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 by providing a separate set of self - balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Governmental-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 and business-type activities for the City, the primary government, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Governmental-Wide Financial Statements (Continued)

These basic financial 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.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function; and therefore, are clearly identifiable to a particular function. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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, payable and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Advances to, Advances from other funds
- Operating transfers in, transfers out

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The City has elected not to follow subsequent private-sector guidance.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements

Governmental funds 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 those qualifications.

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 sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial 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.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 90 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, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. 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 revenues is removed from the balance sheet and revenue is recognized.

The 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 Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for all proprietary funds.

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the governmental - wide financial statements.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Proprietary Fund Financial Statements (Continued)

Net Assets. The Statement of Revenues, Expenses and Change in Fund Net Assets presents increases (revenues) and decreases (expenses) in total 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 liability is incurred.

Proprietary funds distinguish operating revenues and expenses and non-operating items. Operating revenues and expenses generally result for providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: sewer charges, solid waste fees, and support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City's fiduciary funds represent agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for on the modified accrual basis of accounting as are the Governmental funds explained above.

C. Recognition of Interest Liability

In the Governmental Fund financial statements, interest expenditures on long-term debt are recognized when payment is due. In the Government-Wide Financial Statements and Proprietary Fund Financial Statements, interest expense is recognized as the liability is incurred.

D. Use of Restricted and 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.

E. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

In accordance with GASB Statement No., 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash, Cash Equivalents and Investments (Continued)

Market value is used as fair value for those securities for which market quotations are readily available.

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 Asset backed securities. LAIF's investments are subject to market risk as to change in interest rates.

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents including cash with fiscal agents.

F. Inventories

Inventory, consisting of tires, gasoline and paper, is stated at cost on an average cost basis and is controlled by a perpetual inventory system, which is adjusted to reflect periodic physical counts. Inventories are recorded as expenditures in the General Fund when consumed.

G. Restricted Assets

Fiscal agents acting on behalf of the City hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificate of participation or tax allocation bonds and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

H. Compensated Absences

Governmental – Wide Financial Statements

For governmental and business-type activities, compensated absences are recorded as expenses and liabilities as incurred.

Fund Financial Statements

For governmental funds, 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. The General Fund is typically used to liquidate compensated absences. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund's share of the unpaid liability is recorded as a long-term liability of the fund.

I. Property Taxes

Santa Clara County assesses all properties in the City, and it bills, collects, and distributes property taxes to the City. Both secured and unsecured property taxes are levied on January 1.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

Secured property tax is due in two installments, on November 1 and February 1. It becomes delinquent after December 10 and April 10, respectively. The City and the County adopted the "alternative method of property tax distributions" known as the Teeter Plan that authorizes the County to allocate 100% of the secured property tax based on levy instead of collection, and to retain all delinquent penalties and interest.

Unsecured property tax is due on July 1 and becomes delinquent after August 31. Distribution of the unsecured property taxes is based on collections. The County also distributes both penalties and interest collected for delinquent unsecured property taxes.

J. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$1,000. Depreciation is recorded on a straight line basis over estimated useful lives of the assets as follows:

Buildings	50 years
Improvements other than buildings	30-50 years
Machinery and equipment	3-10 years
Infrastructure	30-100 years

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

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include:

Street system

Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, streetlights, and traffic control devices (signs, signals and pavement markings). These subsystems were not delineated in the Government-Wide Financial Statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City has elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City conducted a valuation of its infrastructure assets as of July 1, 2002. This valuation determined the original cost using one of the following methods:

- 1) Use of historical records where available;
- 2) Standard unit costs appropriate for the construction/acquisition date of the assets; or
- 3) Present replacement cost indexed by a reciprocal factor of the price increase from constructions/acquisition date to the current date.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

The accumulated depreciation, defined as the total depreciation from the date of constructions/acquisition to the current date was computed on a straight-line method using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

K. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The Governmental Fund Financial Statements do not present long-term debt, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Governmental funds 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 net of related issuance costs. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

L. Deferred Revenue

Government-Wide Financial Statements

In the governmental-wide financial statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are long-term loans receivables and prepaid charges for services.

Fund Financial Statements

In the fund financial statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenues for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenues is recorded are grants received but not yet earned or available, prepaid charges for services, long-term assessments and long-term loans receivable.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Net Assets and Fund Balances

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

Governmental-Wide Financial Statements

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”.

Fund Financial Statements

Reservations of fund balances of governmental funds and retained earnings of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

O. Budgetary Information

General Budget Policies

Prior to July 1, the budget is legally enacted through passage of a resolution. The City Council periodically reviews the budgets and adopts supplemental appropriations (amendments) at the fund level when required. The level of budgetary control is established at the fund level and expenditures may not exceed budgeted appropriations at the fund level without City Council approval. In the financial statements, budgeted amounts are as originally adopted while the final budget amounts include amendments to the original budget. Individual amendments were not material in relation to original appropriations.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgetary Information (Continued)

Budget Basis of Accounting

Budgetary comparisons are presented in the other supplementary information section, as listed in the table of contents for the General, and certain Special Revenue funds. Certain funds are not legally required to adopt budgets as their appropriations are established by the related bond documentation and/or other legal agreements. Therefore, budgetary comparisons are not shown for those funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Community Improvement Capital Project Fund deficit fund balance at June 30, 2005 of \$774,595 is expected to be cured by the proceeds from the sale of the City's half interest in the former Palo Alto sewage treatment plant. The City has sufficient resources to cure any remaining deficit from General Fund revenues, if necessary.

The Edith Avenue Foothill Noise Wall Debt Service Fund deficit fund balance at June 30, 2005 of \$7,585 is expected to be cured with General Fund transfers, pending City Council approval.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 27,433,045
Cash and Investments held by bond trustee	247,822
Fiduciary funds:	
Cash and Investments	<u>1,326,842</u>
Total cash and investments	<u>\$ 29,007,709</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 1,900
Deposits with financial institutions	(144,889)
Investments	<u>29,150,698</u>
Total Deposits and Investments	<u>\$ 29,007,709</u>

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and the City’s Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City’s investment policy where more restrictive. The table also identifies certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S Agency Securities	5 years	30%	None
Banker's Acceptance	180 days	30%	30%
Commercial Paper	180 days	15%	None
Negotiable Certificates of Deposit	3 years	50%	\$100,000
Repurchase Agreements	15 days	30%	None
Mutual Funds	N/A	30%	None
Money Market Mutual Funds	N/A	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to 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 maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. Typically, the City manages its exposure to interest rate risk, is by investing in LAIF and Money Market Mutual funds. . The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

Investment Type	Fair Value	Weighted Average Maturity In Years
State Investment Pool	\$ 28,902,876	0.45
Money Market Mutual Funds	247,822	0.02
	\$ 29,150,698	

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measure by the assignment of a rating by a nationally recognized statistical rating organization.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End	
			AAA	Unrated
State Investment Pool	\$28,902,876	NA	\$ -	\$28,902,876
Money Market Mutual Funds	247,822	A	247,822	-
Total	<u>\$29,150,698</u>		<u>\$247,822</u>	<u>\$28,902,876</u>

Concentration of Credit Risk

The investment policy of the Entity contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Entity investments that are required to be disclosed.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2005, the City's bank balance of \$473,124, with a corresponding reported balance of \$(144,889), was either insured or collateralized but the collateral was not held specifically in the City's name.

Custodial Credit Risk – Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Entity's investment in this pool is reported in the accompanying financial statements are amounts based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4 – INTERFUND TRANSACTIONS

Fund Financial Statements

A. Long-Term advances

Long-term advances to be repaid out of future earnings or charges at June 30, 2005, consisted of:

		Due To Other Funds			
Due From Other Funds		Community Improvement Reserve	Equipment Replacement	Non-major Governmental Funds	Total
		Equipment Replacement	\$ 1,000,000	\$ -	\$ -
	General	-	-	14,155	14,155
	Non-major Govtal	1,000,000	-	-	1,000,000
	Total	\$ 2,000,000	\$ -	\$ 14,155	\$ 2,014,155

B. Transfers

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

		Transfers In						
Transfers Out		General Fund	Capital Projects	Equipment Replacement	Community Improvements	Non-major Governmental Funds	Enterprise Storm Drain	Total
		General Fund	\$ -	\$ 3,493,968	\$ 583,471	\$ -	\$ -	\$ 192,600
	Capital Projects	-	-	-	5,000	640,800	-	645,800
	Non-major Governmental Funds	340,928	577,593	-	-	-	-	918,521
	Enterprise Fund: Storm Drain	6,773	-	-	-	-	-	6,773
	Sewer Service	3,039	-	-	-	-	-	3,039
	Total	\$ 350,740	\$ 4,071,561	\$ 583,471	\$ 5,000	\$ 640,800	\$ 192,600	\$ 5,844,172

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 – CAPITAL ASSETS

A. Governmental – Wide Financial Statements

At June 30, 2005, the City’s capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Construction in Progress	\$ 3,038	\$ -	\$ 3,038
Land	11,404,870	-	11,404,870
Total non-depreciable assets	<u>11,407,908</u>	<u>-</u>	<u>11,407,908</u>
Depreciable assets:			
Buildings	21,401,615	10,151,094	31,552,709
Improvement other than buildings	1,609,631	-	1,609,631
Machinery and equipment	3,612,777	498,317	4,111,094
Infrastructure	15,662,617	-	15,662,617
Total depreciable assets	<u>42,286,640</u>	<u>10,649,411</u>	<u>52,936,051</u>
Less accumulated depreciation	<u>(11,396,446)</u>	<u>(8,139,541)</u>	<u>(19,535,987)</u>
Total depreciable assets, net	<u>30,890,194</u>	<u>2,509,870</u>	<u>33,400,064</u>
Total capital assets	<u><u>\$ 42,298,102</u></u>	<u><u>\$ 2,509,870</u></u>	<u><u>\$ 44,807,972</u></u>

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

A. Governmental – Wide Financial Statements (Continued)

The following is a summary of capital assets for governmental activities for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Adjustments	Balance June 30, 2005
Non-depreciable assets:					
Construction in progress	\$ 604,686	\$ 3,040	\$(604,688)	\$ -	\$ 3,038
Land	11,404,870	-	-	-	11,404,870
Total non-depreciable assets	<u>12,009,556</u>	<u>3,040</u>	<u>(604,688)</u>	<u>-</u>	<u>11,407,908</u>
Depreciable assets:					
Buildings	21,021,842	379,773	-	-	21,401,615
Improvement other than buildings	1,609,631	-	-	-	1,609,631
Machinery and equipment	3,441,042	355,848	(184,113)	-	3,612,777
Infrastructure	14,399,984	1,262,633	-	-	15,662,617
Total depreciable assets	<u>40,472,499</u>	<u>1,998,254</u>	<u>(184,113)</u>	<u>-</u>	<u>42,286,640</u>
Accumulated depreciation:					
Buildings	(4,253,428)	(432,800)	-	-	(4,686,228)
Improvements	(759,042)	(35,257)	-	-	(794,299)
Machinery and equipment	(2,549,021)	(255,625)	179,855	-	(2,624,791)
Infrastructure	(2,857,645)	(433,483)	-	-	(3,291,128)
Total accumulated depreciation	<u>(10,419,136)</u>	<u>(1,157,165)</u>	<u>179,855</u>	<u>-</u>	<u>(11,396,446)</u>
Total depreciable assets, net	<u>30,053,363</u>	<u>841,089</u>	<u>(4,258)</u>	<u>-</u>	<u>30,890,194</u>
Total governmental activities capital assets, net	<u>\$ 42,062,919</u>	<u>\$ 844,129</u>	<u>\$ (608,946)</u>	<u>\$ -</u>	<u>\$ 42,298,102</u>

The Governmental activities depreciation expenses for capital assets for the year ended June 30, 2005 are as follows:

Public safety	\$ 162,345
Public works	505,520
Recreation	376,594
Community development	33,079
Admin/community services	<u>79,627</u>
Total depreciation expense	<u>\$ 1,157,165</u>

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

A. Governmental – Wide Financial Statements (Continued)

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Depreciable assets:				
Buildings	\$ 10,151,094	\$ -	\$ -	\$ 10,151,094
Machinery and equipment	498,023	6,114	5,820	498,317
Total depreciable assets	<u>10,649,117</u>	<u>6,114</u>	<u>5,820</u>	<u>10,649,411</u>
Accumulated depreciation:				
Buildings	(7,680,265)	(102,221)	-	(7,782,486)
Machinery and equipment	(322,617)	(40,258)	(5,820)	(357,055)
Total accumulated depreciation	<u>(8,002,882)</u>	<u>(142,479)</u>	<u>(5,820)</u>	<u>(8,139,541)</u>
Total depreciable assets net	<u>\$ 2,646,235</u>	<u>\$ (136,365)</u>	<u>\$ -</u>	<u>\$ 2,509,870</u>

Depreciation expense for business-type activities for the year ended June 30, 2005 is as follows:

Sewer	<u>\$ 142,479</u>
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B. Fund Financial Statements

The Governmental Fund Financial Statements do not present capital assets, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements.

NOTE 6 –LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

Summary of changes in governmental activities long-term debt for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Debt Issues	Debt Retired	Balance June 30, 2005	Due in one year	Due in more than one year
Certificate of participation	\$ 3,115,000	\$ -	\$ 105,000	\$ 3,010,000	\$ 115,000	\$ 2,895,000
Special Assessment Debt with City Commitment	146,000	-	45,000	101,000	\$ 26,000	75,000
Capital Lease Obligations: Loyola Fire Station	213,299	-	49,351	163,948	51,910	112,038
Total	<u>\$ 3,474,299</u>	<u>\$ -</u>	<u>\$ 199,351</u>	<u>\$ 3,274,948</u>	<u>\$ 192,910</u>	<u>\$ 3,082,038</u>

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 –LONG-TERM OBLIGATIONS (CONTINUED)

A. Governmental Activities Long-Term Obligations (Continued)

Certificates of Participation

Certificates of participation payable at June 30, 2005, consisted of the following:

	Balance June 30, 2005	Due in one year	Due in more than one year
1996 ABAG 36 (Land Purchase)	\$ 580,000	\$ 40,000	\$ 540,000
2004 Refunding	2,430,000	75,000	2,355,000
Total	<u>\$ 3,010,000</u>	<u>\$ 115,000</u>	<u>\$ 2,895,000</u>

ABAG 36 Certificates of Participation

On November 1, 1995, the City issued \$850,000 principal amount of Certificates of Participation (ABAG 36 COPs). The purpose of the ABAG 36 COPs was to finance the purchase of two parcels of land in the downtown area. The ABAG 36 COPs bear interest rates ranging from 4.5% to 5.8% and are payable semiannually on each November 1 and May 1. Principal payment are payable annually on each November 1. COPs maturing on or after November 1 2003 may be redeemed on or after November 1, 2002, at par plus a 2% premium. The premium decreases 1% per year until November 1, 2004, when the COPs may be redeemed at par. The bonds are secured and payable from General Fund revenues.

At June 30, 2005, future debt service requirement for the ABAG 36 COPs were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2006	\$ 40,000	\$ 31,290	\$ 71,290
2007	40,000	29,260	69,260
2008	45,000	27,038	72,038
2009	45,000	24,630	69,630
2010	50,000	22,040	72,040
2011-2015	290,000	64,068	354,068
2016	70,000	2,030	72,030
Total	<u>\$ 580,000</u>	<u>\$ 200,356</u>	<u>\$ 780,356</u>

2004 Refunding Certificate of Participation

On November 1, 1996, the City issues \$2,630,000 principal amount of Certificates of Participation (ABAG 38 COPs). The purpose of the ABAG 38 COPs was to finance the partial purchase of the 5.5 acres Saint William School site for public purpose and uses. During 2004 the City issued \$2,500,000 of 2004 Refunding Certificates of Participation to advance refund \$2,390,000 of outstanding principal on the ABAG 38 Certificates of Participation, set up reserve funds, and to pay related issuance costs. The entire ABAG 38 Certificates of Participation had been

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 –LONG-TERM OBLIGATIONS (CONTINUED)

A. Governmental Activities Long-Term Obligations (Continued)

paid off by June 30, 2004. This advance refunding was undertaken to reduce total debt service payments over the next 23 years by \$480,342 and to obtain an economic gain (i.e. difference between the present value of the debt service payments of the refunded, or old debt, and refunding bonds, or new debt) of \$318,478.

At June 30, 2005, future debt service requirements for the 2004 Refunding were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2006	\$ 75,000	\$ 85,578	\$ 160,578
2007	80,000	84,078	164,078
2008	80,000	82,478	162,478
2009	80,000	80,878	160,878
2010	85,000	79,278	164,278
2011-2015	465,000	362,330	827,330
2016-2020	560,000	278,600	838,600
2021-2025	685,000	157,575	842,575
2026-2028	320,000	20,613	340,613
Total	<u>\$ 2,430,000</u>	<u>\$ 1,231,408</u>	<u>\$ 3,661,408</u>

Special Assessment Debt with City Commitment

Special assessment districts are established in various parts of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of improvements. These assessments are payable over the term of the debt issued to finance the improvements. The City is obligated to be the purchaser of last resort or to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 2005, all these districts were in compliance with the repayment and other requirements of their respective debt issues.

Special assessment debt with City commitment is comprised of the following issues:

	Interest Rate	Maturity Date	Balance July 1, 2004	Retirements	Balance June 30, 2005
Edith-Foothill Noise Wall	7.0-7.75%	2005	\$ 20,000	\$ 20,000	\$ -
El Monte-Foothill Noise Wall	6.7-7.2%	2006	40,000	20,000	20,000
Avalon Drive-Curb & Gutter	5.80%	2015	86,000	5,000	81,000
			<u>\$ 146,000</u>	<u>\$ 45,000</u>	<u>\$ 101,000</u>

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 –LONG-TERM OBLIGATIONS (CONTINUED)

A. Governmental Activities Long-Term Obligations (Continued)

At June 30, 2005, future debt service requirements for the Special assessment debt with City commitment were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2006	\$ 26,000	\$ 5,244	\$ 31,244
2007	6,000	4,176	10,176
2008	6,000	3,828	9,828
2009	7,000	3,451	10,451
2010	7,000	3,045	10,045
2011-2015	40,000	8,642	48,642
2016	9,000	261	9,261
Total	<u>\$ 101,000</u>	<u>\$ 28,647</u>	<u>\$ 129,647</u>

Capital Lease Obligations

On June 24 1998, the City entered into a lease financing agreement for the reconstruction of the Loyola Fire Station. The agreement required the City to make semiannual payment of \$29,824 until July 2, 2008. Debt service is repayable from General Fund revenues.

For the Year Ending June 30,	Principal	Interest	Total
2006	\$ 51,910	\$ 7,738	\$ 59,648
2007	54,602	5,046	59,648
2008	57,436	2,214	59,650
Total	<u>\$ 163,948</u>	<u>\$ 14,998</u>	<u>\$ 178,946</u>

B. Debt Covenants and Restrictions

For June 30, 2005, the City complied with all general and specific covenants regarding debt proceeds usage and debt repayment. In accordance with bond official statements, the City also maintained adequate reserves for all debt services.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 7 – COMPENSATED ABSENCES

The City's compensated absences at June 30, 2005, were as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Governmental activities	\$ 906,554	\$ 22,384	\$ -	\$ 928,938
Business-type activities	42,620	-	(12,004)	30,616
Total	\$ 949,174	\$ 22,384	\$ (12,004)	\$ 959,554

There is no fixed payment schedule for compensated absences.

NOTE 8 – DEFERRED REVENUE

At June 30, 2005, the following deferred revenues were recorded in because with the revenues has not been earned or the funds were not available to financial expenditures of the current period:

	Governmental Activities
Fees collected in advance	\$ 370,167
Grant funding received	1,080
Motor Vehicle License Fee Gap Loan Repayment	476,381
	<u>\$ 847,628</u>

NOTE 9 – RISK MANAGEMENT

ABAG PLAN Corporation

The City is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters for which the City is insured through the Association of Bay Area Governments (ABAG).

ABAG covers general liability claims in an amount up to \$10,000,000. The City has a deductible or uninsured liability of up to \$100,000 per claim. Once the City's deductible is met, ABAG becomes responsible for payment of all claims up to the limit. During the year ended June 30, 2005, the City contributed \$172,785 for current year coverage.

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

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 9 – RISK MANAGEMENT (CONTINUED)

ABAG PLAN Corporation (Continued)

The City's contributions to ABAG equal the ratio of the City's payroll to the 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.

The ABAG financial statements may be obtained from ABAG, P.O. Box 2050, Oakland, California, 94604.

The City has an excess insurance policy for Worker's Compensation claims up to the statutory limits. The City has a \$1,000,000 deductible or uninsured liability.

As of June 30, 2005, \$50,000 of revolving funds were held in trust on behalf of the City by the Workers' Compensation Third Party Claims Administrator (TPA). The City will receive the funds upon termination of services with the TPA.

Liability for Uninsured Claims

The Governmental Accounting Standards Board (GASB) requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed in the section above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portions, of these claims. GASB Statement No. 10, "*Financial Reporting for Risk Financing and Related Insurance Issues*," requires that this amount be separately identified and recorded as a liability.

Changes in the balances of claims liabilities during the past three years were as follows:

	June 30,		
	2005	2004	2003
Unpaid claims, beginning of year	\$ 1,357,976	\$ 993,480	\$ 950,318
Incurred claims and changes in estimates	756,985	1,035,928	429,601
Claim payments	(762,612)	(671,432)	(386,439)
Unpaid claims, end of year	\$ 1,352,349	\$ 1,357,976	\$ 993,480

NOTE 10 – SELF FUNDED REIMBURSEMENT DENTAL PLAN

The City of Los Altos provides a self-funded Reimbursement Dental Plan. The City's contribution for this plan is accounted for in the Dental Reimbursement Fund. In fiscal year 2003, 2004 and 2005, the City contributed \$60 per month for each full time budgeted position. The funds accumulated are used to reimburse employees and their dependents for covered dental claims. The plan year begins on November 1 and ends on October 31. All full time salaried employees and their dependents are eligible to participate. The City Council members are also eligible to participate. However, if an employee or dependent is covered for dental costs by an insurance carrier or another

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 10 – SELF FUNDED REIMBURSEMENT DENTAL PLAN (CONTINUED)

dental plan, the employee is required to submit the dental claims to the insurance carrier or the other plan first. The annual maximum dental reimbursement is \$1,000 for each employee and \$600 for each dependent. Any remaining balance in the fund for each dental year is carried forward to the following year. There are no administrative charges for this plan. The contribution and reimbursements for the dental plan for the years ended October 31, 2002, 2003 and 2004 are as follows:

<u>Dental Year</u> <u>Ended October 31,</u>	<u>Contribution</u> <u>Amount</u>	<u>Reimbursement</u> <u>Amount</u>
2002	\$ 93,840	\$ 81,329
2003	92,592	86,677
2004	88,680	82,658

NOTE 11 – PENSION PLAN

California Public Employees' Retirement Plan

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

Funding Policy – Active plan members are required by State statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$725,036 for the year ended June 30, 2005. The City was required to contribute at an actuarial determined rate of 23.157% for the period from July 1, 2004 through June 30, 2005 of annual covered payroll for safety employees and 9.111% of annual covered payroll for miscellaneous employees. The contribution rate is established annually and may be amended by PERS.

Annual Pension Cost – For 2004-2005, the City's annual pension cost of \$1,157,302 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a) 8.25% investment rate of return (net of administrative expenses), b) projected salary increases range from 3.75% to 14.2% for miscellaneous employees and 4.27% to 11.59% for safety employees depending on age, service, and type of employment. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period.

CITY OF LOS ALTOS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 11 – PENSION PLAN (CONTINUED)

California Public Employees’ Retirement Plan (Continued)

Three – Year Trend Information - The following table shows the City’s required contribution and the percentage contributed, for the current and each of the proceeding two years:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2003	\$ 204,278	100%	\$ -
6/30/2004	277,226	100%	-
6/30/2005	1,157,302	100%	-

NOTE 12 – CONTIGENCIES

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 reasonably sufficient to cover any potential losses should an unfavorable outcome materialize.

NOTE 13 – OTHER INFORMATION

A. Joint Powers Agreements

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence of member agencies beyond their representation of the board.

The Joint Sewer System Authority (JSSA), formed in 1968 by a joint exercise of powers among the cities of Palo Alto, Mountain View, and Los Altos, constructed, maintains and operates sewage treatment facilities serving its member cities. The City of Palo Alto acts as administrator for JSSA and bills each member its share of the operating costs. The audited financial statements can be obtained by contacting the City of Palo Alto at P.O. Box 10250, Palo Alto, California 94303.

CITY OF LOS ALTOS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 13 – OTHER INFORMATION (CONTINUED)

A. Joint Powers Agreements (Continued)

The North County Library Authority (NCLA), formed in 1985 by a joint exercise of powers agreement between the City and the Town of Los Altos Hills, provides library services for member residents. The NCLA was created to provide financing for capital improvements and additional services by the public libraries serving the area. Although the City owns the libraries and their sites, the County of Santa Clara is responsible for all library operations. However, since 1985, the NCLA has levied a voter approved special parcel tax to compensate for service reductions due to cutbacks by the County. The special tax has been collected by the County, transferred to the City, on behalf of NCLA, and then transferred back to the County for the specifically requested services provided by the libraries within the NCLA service area. The City performs administrative and accounting services for NCLA. In 1991, NCLA issued Special Tax Bonds in the amount of \$3,645,000. As of June 30, 2005, the Special Tax Bonds outstanding debt amounted to \$1,915,000. The audited financial statements can be obtained by contacting the NCLA at One North San Antonio Road, Los Altos, California 94022.

The Community Health Awareness Council (CHAC) was organized as a joint powers agency between the cities of Los Altos, Mountain View, the Town of Los Altos Hills, the Los Altos Elementary School District, the Mountain View Elementary School District, the Mountain View-Los Altos Union High School District, and the Whisman School District. The CHAC provides prevention and intervention services concentrating on positive alternatives to health abuse and self-destructive behaviors for its members' constituents. The audited financial statements can be obtained by contacting the CHAC at P.O. Box 335, Mountain View, California 94042.

B. Post Employment Health Care Benefits

Health care benefits are available to retired employees on a pay-as-you-go basis with the retired employees paying all costs directly to CalPERS. All active health care plan participants and their spouses may become eligible upon retirement for those benefits if they reach the normal retirement age while working for the City and the City continues to participate in the CalPERS healthcare program. Council retirees are also eligible to participate through the City on a pay-as-you-go basis even if they are not PERS retirees.

The City contributes approximately \$7 per month per retiree. This monthly amount will increase in 5% increments over time to a maximum contribution of approximately \$32. As of June 30, 2005 there were 38 retirees receiving these benefits. The total amount paid by the City of those benefits for the year ended June 30, 2005 was \$2,483.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LOS ALTOS

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2005

1. BUDGET AND BUDGETARY ACCOUNTING

The City adopts a biennial budget every two years that is updated in the spring of the first year for the second year. This budget is effective July 1 for the ensuing fiscal year. From the effective date of the budget, which is adopted and controlled at the fund level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer budgeted amounts between departments and line items within any fund to achieve a balanced budget; however, any revisions, which alter the total expenditures of any fund, must be approved by the City Council. Transfers between funds must be approved by the City Council. All appropriations lapse at year end, unless otherwise authorized by the City Council and the City Manager, except for capital improvement funds for which appropriations endure until the project is completed.

Biennial budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except for capital projects funds, which are adopted on a project length basis, which means budgets are used until the project's completion for the entire project amount.

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of the formal budgetary process. By resolution, encumbrances are re-appropriated in the next fiscal year.

CITY OF LOS ALTOS

**REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005**

1. BUDGET AND BUDGETARY ACCOUNTING, CONTINUED

General Fund Schedule or Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 11,742,712	\$ 11,742,712	\$ 12,230,431	\$ 487,719
Licenses, permits and park in-lieu	2,072,450	2,072,450	2,197,656	125,206
Intergovernmental	2,824,450	2,824,450	3,413,869	589,419
Grants and donations	12,500	26,943	37,180	10,237
Charges for services	2,809,308	2,809,658	2,997,370	187,712
Fines and forfeitures	227,000	227,000	222,105	(4,895)
Interest and rentals	601,700	601,700	876,167	274,467
Other	102,800	102,800	309,544	206,744
Total revenues	<u>20,392,920</u>	<u>20,407,713</u>	<u>22,284,323</u>	<u>1,876,610</u>
EXPENDITURES:				
Current:				
Public safety	9,722,846	9,780,850	9,407,301	373,549
Public works	3,388,313	3,392,413	2,801,660	590,753
Recreation and culture	1,901,813	1,910,428	1,772,077	138,351
Community development	2,383,774	2,413,891	2,259,851	154,040
Admin / Community services	2,330,657	2,342,157	2,051,626	290,531
Total expenditures	<u>19,727,403</u>	<u>19,839,739</u>	<u>18,292,515</u>	<u>1,547,224</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>665,517</u>	<u>567,974</u>	<u>3,991,808</u>	<u>3,423,834</u>
OTHER FINANCING SOURCES (USES):				
Transfer in	330,500	337,000	350,740	13,740
Transfer out	(660,000)	(660,000)	(4,270,040)	(3,610,040)
Total other financing sources (uses)	<u>(329,500)</u>	<u>(323,000)</u>	<u>(3,919,300)</u>	<u>(3,596,300)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 20,482,633</u>	<u>\$ 244,974</u>	<u>72,508</u>	<u>\$ (172,466)</u>
FUND BALANCES				
Beginning of year			<u>5,644,223</u>	
End of year			<u>\$ 5,716,731</u>	

CITY OF LOS ALTOS

**REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005**

2. THREE YEAR TREND INFORMATION FOR PERS

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
Safety - Police (2)						
6/30/2002	\$ 18,351,259	\$ 17,059,614	\$ 1,291,645	93.0%	\$ 2,492,196	51.8%
6/30/2003 (1)	4,270,573,982	3,577,742,166	692,831,816	83.8%	476,089,674	145.5%
6/30/2004	5,383,921,942	4,424,586,846	959,335,096	82.2%	575,296,434	166.8%
Miscellaneous (3)						
6/30/2002	25,975,440	27,238,870	(1,263,430)	104.9%	5,190,009	-24.3%
6/30/2003	515,421,442	456,062,164	59,359,278	88.5%	120,692,360	49.2%
6/30/2004	681,517,006	580,960,891	100,556,115	85.2%	160,107,449	62.8%

(1) Effective with the 6/30/2003 valuation, California Public Employees' Retirement System established risk pools for plan containing less than 100 active members. The City's Safety Police and Miscellaneous plans are included in these risk pools.

(2) Safety Police Plan's 6/30/2003 and 6/30/2004 valuation reflects data for Safety 3% at 50 Risk Pool.

(3) Miscellaneous Plan's 6/30/2003 and 6/30/2004 valuation reflects data for Miscellaneous 2.7% at 55 Risk Pool.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LOS ALTOS

NON MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

SPECIAL REVENUE FUNDS

Vehicle Impound Fund - To account for revenues collected from arrest and towing fees that are dedicated for public safety purposes.

Supplemental Law Enforcement Fund - To account for revenues from the Citizen's Option for Public Safety Program in support of additional front line law enforcement services.

Gas Tax Funds 2105, 2106, 2107, 2107.5 - To account for the revenues received from the state gas taxes under the provisions of the Streets and Highways Code. These revenues are restricted to uses related to construction and improvements, and maintenance and repair of local streets.

Storm Drain Deposits Fund - To account for fees collected from new subdivision development. All funds are restricted to construction and improvement of the storm drain system.

Community Development Block Grant Fund - To account for grant fund received from the federal government specifically for the housing rehabilitation loan program, the human services programs through local nonprofit agencies, and the accessibility improvements in compliance with the American with Disabilities Act.

TDA Fund - To account for revenues received from the Metropolitan Transportation Commission under the Transportation Development Act Article III. The revenues are restricted to uses for pedestrian and bicycle path related improvements.

Downtown Parking Fund - To account for revenues received from the lease of the public parking plazas and in-lieu program fees. The revenues are dedicated for the construction and improvement of downtown parking facilities.

In Lieu Park Land - To account for revenues received in lieu of parkland dedications. The revenues are dedicated for purchasing or improving park or recreational facilities.

DEBT SERVICE FUND

North Los Altos Water District - To account for the accumulation of revenues for periodic payment of principal, interest, and related authorized costs.

General Debt Service - To account for the accumulation of revenues for periodic payment of principles and interest on Certificates or Participation and a Capital Lease, and related authorized costs.

Grant Fremont Sewer - To account for the accumulation of financial resources that are used to pay principal, interest, related costs, on Special Assessment Debt.

Oak Truman Sewer - To account for the payment of interest and principal on special assessment debt of the City.

Morton Alford Sewer - To account for the payment of interest and principal on special assessment debt of the City.

Elmhurst Curb and Gutter - To account for the payment of interest and principal on special assessment debt of the City.

CITY OF LOS ALTOS

NON MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

DEBT SERVICE FUND, (Continued)

Edith Avenue Foothill Noise Wall - To account for the accumulation of revenues for payment of the debt service related to the construction of the Edith Avenue and Foothill Expressway noise wall. The revenue is derived from the special assessment levied to property owners within that improvement district.

El Monte Foothill Noise Wall - To account for the accumulation of revenues for payment of the debt service related to the construction of the South El Monte Avenue and Foothill Expressway noise wall. The revenue is derived from the special assessment levied to property owners within that improvement district.

Avalon Drive Curb and Gutter - To account for the accumulation of resources for payment of the debt service related to the construction and installation of curbs and gutters. The revenue is derived from the special assessment levied to property owners within that improvement district.

Raymundo Curb & Gutter - To account for the accumulation of resources for payment of the debt service related to the construction and installation of curbs and gutters. The revenue is derived from the special assessment levied to property owners within the improvement district.

CAPITAL PROJECTS FUNDS

Facility Fund - To account for the revenues and expenditures related to the maintenance of certain City facilities and infrastructures.

CITY OF LOS ALTOS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Special Revenue			
	Vehicles Impound	Supplemental Law Enforcement	Gas Tax 2105	Gas Tax 2106
ASSETS				
Cash and investments	\$ -	\$ -	\$ 115,725	\$ 242,090
Restricted cash and investments	-	-	-	-
Receivable (net of allowance for uncollectible):				
Accounts	-	-	-	-
Assessments	-	-	-	-
Prepaid Expenses	-	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,725</u>	<u>\$ 242,090</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved:				
Special programs and projects	-	-	115,725	242,090
Debt service	-	-	-	-
Capital projects	-	-	-	-
Unreserved:				
Undesignated	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>115,725</u>	<u>242,090</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,725</u>	<u>\$ 242,090</u>

CITY OF LOS ALTOS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2005**

		Special Revenue					
Gas Tax 2107	Gas Tax 2107.5	Storm Drain Deposits	Community Development Block Grants	TDA	Downtown Parking	In Lieu Park Land	
\$ 104,668	\$ -	\$ 56,086	\$ 18	\$ -	\$ 25,261	\$ 24,170	
-	-	-	-	-	-	-	
-	-	-	15,447	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
<u>\$ 104,668</u>	<u>\$ -</u>	<u>\$ 56,086</u>	<u>\$ 15,465</u>	<u>\$ -</u>	<u>\$ 25,261</u>	<u>\$ 24,170</u>	
\$ -	\$ -	\$ -	\$ 8,895	\$ -	\$ -	\$ -	
-	-	-	-	-	-	-	
-	-	-	6,570	-	-	-	
-	-	-	15,465	-	-	-	
104,668	-	56,086	-	-	25,261	24,170	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
<u>104,668</u>	<u>-</u>	<u>56,086</u>	<u>-</u>	<u>-</u>	<u>25,261</u>	<u>24,170</u>	
<u>\$ 104,668</u>	<u>\$ -</u>	<u>\$ 56,086</u>	<u>\$ 15,465</u>	<u>\$ -</u>	<u>\$ 25,261</u>	<u>\$ 24,170</u>	

CITY OF LOS ALTOS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2005**

	Debt Service				
	North Los Altos Water District	General	Grant Fremont Sewer	Oak Truman Sewer	Morton Alford Sewer
ASSETS					
Cash and investments	\$ 104,308	\$ 141,840	\$ 38,968	\$ 57,246	\$ 51,068
Restricted cash and investments	-	247,822	-	-	-
Receivable (net of allowance for uncollectible):					
Accounts	-	-	-	-	-
Assessments	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 104,308</u>	<u>\$ 389,662</u>	<u>\$ 38,968</u>	<u>\$ 57,246</u>	<u>\$ 51,068</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved:					
Special programs and projects	-	-	-	-	-
Debt service	104,308	389,662	38,968	57,246	51,068
Capital projects	-	-	-	-	-
Unreserved:					
Undesignated	-	-	-	-	-
Total fund balances	<u>104,308</u>	<u>389,662</u>	<u>38,968</u>	<u>57,246</u>	<u>51,068</u>
Total liabilities and fund balances	<u>\$ 104,308</u>	<u>\$ 389,662</u>	<u>\$ 38,968</u>	<u>\$ 57,246</u>	<u>\$ 51,068</u>

CITY OF LOS ALTOS

COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS (CONCLUDED)
 JUNE 30, 2005

		Debt Service			Capital Projects	Total Non-Major Governmental Funds
Elmhurst Curb and Gutter	Edith Avenue Foothill Noise Wall	El Monte Foothill Noise Wall	Avalon Drive Curb and Gutter	Raymundo Curb and Gutter	Facility Fund Capital Projects	
\$ 603	\$ -	\$ 45,521	\$ 37,401	\$ 73,445	\$ 1,303,096	\$ 2,421,514
-	-	-	-	-	-	247,822
-	-	-	-	-	-	15,447
-	-	-	-	-	-	-
-	-	-	-	-	1,000,000	1,000,000
<u>\$ 603</u>	<u>\$ -</u>	<u>\$ 45,521</u>	<u>\$ 37,401</u>	<u>\$ 73,445</u>	<u>\$ 2,303,096</u>	<u>\$ 3,684,783</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,895
-	-	-	-	-	-	-
-	7,585	-	-	-	-	14,155
-	7,585	-	-	-	-	23,050
-	-	-	-	-	-	568,000
603	-	45,521	37,401	73,445	-	798,222
-	-	-	-	-	2,303,096	2,303,096
-	(7,585)	-	-	-	-	(7,585)
<u>603</u>	<u>(7,585)</u>	<u>45,521</u>	<u>37,401</u>	<u>73,445</u>	<u>2,303,096</u>	<u>3,661,733</u>
<u>\$ 603</u>	<u>\$ -</u>	<u>\$ 45,521</u>	<u>\$ 37,401</u>	<u>\$ 73,445</u>	<u>\$ 2,303,096</u>	<u>\$ 3,684,783</u>

CITY OF LOS ALTOS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Special Revenue			
	Vehicle Impound	Supplemental Law Enforcement	Gas Tax 2105	Gas Tax 2106
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Grants	-	100,000	175,303	120,354
Fines and forfeiture	46,200	-	-	-
Interest and rentals	-	-	7,088	4,403
Other	-	-	-	-
Total revenues	<u>46,200</u>	<u>100,000</u>	<u>182,391</u>	<u>124,757</u>
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Recreation	-	-	-	-
Admin / community services	-	-	-	-
Capital improvements	-	-	-	13,746
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,746</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>46,200</u>	<u>100,000</u>	<u>182,391</u>	<u>111,011</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	-
Operating transfers out	(46,328)	(100,000)	(322,100)	(6,798)
Total other financing sources (uses)	<u>(46,328)</u>	<u>(100,000)</u>	<u>(322,100)</u>	<u>(6,798)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(128)</u>	<u>-</u>	<u>(139,709)</u>	<u>104,213</u>
FUND BALANCES:				
Beginning of year	128	-	255,434	137,877
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,725</u>	<u>\$ 242,090</u>

CITY OF LOS ALTOS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2005

Special Revenue							Debt Service	
Gas Tax 2107	Gas Tax 2107.5	Storm Drain Deposits	Community Development Block Grants	TDA	Downtown Parking	In Lieu Park Land	North Los Altos Water District	General
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
232,905	6,000	-	-	-	-	-	-	-
-	-	-	76,000	77,985	-	-	-	-
-	-	-	-	-	-	-	-	-
8,217	-	-	-	-	3,895	670	-	4,715
-	-	-	-	-	-	30,000	-	-
241,122	6,000	-	76,000	77,985	3,895	30,670	-	4,715
-	-	-	24,884	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	51,116	-	-	-	-	-
-	-	-	-	92,206	-	-	-	-
-	-	-	-	-	-	-	-	154,352
-	-	-	-	-	-	-	-	144,258
-	-	-	76,000	92,206	-	-	-	298,610
241,122	6,000	-	-	(14,221)	3,895	30,670	-	(293,895)
-	-	-	-	31,801	-	-	-	204,000
(390,321)	(6,000)	-	-	(17,580)	-	(6,500)	-	-
(390,321)	(6,000)	-	-	14,221	-	(6,500)	-	204,000
(149,199)	-	-	-	-	3,895	24,170	-	(89,895)
253,867	-	56,086	-	-	21,366	-	104,308	479,557
\$ 104,668	\$ -	\$ 56,086	\$ -	\$ -	\$ 25,261	\$ 24,170	\$ 104,308	\$ 389,662

CITY OF LOS ALTOS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2005

	Debt Service			
	Grant	Oak	Morton	Elmhurst
	Fremont Sewer	Truman Sewer	Alford Sewer	Curb and Gutter
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Grants	-	-	-	-
Fines and forfeiture	-	-	-	-
Interest and rentals	-	-	-	-
Other	-	-	2,487	-
Total revenues	-	-	2,487	-
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Recreation	-	-	-	-
Admin / community services	-	-	-	-
Capital improvements	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	2,487	-
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	-	2,487	-
FUND BALANCES:				
Beginning of year	38,968	57,246	48,581	603
End of year	\$ 38,968	\$ 57,246	\$ 51,068	\$ 603

CITY OF LOS ALTOS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

**NON-MAJOR GOVERNMENTAL FUNDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2005**

Debt Service				Capital Projects	Total
Edith Avenue Foothill Wall	El Monte Foothill Noise Wall	Avalon Drive Curb and Gutter	Raymundo Curb and Gutter	Facility Fund Capital Projects	Non-major Governmental Funds
\$ -	\$ 19,111	\$ 13,038	\$ -	\$ -	\$ 32,149
-	-	-	-	-	634,562
-	-	-	-	-	153,985
-	-	-	-	-	46,200
-	-	1,036	-	-	30,023
-	-	-	-	2,250	34,737
-	19,111	14,074	-	2,250	931,656
-	-	-	-	13,251	38,135
-	-	-	-	2,839	2,839
-	-	-	-	-	51,116
-	-	-	-	-	105,952
20,000	20,000	5,000	-	-	199,352
1,763	2,989	8,801	-	-	157,811
21,763	22,989	13,801	-	16,090	555,205
(21,763)	(3,878)	273	-	(13,840)	376,451
-	-	-	-	405,000	640,801
-	-	-	-	(22,894)	(918,521)
-	-	-	-	382,106	(277,720)
(21,763)	(3,878)	273	-	368,266	98,731
14,178	49,399	37,128	73,445	1,934,830	3,563,002
\$ (7,585)	\$ 45,521	\$ 37,401	\$ 73,445	\$ 2,303,096	\$ 3,661,733

CITY OF LOS ALTOS

**BUDGETARY COMPARISON SCHEDULE
GAS TAX - 2105
FOR THE YEAR ENDED JUNE 30, 2005**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental	\$ 175,000	\$ 175,303	\$ 303
Interest and rentals	3,000	7,088	4,088
Total revenues	<u>178,000</u>	<u>182,391</u>	<u>4,391</u>
 REVENUES OVER (UNDER) EXPENDITURES	 <u>178,000</u>	 <u>182,391</u>	 <u>4,391</u>
 OTHER FINANCING SOURCES (USES):			
Operating transfers out	(322,100)	(322,100)	-
Total other financing sources (uses)	<u>(322,100)</u>	<u>(322,100)</u>	<u>-</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ (144,100)</u>	 <u>(139,709)</u>	 <u>\$ 4,391</u>
Fund balance, beginning of year		255,434	
Fund balance, end of year		<u>\$ 115,725</u>	

CITY OF LOS ALTOS

**BUDGETARY COMPARISON SCHEDULE
GAS TAX - 2106
FOR THE YEAR ENDED JUNE 30, 2005**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental	\$ 120,000	\$ 120,354	\$ 354
Interest and rentals	2,025	4,403	2,378
Total revenues	<u>122,025</u>	<u>124,757</u>	<u>2,732</u>
EXPENDITURES			
Current:			
Public works	13,746	13,746	-
Total expenditures	<u>13,746</u>	<u>13,746</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>108,279</u>	<u>111,011</u>	<u>2,732</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers out	(241,000)	(6,798)	234,202
Total other financing sources (uses)	<u>(241,000)</u>	<u>(6,798)</u>	<u>234,202</u>
NET CHANGE IN FUND BALANCE	<u>\$ (132,721)</u>	104,213	<u>\$ 236,934</u>
Fund balance, beginning of year		137,877	
Fund balance, end of year		<u>\$ 242,090</u>	

CITY OF LOS ALTOS

**BUDGETARY COMPARISON SCHEDULE
GAS TAX - 2107
FOR THE YEAR ENDED JUNE 30, 2005**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental	\$ 233,000	\$ 232,905	\$ (95)
Interest and rentals	3,975	8,217	4,242
Total revenues	<u>236,975</u>	<u>241,122</u>	<u>4,147</u>
 REVENUES OVER (UNDER) EXPENDITURES	 <u>236,975</u>	 <u>241,122</u>	 <u>4,147</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers out	(450,000)	(390,321)	59,679
Total other financing sources (uses)	<u>(450,000)</u>	<u>(390,321)</u>	<u>59,679</u>
NET CHANGE IN FUND BALANCE			
Fund balance, beginning of year	<u>\$ (213,025)</u>	(149,199)	<u>\$ 63,826</u>
Fund balance, end of year		<u>253,867</u>	
		<u>\$ 104,668</u>	

CITY OF LOS ALTOS

**BUDGETARY COMPARISON SCHEDULE
GAS TAX - 2107.5
FOR THE YEAR ENDED JUNE 30, 2005**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental	\$ 6,000	\$ 6,000	\$ -
REVENUES OVER (UNDER) EXPENDITURES	<u>6,000</u>	<u>6,000</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers out	(6,000)	(6,000)	-
Total other financing sources (uses)	<u>(6,000)</u>	<u>(6,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund balance, beginning of year	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LOS ALTOS

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT BLOCK GRANT
FOR THE YEAR ENDED JUNE 30, 2005**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Grants	\$ 166,440	\$ 76,000	\$ (90,440)
EXPENDITURES:			
Current:			
Public works	179,172	24,884	154,288
Admin / community services	52,716	51,116	1,600
Total expenditures	<u>231,888</u>	<u>76,000</u>	<u>155,888</u>
NET CHANGE IN FUND BALANCE	(65,448)	-	65,448
Fund balance, beginning of year	-	-	-
Fund balance, end of year	<u>\$ (65,448)</u>	<u>\$ -</u>	<u>\$ 65,448</u>

CITY OF LOS ALTOS

INTERNAL SERVICE FUNDS

JUNE 30, 2005

Dental Reimbursement - To account for the costs of the City's self-insurance dental program. Funds are provided primarily from charges to departments.

Unemployment Insurance - To account for the unemployment insurance premiums and claims made against the City. Funds are provided primarily from charges to departments.

Workers' Compensation Insurance - To account for the premium costs and self-insured claim losses made against the City for workers compensation. Funds are provided primarily from charges to departments.

Liability Insurance - To account for the premium costs and self-insured claim losses made against the City for property-related and general liability. Funds are provided primarily from charges to departments.

CITY OF LOS ALTOS

**COMBINING STATEMENT OF NET ASSETS
ALL INTERNAL SERVICE FUNDS
JUNE 30, 2005**

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
ASSETS					
Current assets:					
Cash and investments	\$ 171,040	\$ 28,021	\$ 1,125,945	\$ 611,701	\$ 1,936,707
Accounts receivable	-	-	1,730	-	1,730
Total assets	<u>171,040</u>	<u>28,021</u>	<u>1,127,675</u>	<u>611,701</u>	<u>1,938,437</u>
LIABILITIES					
Current liabilities:					
Accounts payable	2,858	-	88,778	12,899	104,535
Noncurrent liabilities:					
Claims and judgments payable	-	-	1,150,687	201,662	1,352,349
Total liabilities	<u>2,858</u>	<u>-</u>	<u>1,239,465</u>	<u>214,561</u>	<u>1,456,884</u>
NET ASSETS					
Unrestricted	168,182	28,021	(111,790)	397,140	481,553
Total net assets	<u>\$ 168,182</u>	<u>\$ 28,021</u>	<u>\$ (111,790)</u>	<u>\$ 397,140</u>	<u>\$ 481,553</u>

CITY OF LOS ALTOS

**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
OPERATING REVENUES:					
Charges for services	\$ 88,200	\$ 7,369	\$ 438,142	\$ 210,000	\$ 743,711
Other	2,791	-	-	2,500	5,291
Total operating revenues	90,991	7,369	438,142	212,500	749,002
OPERATING EXPENSES					
Claims reimbursement	84,622	5,847	672,143	-	762,612
Insurance	-	-	161,763	172,786	334,549
Administration	-	-	50,654	8,642	59,296
Total operating expenses	84,622	5,847	884,560	181,428	1,156,457
OPERATING INCOME (LOSS) \					
CHANGE IN NET ASSETS	6,369	1,522	(446,418)	31,072	(407,455)
NET ASSETS:					
Beginning of year	161,813	26,499	334,628	366,068	889,008
End of year	\$ 168,182	\$ 28,021	\$ (111,790)	\$ 397,140	\$ 481,553

CITY OF LOS ALTOS

**COMBINING STATEMENTS OF CASH FLOWS
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
CASH FLOWS FROM					
OPERATING ACTIVITIES:					
Cash received from customers/other funds	\$ 90,991	\$ 7,369	\$ 437,791	\$ 212,500	\$ 748,651
Cash payments to claimants	(84,660)	(5,847)	(156,943)	(520,827)	(768,277)
Insurance premiums and administrative	-	-	(136,308)	(186,126)	(322,434)
Net cash provided (used) by					
Operating activities	<u>6,331</u>	<u>1,522</u>	<u>144,540</u>	<u>(494,453)</u>	<u>(342,060)</u>
CASH AND INVESTMENTS:					
Beginning of year	<u>164,709</u>	<u>26,499</u>	<u>981,405</u>	<u>1,106,154</u>	<u>2,278,767</u>
End of year	<u>\$ 171,040</u>	<u>\$ 28,021</u>	<u>\$ 1,125,945</u>	<u>\$ 611,701</u>	<u>\$ 1,936,707</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 6,369	\$ 1,522	\$ (446,418)	\$ 31,072	\$ (407,455)
Adjustments to reconcile operating income (loss) to net cash provided (used) to operating activities:					
Changes in assets and liabilities:					
Accounts receivable	-	-	(351)	-	(351)
Accounts payable	(38)	-	76,109	(4,698)	71,373
Claims and judgments payable	-	-	515,200	(520,827)	(5,627)
Net cash provided (used) by operating activities	<u>\$ 6,331</u>	<u>\$ 1,522</u>	<u>\$ 144,540</u>	<u>\$ (494,453)</u>	<u>\$ (342,060)</u>

STATISTICS

CITY OF LOS ALTOS

**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS**

Fiscal Year	Public Safety	Public Works	Recreation & Culture	Community Development	Administration & Community Services	Debt Service	Capital Outlay (2)	Total
1995-1996	\$ 7,411,117	\$ 1,964,751	\$ 1,071,198	\$ 1,352,968	\$ 1,262,800	\$ 1,376,345	\$ 3,943,338	\$ 18,382,517
1996-1997	7,147,281	1,962,765	1,075,169	1,285,123	1,265,524	1,067,076	8,571,011	22,373,949
1997-1998	6,459,866	1,934,507	1,133,086	1,303,530	1,379,551	987,264	1,956,476	15,154,280
1998-1999	7,023,124	1,997,615	1,216,956	1,435,652	1,509,735	994,581	2,108,898	16,286,561
1999-2000	7,127,077	2,100,778	1,404,015	1,585,061	1,572,210	945,832	3,113,373	17,848,346
2000-2001	7,392,490	2,219,622	1,786,056	1,817,432	1,776,083	958,574	2,604,574	18,554,831
2001-2002	8,141,724	2,361,934	1,737,341	1,849,453	2,009,046	943,608	4,760,183	21,803,289
2002-2003	8,423,716	2,805,398	1,685,355	2,011,657	2,207,834	563,251	3,051,762	20,748,973
2003-2004	8,812,546	3,235,578	1,800,772	2,040,327	2,205,858	289,581	1,637,461	20,022,123
2004-2005	9,427,974	3,961,376	1,819,948	2,293,468	2,214,999	357,163	1,348,316	21,423,244

(1) Includes General, Special, Debt Service, and Capital Projects Funds.

(2) Prior to the fiscal year 2002-2003, all capital related expenditures were included in Capital Outlay. Starting in the fiscal year 2002-2003, certain capital expenditures were included in the corresponding functions.

CITY OF LOS ALTOS

**GENERAL GOVERNMENTAL REVENUES BY SOURCES
LAST TEN FISCAL YEARS**

Fiscal Year	Taxes	Licenses, Permits and Fees	Inter- Governmental	Grants and Donations	Charges for Services	Fines and Forfeitures	Interest and Rentals	Other Revenue	Total
1995-1996	\$ 5,285,813	\$ 927,543	\$ 3,751,208	\$ -	\$ 3,891,214	\$ 67,659	\$ 1,362,935	\$ 835,964	\$ 16,122,336
1996-1997	5,426,046	860,678	4,078,382	1,351,531	3,299,998	77,753	1,293,726	367,449	16,755,563
1997-1998	6,044,541	1,061,913	4,373,034	268,651	2,537,834	71,564	1,379,902	455,691	16,193,130
1998-1999	6,455,946	1,326,001	4,605,738	250,448	2,653,223	121,531	1,398,531	166,703	16,978,121
1999-2000	6,959,681	1,505,455	5,988,517	610,939	2,955,302	196,680	1,412,550	211,837	19,840,961
2000-2001	7,791,903	1,969,973	6,378,574	1,320,756	2,812,732	155,510	1,682,455	101,755	22,213,658
2001-2002	8,755,004	1,846,186	5,227,245	1,273,567	3,002,528	215,825	1,142,665	285,478	21,748,498
2002-2003	9,392,624	1,809,643	5,232,590	300,587	2,657,264	253,552	731,274	200,906	20,578,440
2003-2004	10,116,937	2,170,087	4,790,254	391,626	2,884,543	283,789	609,465	210,592	21,457,293
2004-2005	12,262,580	2,197,656	4,048,431	701,446	2,997,370	268,305	906,191	419,281	23,801,260

Includes General, Special, Debt Service, and Capital Projects Funds.

CITY OF LOS ALTOS

GENERAL GOVERNMENTAL TAX AND OTHER REVENUES BY SOURCES
LAST TEN FISCAL YEARS

Fiscal Year	Property	Business Licenses	Utility Users	Transient Occupancy	Building Development	Special Assessments	Total
1995-1996	\$ 3,521,531	\$ 307,786	\$ 1,204,117	\$ 4,253	\$ 119,491	\$ 128,635	\$ 5,285,813
1996-1997	3,611,507	320,925	1,292,584	4,070	69,363	127,597	5,426,046
1997-1998	4,152,827	325,019	1,364,486	3,307	80,187	118,715	6,044,541
1998-1999	4,483,870	315,810	1,469,515	2,801	95,082	88,868	6,455,946
1999-2000	4,800,572	323,505	1,469,850	208	234,573	130,973	6,959,681
2000-2001	5,341,863	290,975	1,825,109	-	283,055	50,901	7,791,903
2001-2002	6,148,343	312,243	1,832,299	254,887	157,526	49,706	8,755,004
2002-2003	6,379,459	340,969	1,824,795	633,861	158,311	55,229	9,392,624
2003-2004	6,707,237	333,668	1,885,591	945,649	117,654	127,138	10,116,937
2004-2005	8,580,232	365,859	1,969,699	1,057,995	256,646	32,149	12,262,580

CITY OF LOS ALTOS

**PROPERTY VALUE AND CONSTRUCTION
LAST TEN FISCAL YEARS**

Fiscal Year	Property Values	Building Permits	
		Number of Permits	Value
1995-1996	\$ 2,963,168,697	477	\$ 36,267,015
1996-1997	3,149,084,217	428	39,006,422
1997-1998	3,384,591,790	432	43,084,667
1998-1999	3,689,028,324	451	52,849,116
1999-2000	3,994,393,109	513	79,418,423
2000-2001	4,423,973,102	461	89,066,642
2001-2002	5,094,646,643	405	77,114,011
2002-2003	5,351,238,131	467	67,511,724
2003-2004	5,840,802,872	615	71,150,290
2004-2005	6,295,069,624	645	95,329,276

CITY OF LOS ALTOS

**ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year	Net Local Secured Value	State Board of Equalization	Total Secured Value	Net Unsecured Value	Total Net Assessed Value
1995-1996	\$ 2,959,982,307	\$ 3,186,390	\$ 2,963,168,697	\$ 54,181,262	\$ 3,017,349,959
1996-1997	3,145,883,450	3,200,767	3,149,084,217	56,063,277	3,205,147,494
1997-1998	3,381,393,580	3,198,210	3,384,591,790	57,686,701	3,442,278,491
1998-1999	3,685,091,875	3,936,449	3,689,028,324	60,441,565	3,749,469,889
1999-2000	3,993,923,241	469,868	3,994,393,109	62,697,139	4,057,090,248
2000-2001	4,423,966,714	6,388	4,423,973,102	64,911,223	4,488,884,325
2001-2002	5,094,639,649	6,994	5,094,646,643	89,404,527	5,184,051,170
2002-2003	5,351,231,397	6,734	5,351,238,131	94,541,745	5,445,779,876
2003-2004	5,840,795,181	7,691	5,840,802,872	83,406,442	5,924,209,314
2004-2005	6,295,060,028	9,596	6,295,069,624	78,123,781	6,373,193,405

Source: HdL Coren & Cone and Santa Clara County Assessor

CITY OF LOS ALTOS

PROPERTY TAX RATES DIRECT AND OVERLAPPING GOVERNMENTS LAST TEN FISCAL YEARS

Fiscal Year	City-Wide Property Tax Rate				
	City	County	School District	Special District	Total
1994-1995	0	1.0356	0.0369	0.0115	1.0840
1995-1996	0	1.0362	0.0616	0.0098	1.1076
1996-1997	0	1.0365	0.1383	0.0102	1.1850
1997-1998	0	1.0412	0.0534	0.0098	1.1044
1998-1999	0	1.0405	0.0757	0.0082	1.1244
1999-2000	0	1.0343	0.0740	0.0085	1.1168
2000-2001	0	1.0380	0.0771	0.0075	1.1226
2001-2002	0	1.0388	0.0776	0.0062	1.1226
2002-2003	0	1.0412	0.0694	0.0072	1.1178
2003-2004	0	1.0412	0.0776	0.0087	1.1275
2004-2005	0	1.0412	0.0809	0.0092	1.1313

Note: Tax rates stated represent the highest overlapping property tax rates of all areas within the City of Los Altos.

Source: County of Santa Clara

CITY OF LOS ALTOS

PRINCIPAL TAX PAYERS

JUNE 30, 2005

Taxpayer	Primary Use	2004-05 Assessed Valuation	% of Total Assessed Valuation
Los Altos Hotel Associates LLC	Hotel	\$ 41,204,192	0.64%
David & Lucille Packard Foundation	Office Building	38,253,044	0.59%
Kenneth T. Namimatsu, Et Al	Apartment	23,344,125	0.36%
4 Seasons Associates LLC	Hotel	20,440,855	0.32%
KRC Los Altos Limited Partnership	Residential Care Facility	17,965,060	0.28%
Village Court Partners	Shopping Center	13,800,026	0.21%
Los Altos Woods LLC	Office Building	11,242,615	0.17%
Palo Alto Medical Foundation	Office Building	11,198,747	0.17%
Rambus, Inc.	Office Building	11,015,933	0.17%
Steve J. Vidovich, Et Al	Shopping Center	10,244,233	0.16%

Source: HdL Coren & Cone

CITY OF LOS ALTOS

TOP 25 SALES TAX PRODUCERS JUNE 30, 2005

<u>Business Name *</u>	<u>Business Category</u>
Albertsons	Grocery Stores Liquor
Andronicos	Grocery Stores Liquor
Arco Am Pm Mini Marts	Service Stations
Argonaut Window & Door	Lumber/Building Materials
Armadillo Willys Barbecue & Café	Restaurants Beer and Wine
Bandera	Restaurants Liquor
Calico Corners	Specialty Stores
Chef Chus Mandarin Kitchen	Restaurants Liquor
Design & Interiors	Home Furnishings
Draegers Supermarkets	Grocery Stores Liquor
Earthworks	Art/Gift/Novelty Stores
El Camino Unocal	Service Stations
Eurodesign	Contractors
Los Altos Chevron	Service Stations
Los Altos Supply & Garden	Garden Supplies
Pella Window & Door	Lumber/Building Materials
Rancho Mobil	Service Stations
Rite Aid	Drug Stores
Rutt of Los Altos	Home Furnishings
Safeway	Grocery Stores Liquor
Trader Joes	Grocery Stores Liquor
Turn2 Solutions	Specialty Stores
Valero	Service Stations
Village Chevron	Service Stations
Walgreens	Drug Stores

* *Business Listed Alphabetically*

Source: HdL Coren & Cone

CITY OF LOS ALTOS

**SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year	Special Assessment		Special Assessment	
	Billings		Collected	
1995-1996	\$	131,863	\$	128,635
1996-1997		127,733		127,597
1997-1998		123,208		118,715
1998-1999		90,094		88,868
1999-2000		128,412		130,973
2000-2001		50,287		50,901
2001-2002		50,351		49,706
2002-2003		55,473		55,229
2003-2004		51,257		127,138 (1)
2004-2005		32,939		32,149

(1) includes assessment payments in advance for Raymundo Curb & Gutter Special Assessment.

Source:
City of Los Altos Finance Department

CITY OF LOS ALTOS

SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT JUNE 30, 2005

2004-05 Assessed Valuation: **\$6,373,193,405**

OVERLAPPING TAX AND ASSESSMENT DEBT:

	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Santa Clara Valley Water District, Zone W-1	3.90%	\$ 146,753
Foothill-De Anza Community College District	9.74	18,054,371
Fremont Union High School District	4.03	5,777,586
Mountain View-Los Altos Union High School District	28.48	13,099,442
Cupertino Union School District	6.72	8,486,110
Los Altos School District	52.27	47,562,447
North County Library Authority	64.92	1,243,218
City of Los Altos 1915 Act Bonds	100.00	101,000
Santa Clara Valley Water District Benefit Assessment District	3.21	6,127,812
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>100,598,739</u>

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

Santa Clara County General Fund Obligations	3.21%	\$ 25,880,092
Santa Clara County Board of Education Certificates of Participation	3.21	578,038
Foothill-De Anza Community College District Certificates of Participation	9.74	2,186,592
Mountain View-Los Altos Union High School District Certificates of Participation	28.48	2,353,872
Cupertino Union School District Certificates of Participation	6.72	370,773
City of Los Altos Certificates of Participation	100.00	3,010,000
El Camino Hospital District Authority	19.00	82,659
Midpeninsula Regional Park District General Fund Obligations	5.60	6,404,754
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>40,866,780</u>
Less: El Camino Hospital Authority		82,659
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$ 40,784,121</u>

GROSS COMBINED TOTAL DEBT	\$ 141,465,519 (1)
NET COMBINED TOTAL DEBT	\$ 141,382,860

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

Ratios to Assessed Valuation:

Combined Direct Debt (\$3,010,000)	0.05%
Total Overlapping Tax and Assessment Debt	1.58%
Gross Combined Total Debt	2.22%
Net Combined Total Debt	2.22%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$0

Source:

California Municipal Statistics, Inc.

CITY OF LOS ALTOS

**COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2005**

Assessed valuations:

Assessed value	\$ 6,373,193,405
Add back: exempt property	75,801,492
Total assessed value	<u><u>\$ 6,448,994,897</u></u>

Legal debt margin

Debt limitation - 15% of assessed valuation	\$ 967,349,235
Debt applicable to limitation	-

Legal Debt Margin	<u><u>\$ 967,349,235</u></u>
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Source:

City of Los Altos Finance Department

CITY OF LOS ALTOS

DEMOGRAPHIC STATISTICS LAST TEN FISCAL YEARS

Fiscal Year	City Population (1)	Percentage Change	School Enrollment (2)	Percentage Change	Unemployment Rate (3)
1995-1996	27,439	1.65%	6,392	4.41%	2.2%
1996-1997	28,018	2.11%	6,483	1.42%	1.8%
1997-1998	28,355	1.20%	6,518	0.54%	2.0%
1998-1999	28,391	0.13%	6,611	1.43%	1.8%
1999-2000	28,601	0.74%	6,769	2.39%	1.2%
2000-2001	27,902	-2.44%	6,871	1.51%	2.8%
2001-2002	27,825	-0.28%	7,009	2.01%	5.2%
2002-2003	27,722	-0.37%	7,295	4.08%	4.9%
2003-2004	27,512	-0.76%	7,491	2.69%	4.4%
2004-2005	27,614	0.37%	7,530	0.52%	2.7%

Sources:

- (1) State of California Department of Finance
- (2) State of California Department of Education
- (3) State of California Employment Development Department

CITY OF LOS ALTOS

MISCELLANEOUS STATISTICS

JUNE 30, 2005

Date Founded	1906
Date Incorporated	December 1, 1952
Type of Government	General Law
Form of Government	Council - Manager
Area of City	seven square miles
Population	27,614
Employees:	
<i>2004-05 Paid Full-Time Equivalent</i>	120
Police Protection:	
<i>Number of Sworn Personnel</i>	31
<i>Number of Non-sworn Personnel</i>	16
Culture and Recreation:	
<i>Number of Parks</i>	10
<i>Park Acreage</i>	38
<i>Number of Libraries</i>	2
<i>Number of History Museum</i>	1
Public Works:	
<i>Miles of Streets</i>	125
<i>Number of Traffic Signals</i>	14
<i>Miles of Sewer Mains</i>	141
<i>Miles of Storm Drain Mains</i>	58