



City of Los Altos

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE YEAR ENDED JUNE 30, 2009

Cover Photos:

Summer Concert at Heritage Oaks Park by Larry Davis

Los Altos Downtown Community Plaza by Randall Hull

Newly Renovated McKenzie Playground by Dave Brees

City of Los Altos
Comprehensive Annual Financial Report
For the year ended June 30, 2009

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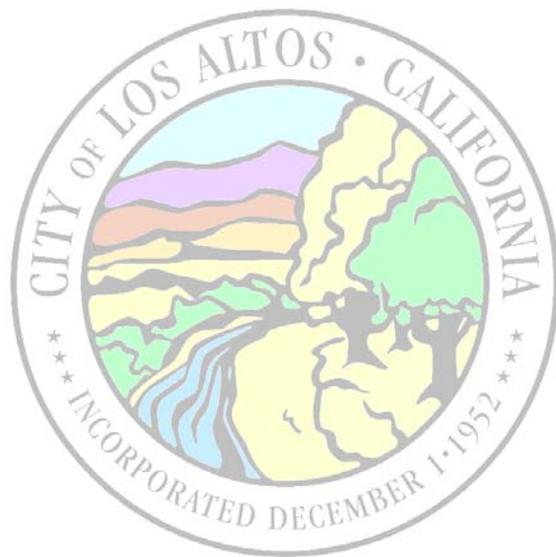
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FINANCE
ONE NORTH SAN ANTONIO ROAD
LOS ALTOS, CALIFORNIA 94022-3087

December 24, 2009

**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, 2009 with the Independent Auditors' Report. The CAFR was prepared by the City's Finance Department. The information contained in this CAFR is based on a comprehensive framework of internal control established for this purpose. The objective is to provide reasonable assurance that the financial statements are free of material misstatements. 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 measured 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.

This letter of transmittal is designed to complement the Management's Discussion & Analysis (MD&A) section of the CAFR and should be read in conjunction with it. The MD&A provides a narrative introduction, overview, and analysis of the Basic Financial Statements, and can be found immediately following the report of the independent auditors.

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. Municipal services provided include police, street maintenance, engineering, community development, parks, recreation, and sewer. Fire protection is contracted with the Santa Clara County Central Fire Protection District.

SERVICE EFFORTS AND MAJOR INITIATIVES

Service Efforts

In FY2009, the City of Los Altos continued to provide a high level of service to its residents and citizens. The City adhered to its adopted financial plan as evidenced by the budget-to-actual reporting presented within this document. Budgetary limits were adhered to on a citywide basis with the General Fund reporting a healthy operating surplus again this year. All major funds performed as expected and reserves have been generally increased and/or maintained.

Major Initiatives

Capital Improvements: FY2009 has marked a year of progress in terms of infrastructure maintenance. Some of the key capital improvements expenditures of note in this 2009 financial report include the following:

- \$ 870,000 Annual Street Resurfacing
- \$ 340,000 Community Center Master Plan
- \$ 240,000 City Council Audio Visual Upgrades & Video Streaming
- \$ 180,000 Recreation Facility Improvements
- \$ 160,000 Street Restriping
- \$ 114,000 Downtown Parking Opportunity Study
- \$ 110,000 First Street Streetscape Design
- \$ 104,000 Rehabilitation Portland Avenue Bridge
- \$ 100,000 Traffic & Bicycle Safety Upgrades
- \$ 100,000 Financial & Recreation System Upgrades

Community Center Master Plan: In FY2009, the City of Los Altos continued its progress in furthering the Community Center Master Plan. With workshops 2007 followed by extensive and inclusive civic engagement, the master plan was ultimately approved by City Council on June 23, 2009. The scope of the project involves the complete redevelopment of the civic center campus and includes several key service elements including, city services, safety facilities, recreation facilities, community and senior centers, library services, athletic fields, and community gathering points.

Beyond the master plan approval, the City has moved on to the completion of the necessary Environmental Impact Report (EIR) after which financing options will be further considered, including a mix of internal and vote approved funding sources. The scope of this project will take several years to complete as the City remains true to its commitment to prudent and careful planning of such major improvements.

Downtown Revitalization: This past year the City has also placed a focus on a series of capital project studies intended to revitalize the core downtown district of Los Altos. These initiatives include streetscape improvements on both San Antonio Road and First Street, the undergrounding of utilities in key sections of the downtown area, the launching of a comprehensive downtown parking opportunity study, and finally the approval of a downtown strategic visioning process. Although these endeavors will take time to complete and implement, they point to the strategic posture of the City in addressing key foundational economic matters.

FINANCIAL CONTROLS AND PROCEDURES

Financial Policies: Throughout the years, the City of Los Altos has followed a fiscally conservative philosophy of building and maintaining healthy financial reserves. This practice has allowed the City to continue providing quality services to its residents in a time when many local agencies were being forced to cut back due to fiscal constraints. On an annual basis, the City Council approves the City's first set of financial policies, designed to promote sound financial management and ensure that the City's fiscal integrity remains intact over time. This CAFR reflects the implementation of these financial guidelines and presents all fund reserves and designations in an effort to define fund balance commitments and obligations as of the financial report date.

Internal Control Structure: City management is responsible for establishing and maintaining fiscal internal controls designed to safeguard the assets of the government from loss, theft or misuse, and to ensure that accounting data is accurately compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of controls should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

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. This past year has been one that has displayed great historic lows in interest rates. FY2009 saw a drop in LAIF earnings rates below 1%. Interest earnings have fallen commensurately. This condition is expected to persist for some time in the months ahead. This year, in response to the City's traditional passive approach to investments, Council and staff have reached out in engaging investment advisory services. Council approved this recommendation in the last few weeks and a service provider selection has been made. Using these services, staff has started the process of developing investment opportunities and strategies that will mitigate the affect of interest rate swings while still continuing to emphasize the safety of principal.

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

GASB 45 Compliance: With the issuance of this June 30, 2009 financial report, staff has taken those steps necessary to be in full compliance with the requirements of Government Accounting Standard Board Statement #45 (GASB45). In doing so, the City has met the standard's effective date of compliance. This new standard deals with Other Post Employee Benefits (OPEB) and requires the completion of an actuarial study to account for post employee benefit liabilities that exist. This new reporting requirement is described in financial note #12 of the CAFR and the related liabilities reflected in the statements. As of June 30, 2009, the City's net OPEB obligation was valued at \$190,000, an amount reflected in the GASB 34 government wide statements. The City's long term unfunded liability equals \$1.6 million. Over the course of the next year, staff will evaluate the variety of funding options available to the City including, but not limited to, the establishment of a trust. In the interim, staff will account for these costs on a pay-as-you-go basis and build such costs into future budgets.

EXECUTIVE FINANCIAL OVERVIEW

This executive financial overview is presented as a supplement to the more detailed and comprehensive analysis presented in the MD&A. This section highlights key financial performance indicators for our major funds and we encourage all readers to review the MD&A for a further analysis of the City's financial condition.

General Fund

The General Fund is the primary operating fund of the City of Los Altos and FY2009 reflects favorable in a time of continued and protracted economic challenges. The General Fund again met expectations coming in with an operating surplus of \$1 million. We attribute this performance to our commitment to prudent financial planning, conservative budgeting, and faithful stewardship by all city staff. At the end of the current fiscal year the total General Fund balance equaled \$7.7 million with no resulting transfers to the Capital Project Fund. This fund reports an unreserved fund balance of \$1.3 million after policy and City Council designations of \$6.3 million. As planned for in the FY2010 operating budget, the City plans to use the fiscal year to increase existing economic reserves in anticipation of State revenue takeaways. The City is also acting on a budgetary plan to increase General Fund contingency reserves to a 20% level over a five year term. Considering the planned increase, this fiscal initiative is on course as reserve levels will increase to 14% as of July 1, 2009.

During the current fiscal year, General Fund revenues exceeded expenses by approximately \$1 million. After minimal net transfer activity, the fund balance increased by \$968,852. The transfer activity included:

- \$210,000 of transfers from Gas Tax for cost reimbursements
- \$55,217 of transfers from public safety grant funds
- \$56,647 of transfers from safety vehicle impound fees.
- \$200,397 subsidy transfer out to the Storm Drain Fund
- \$161,500 transfers out for general debt service payments.

The City's General Fund revenue stream has clearly been impacted by the current recessionary economic trends, a condition that was much discussed and planned for in the FY2010 budget. Although property tax continues to be the City's strong point, several other key areas have displayed signs of weakness as indicated in the trend chart below:

Revenue (millions)	2008 Actual	2009 Actual	Var. \$	Var. %
Property Tax	\$11.88	\$12.76	0.88	7.41%
Sales Tax	2.87	2.70	(0.17)	- 5.92%
Hotel Tax	1.53	1.29	(0.24)	-15.69%
Utility Users Tax	2.48	2.53	0.05	2.02%
Other taxes	0.96	0.77	(0.19)	-19.79%
Franchise Fees	1.28	1.46	0.18	14.06%
Interest	1.31	0.60	(0.71)	-54.20%
Recreation	1.65	1.47	(0.18)	-10.91%
License & Permits	2.56	2.01	(0.55)	-21.48%
Other	1.98	1.71	(0.27)	-13.64%
Total	\$28.50	\$27.30	(1.20)	-4.21%

On an overall basis, General Fund revenues decreased by 4.21% in contrast with a 5% increase in the prior year. Revenues have come in at 97% of our annual budget estimates with property tax being the clear front runner. Sales tax has dropped regionally and came in 6% under the prior year in a retail climate that remains challenging and is expected to turnaround slowly. Tourism has also been stilted with a general slow down in business travel as indicated in a drop in Hotel Tax of nearly 16%. As expected, interest income has dropped dramatically as LAIF yield rates have fallen to historic lows in ranges below 1% as compared to rates in the mid threes just a year or two ago. With the housing market in the eye of the national recessionary storm, real estate transfer tax has also suffered dropping at nearly half of the prior year levels. Utility Users Tax on the other hand has displayed a 2% increase with other gains noted in Franchise Fees. Construction license and Permits came in at a 21% below the prior year in the absence of some significant one-time development fees collected in the prior year. Recreation programs have also suffered coming in at 11% below last year activity levels.

General Fund expenditures came in 6% below budget offsetting the revenue decreases noted above and resulting in a net surplus of \$1 million. This cost saving trend was placed into action early in the planning process this past year and continues well into the FY2010 budget. Compared to last year, expenses have risen by 7% or \$1.8 million, mostly driven by salary and obligated contract costs. Clearly, shrinking revenues and rising costs exist as significant challenges that reinforce the need to maintain prudent, proactive, and conservative planning in an atmosphere of tight budgetary controls.

Other Funds

Capital Project Funds

In FY2009, the Capital Project Fund performed as expected ending the year with a total fund balance of \$14.4 million. As of June 30, 2009, \$6.5 million of this fund balance remains unreserved and available to be applied to the funding of future identified Capital projects. Such projects are scheduled and defined within the City's capital improvement plan along with anticipated fund balance projections. As part of the FY2010 budget, City management presented the need to identify specific dedicated capital project funding sources as a means of eliminating this fund's reliance on General Fund residual surplus transfers.

At year end, the City's Community Facility Renewal Capital Projects Fund (CFR), a fund designed to support citywide facility improvements, had a balance of \$3.6 million which is fully undesignated. In the prior year, Council approved the dissolution of the Facility Fund as well as its consolidation with the Community Improvement Fund resulting in the newly created CFR fund noted above.

Special Revenue, Internal, and Enterprise Funds

All other Governmental and Business Type funds performed as expected. The Los Altos Treatment Plant Sales Proceeds Fund, created as a placeholder for sale proceeds from the recent sale of the City's sewer treatment plant to the City of Palo Alto, increased by an additional year of installment collections, \$2.2 million ending the year with a balance of \$4.1 million.

Trust and Agency Funds

The City acts as a custodian of funds held for the benefit of others which mostly relate to the administration of a special assessment collections for the North County Library Authority.

Economic Trends

Although the City has performed relatively well this past year and has maintained its established reserve levels, we exist in an economic climate and time replete with financial turbulence and marked with historic nationwide and global challenges. As we navigate FY2010 and beyond, we remain constantly aware of the financial threats that face all local municipalities. The existence of significant housing and credit pressures, the threat of the California State budget crisis, deepening national deficits, and anemic retail activity, prompt us to remain resourceful, effective, and efficient as we develop our strategic and fiscal plans.

INDEPENDENT AUDIT

The public accounting firm of Caporicci & Larson 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.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2008. This was the fourth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated services of the Finance Department staff. We would like to express our appreciation to all members of the department who contributed to the final product. We also want to thank Caporicci & Larson, our independent auditors, for their professionalism in performing this year end financial audit. As well as the Mayor, members of the City Council, and the City Manager for their leadership and support, without which the preparation of this report would not have been possible.

Respectfully submitted,



Russell J. Morreale
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Los Altos
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



President

Executive Director

City of Los Altos
List of Principal Officials
As of June 30, 2009

ELECTED OFFICIALS

Mayor	Megan Satterlee
Mayor Pro Term	David Casas
City Council	Val Carpenter
City Council	Ron Packard
City Council	Lou Becker

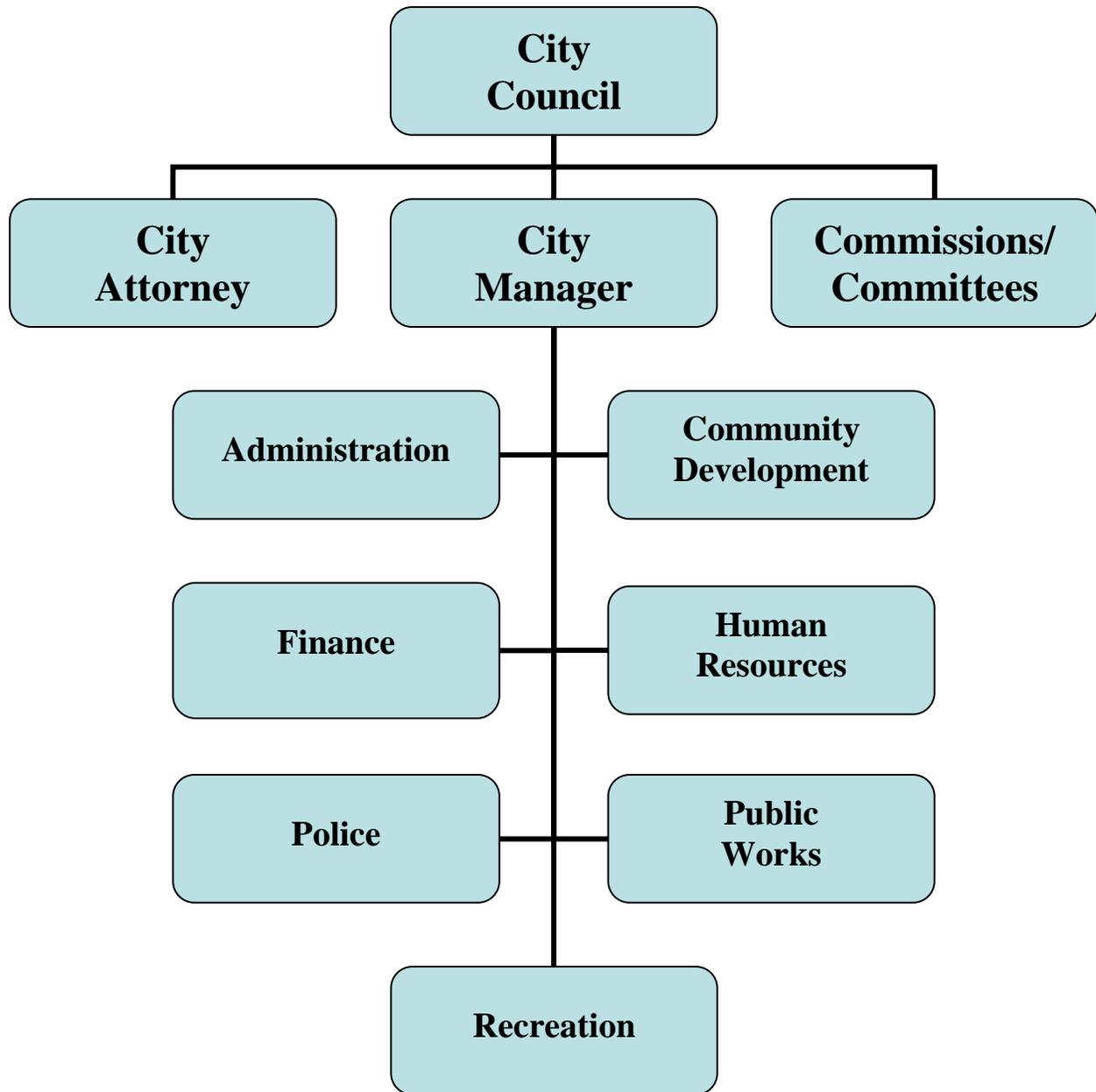
APPOINTED OFFICIALS

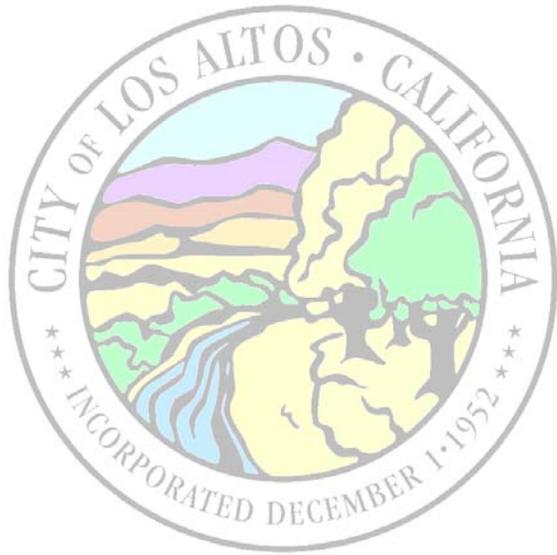
City Manager	Douglas J. Schmitz
City Attorney	Jolie Houston

DEPARTMENTS

Assistant City Manager	James Walgren
Assistant City Manager	J Logan
City Clerk	Susan Kitchens
Engineering Services Manager	Jim Gustafson
Finance Director	Russell Morreale
Maintenance Services Manager	Brian McCarthy
Police Chief	Tuck Younis
Recreation Director	Beverly Tucker
Special Project Manager	Dave Brees

CITY OF LOS ALTOS ORGANIZATIONAL CHART AS OF JUNE 30, 2009





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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the basic financial statements date of June 30, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including cities, counties, districts and agencies. These actions by the State include:

- 8% of Property Taxes borrowed – to be repaid in 3 years

These above amounts are very significant to the local governments and may affect their ongoing operations. Certain lawsuits are in process to stop such State actions. For more detailed information, see Note 16 attached in the Notes to Basic Financial Statements.

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in Note 1 to the basic financial statements, the City adopted Statement of Governmental Accounting Standards Board No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pension Plans*, No 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*.

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 the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Capricci & Carson

Oakland, California
December 24, 2009

City of Los Altos
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2009

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, 2009. We encourage readers of this report to consider this information in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to vi of this report.

FINANCIAL HIGHLIGHTS:

The City ended its fiscal year on a government-wide basis with total revenues of \$37 million, a 19% decrease from the year, and expenses of \$36 million, an increase of 10%. Last year, the City received one-time revenue of \$6.5 million resulting from the sale of the sewer treatment plant. When backing out the impact of this extraordinary prior-year revenue, fluctuating external grants, and legal settlement collections, total government-wide core revenues decreased by 2%. The remaining declines were mostly due to drops in building development fees, sales tax, hotel tax, motor vehicle tax, real estate transfer tax, service fees, and interest income. Partially offsetting gains were noted mostly in property taxes, franchise fees, and business type service fees.

Expenditures increases reflect a higher use of resources for infrastructure maintenance, planning, and public safety. The increases noted this past year have much to do with maintaining the high standard of street and public facilities upkeep that this City prides itself on as well as the general rise in employment and benefit costs. The City's investments in the upkeep of the City's roadways, grounds, and facilities approximated \$2 million.

In prior years, Council extensively evaluated all funded and proposed capital projects providing priorities to staff and clear direction regarding the order that projects should be pursued. This is evident again this year with progress being made on several significant capital projects, including street maintenance and resurfacing, rehabilitation of the Fremont and Portland Avenue bridges, pedestrian traffic and bicycle safety upgrades, continued renovation of the Grant & Montclair playgrounds, recreation facility repairs and improvements, City Hall system upgrades, El Camino Real median landscaping, sidewalk repairs, and street restriping. Design costs for First Street, Loyola Corner, and San Antonio streetscape improvements were also incurred and continue for a new community center. Planning is also facilitating a community based visioning process centered on improvement opportunities for the City's downtown center and parking facilities. The City also made significant capital investments in the maintenance and improvement of the City's sewer systems as well. Further fiscal highlights follow.

The City finished up the year with a General Fund surplus of \$1 million after transfers, certainly a testament to the City's conservative budgeting approach and cost conscious stewardship. That being said, the General Fund surplus has decreased compared to prior years under the strain of these extraordinary and challenging economic times. We continue to scrutinize revenue and expense streams closely, and strategically manage reserves as we develop future fiscal plans.

Government-Wide View

- Total net assets (excess of assets over liabilities) were \$92 million, an increase of 1% or \$967,000 in comparison to last year. Net assets can be used towards future capital projects and infrastructure improvements although they are not necessarily unrestricted depending upon the source of the original funding.
- Unrestricted assets equaled \$44.3 million at year end, a decrease of \$673,000 or 1% on a combined basis. Governmental unrestricted assets dropped by \$853,000 while business-type activities increased by \$180,000. It is important for our readers to note that unrestricted net assets, as presented in the government-wide section of the annual financial report, do not account for local designations and/or policy reserves which are evident and classified within the fund section of the report.
- Governmental activities reported ending net assets of \$80.3 million, a decrease of \$310,000 or less than a 1% drop in comparison to the prior year. The decrease in government net assets can be attributed to a substantial use, nearly \$2 million, of resources for infrastructure maintenance and narrowing operational surplus margins characteristic of a recessionary economy.
- Business-type activities reported ending net assets of \$11.4 million, an increase of \$1.3 million or 13% growth compared to last year. Growth in business activities is reflective of an increase and realignment of sewer service rates in response to related rate studies. The components of growth in unrestricted business activity assets can be found in a \$1.1 million increase in Fixed Assets, an increase in cash of approximately \$674,000, partially offset by a \$495,000 increase in liabilities.
- On a combined basis, restricted Net Assets remained relatively stable at \$3.5 million.

Fund Level View

- The General Fund realized a surplus of \$1 million.
- General Fund revenues, excluding transfers, decreased by 4% or \$1.2 million to \$27.3 million. Related expenditures increased from the previous year by \$1.8 million to \$26.3 million or 7%, resulting in a bottom line fund balance increase of nearly \$1 million.
- Total governmental fund balances were \$37.1 million at fiscal year end, an increase of \$1.7 million or 5%. Net of a \$2.2 million installment of cash proceeds from the Los Altos treatment plant sale, governmental fund balances decreased by \$435,000 or 1%.
- General government capital projects spending exceeded \$3 million with a continued focus on the maintenance of City streets and facilities. Consequently, the Capital Projects Fund balance decreased by \$1.5 million net of supporting grant revenues.
- The recently created Los Altos Treatment Plant Sale Proceeds Fund increased by \$2.3 million with the receipt of the second sale installment payment. A final installment is due next year.
- The newly established Community Facilities Renewal Capital Projects Fund increased by \$1 million with the forgiveness of inter-fund loans and fund consolidation ending the year with a balance of \$3.7 million.
- Sewer operations ended the year favorably with an increase in net assets of \$1.1 million. Sewer revenues of \$5.9 million were \$1.2 million or 26% higher than in the prior year, and expenditures came in \$924,000 above last year at approximately \$4.8 million. This revenue increase reflects the new rates that went into effect this year. The majority of the growth in expenses is attributed to increases in contracted treatment plant service costs.

USING THIS ANNUAL REPORT

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which is comprised of 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.

Reporting on the City as a Whole

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 of the City's assets and liabilities, with the difference between the two 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 of Los Altos 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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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 general government, public safety, public works, planning, building, and recreation. The City's business-type activities include water, wastewater, storm water, and parking.

The government-wide financial statements can be found on pages 21 to 25 of this report.

Reporting on the City's Most Significant Funds

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 of Los Altos, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Los Altos maintains 25 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Project Fund, Equipment Replacement Fund, Los Altos Treatment Plant Sale Proceeds Fund, and the newly consolidated Community Facilities Renewal Fund, all of which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in the fund financial statements section of this report.

The City of Los Altos adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for several key governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 27 to 36 of this report.

Proprietary funds: The City of Los Altos maintains two types of *proprietary funds*. Services for which the City charges customers a fee are generally reported in the City's *enterprise funds*. These proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its City dental plan, unemployment, Workers Compensation, and Liability Insurance costs. Because these services predominantly benefit the governmental function, they have been included in the government-wide financial statements and related intrafund charges have been eliminated accordingly.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All four 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 elsewhere in this report. The City's three enterprise funds (Sewer, Solid Waste, and Storm Drain) are considered major funds and presented as such in the fund financial statements.

The combining statements referred to earlier in connection with non-major governmental funds, proprietary, and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 78 to 95 of this report.

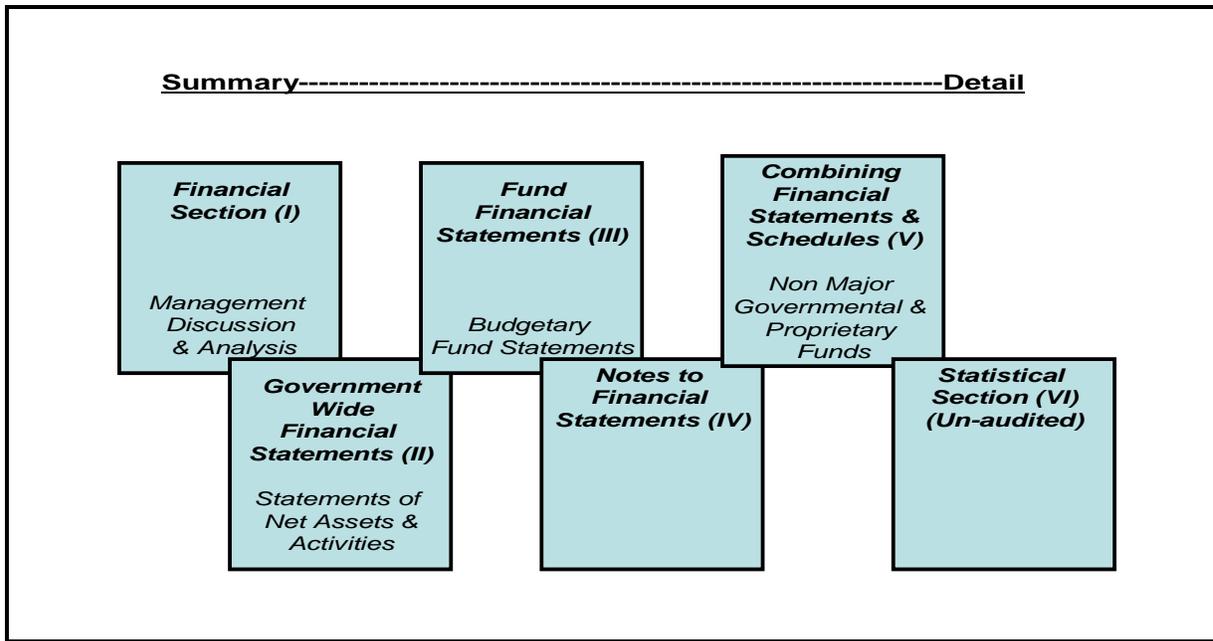
Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43 to 69 of this report.

The City as Trustee

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budget-to-actual financial comparisons for the General Fund. The City has elected to present this information within the basic financial statement and financial statement sections of 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.

In summary the various sections of this financial report are arranged as follows:



GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on the net assets and changes in net assets at the city-wide level as presented in the statement of net assets and statement of activities which are summarized below as of June 30. As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. An analysis follows.

City of Los Altos’ Net Assets

	Governmental Activities		Business-Type Activities	
	2009	2008	2009	2008
Cash and Investments	\$ 41,090,391	\$ 39,200,165	\$ 8,378,039	\$ 7,579,615
Other Assets	4,079,308	6,427,605	535,168	659,804
Capital Assets	43,089,259	42,757,592	3,316,375	2,218,665
Total Assets	88,258,958	88,385,362	12,229,582	10,458,084
Long Term Outstanding Debt	2,298,000	2,405,000	-	-
Other Liabilities	5,615,701	5,325,362	811,013	316,757
Total Liabilities	7,913,701	7,730,362	811,013	316,757
Net Assets				
Investments in Capital - Net Of Related Debt	40,684,259	40,251,592	3,316,375	2,218,665
Restricted	3,476,500	3,565,448	-	-
Unrestricted	36,184,498	36,837,960	8,102,194	7,922,662
Total Net Assets	\$ 80,345,257	\$ 80,655,000	\$ 11,418,569	\$ 10,141,327

The largest portion of the City's net assets (48%) reflects the investment in capital assets such as land, buildings, and machinery and equipment, less any related debt used to acquire those assets still outstanding. These assets represent foundational infrastructure used to provide basic services to the citizens of the City of Los Altos; therefore, they are generally not available for future spending. An additional portion of the City's net assets (4%) represents resources subject to external restrictions in their application and resources obligated to capital projects. The remaining balance of unrestricted net assets (48%) may be used to meet the City's ongoing obligations to citizens and creditors, applied to current and/or future capital projects, and for discretionary purposes. The net asset balance presented in the government-wide financial statements is a composite of many funds several of which are restrictive in nature.

Some key government-wide observations include the following:

- Government-wide cash and investments increased \$2.7 million or 6%. This income flow can be attributed to several factors: the collection of \$2.2 million from the sale of the Los Altos treatment plant, a General Fund surplus of \$1 million, and favorable Sewer and Solid Waste business activity gains of \$1.2 million. Cash outflows are primarily explained by increased operating costs and continued investments made in infrastructure improvements and maintenance.
- Government-wide net assets equaled \$91.8 million, an increase of \$967,000, or 1%, with most of the growth, \$1.3 million, occurring from the City's business activity divisions. Governmental Funds net assets decreased by approximately \$310,000 mostly due to the use of significant capital project fund dollars for citywide infrastructure maintenance of approximately \$2 million.
- Business-type activities reported combined ending net assets of \$11.4 million at year end, about 13% more than FY2008, or about a \$1.3 million increase. As the City embarks on the completion of a Sewer and Storm Water master plan, our intention is to manage the enterprise funds to maintain solvency, provide adequate maintenance, and plan for future improvements on a pay-as-you-go basis. Although Sewer and Solid Waste operational revenue covered their respective expenses, the Storm Water Fund again was in need of a General Fund transfer, a condition that will persist until a successful storm water fee is approved by the voters.

Governmental Activities

The City's governmental functional programs include general government, public safety (Police services and the contract for fire services), administration, maintenance, community development, and recreation. Total governmental revenues net of one-time items, decreased by 11% or \$3.6 million while total expenditures increased 10% or \$2.6 million. Including all sources and uses, governmental net assets decreased by less than 1% or \$310,000, ending the year with a total fund balance of \$80.3 million.

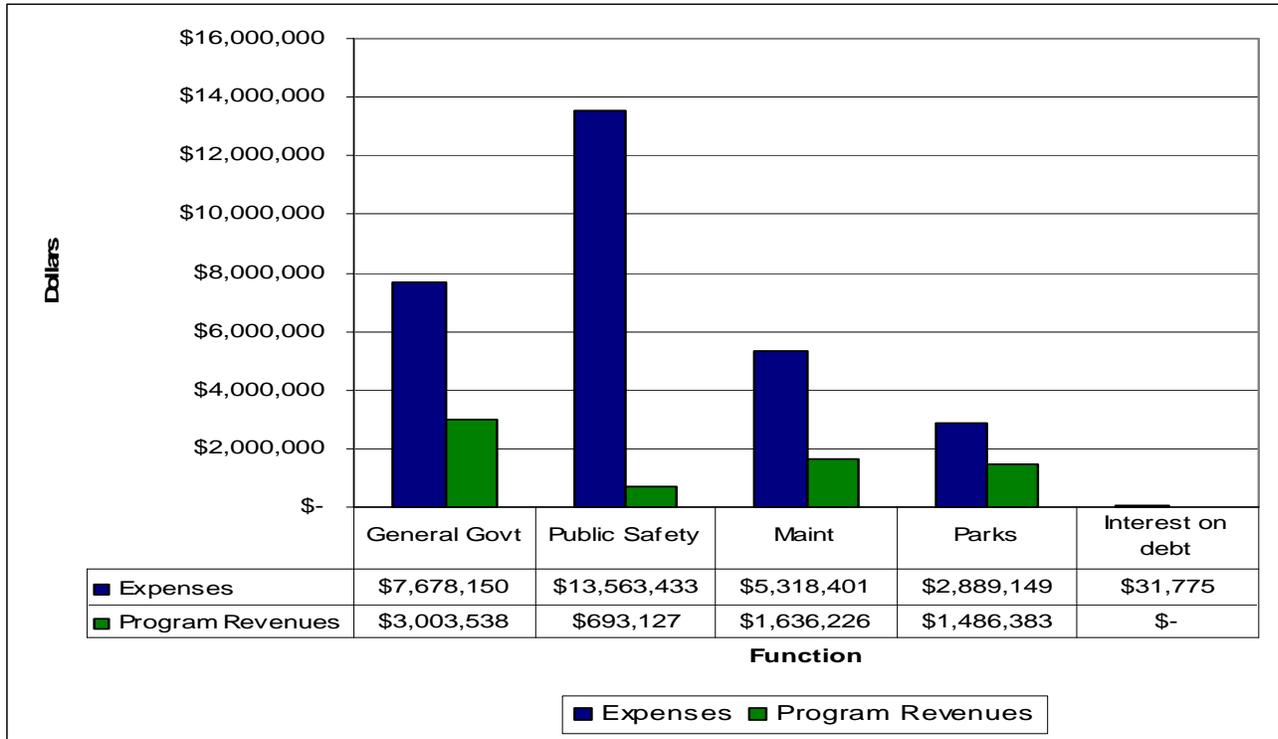
- Property tax continues to be the City's single largest source of revenue representing about 43% of total ongoing general government-wide revenues. Compared to last year, property tax revenue increased \$884,000 or 7%. This includes the motor vehicle license fee in-lieu payments that have been redirected through property tax beginning in FY2005.
- Charges for services revenue, which make up about 17% of government revenues, decreased by 25% or \$1.6 million given the absence of sizeable one-time commercial development related fees realized in the prior year. This trend also reflects the general slow down in building and permitting activity that characterizes the current economy and the infrequency of large scale development projects. Our philosophy is to set service fees at a level which provides full cost recovery, intentionally subsidizing only designated activities such as the senior and youth programs.
- Interest revenues, about 3% of the budget, decreased by \$593,000 or 44%. The City invests all its funds in the Local Agency Investment Fund (LAIF) state pool which has dropped to historic yield rates, currently under 1%. In the year ahead we can expect this rate environment to persist. In response to these conditions, Council has approved the engagement of specialized advisory services in the City's effort to develop a long-term strategic cash investment model designed to proactively mitigate the impact of future market swings.
- In the prior year the City received a one-time cable settlement of \$750,000, causing a comparative drop in the category of Franchise Fees of 28% or \$570,000. When backing out the impact of this unusual event, Franchise fee income increased by 14% or \$180,000, with gains among all industries.
- Government expenses increased by 10%. Public safety expenditures increased by 9% or \$1.1 million. This is reflective of another year to year gain in Fire contract service fees with Santa Clara County Fire, contractual increases in salary and benefit costs, and investments made in safety equipment replacements.
- Government-wide costs for FY2009 include substantial capital maintenance costs, approximately \$2 million, beyond baseline operating expenses. Areas of improvement include street repairs, striping, concrete maintenance, facility maintenance, and major development planning/design studies.
- Interest on long term debt decreased by 77% reflective of the City's low level of government debt.

A comparison of the governmental activities and business-type activities program revenues and expenses for the current year and prior year is presented below. On a combined basis, Los Altos remained relatively stable experiencing a \$967,000, or about a 1% increase in net assets. The year ended with a decrease in Governmental net assets and an offsetting increase in business activity. This change from the prior year certainly is a reflection of the shrinking revenue economy we exist in, a drop in grant activity, as well as the City's continued commitment to safety, service levels, employees, and infrastructure maintenance.

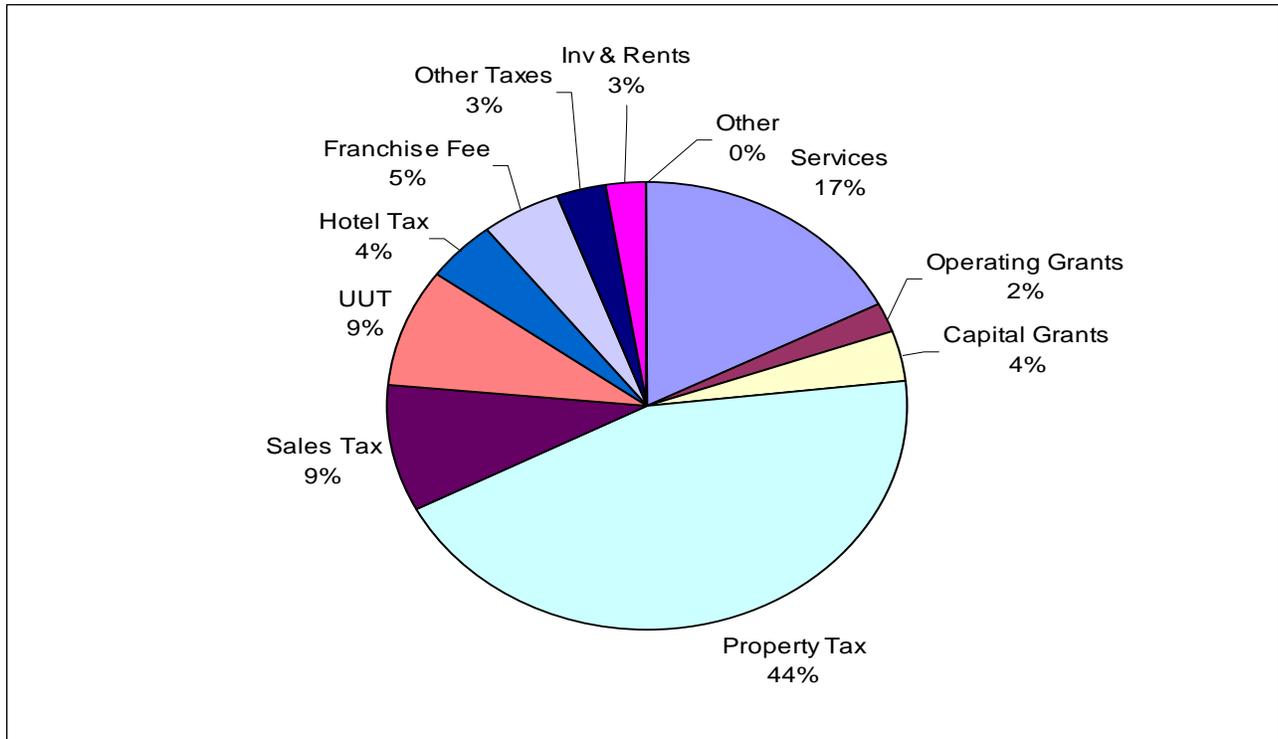
**City of Los Altos Changes in Net Assets
Fiscal Year Ending June 30, 2009**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues				
Program Revenue				
Charges for Service	\$ 5,074,319	\$ 6,724,359	\$ 7,489,163	\$ 6,007,003
Operating Grants and Contributions	644,803	947,351	-	-
Capital Grants and Contributions	1,100,152	1,419,182	-	-
General Revenues	-	-	-	-
Property Taxes	12,758,916	11,875,286	-	-
Sales Taxes	2,697,494	2,872,146	-	-
Utility User Tax	2,530,162	2,483,138	-	-
Other Taxes	2,146,465	2,703,114	-	-
Franchise Fees	1,458,445	2,028,727	-	-
Interest Income	759,774	1,352,835	159,416	283,509
Sale of Capital Assets	-	6,498,875	-	-
Miscellaneous	201,031	517,101	-	-
Total Revenues	<u>29,371,561</u>	<u>39,422,114</u>	<u>7,648,579</u>	<u>6,290,512</u>
Expenses				
General Government				
Public Safety	13,563,432	12,415,015	-	-
Public works	5,318,401	4,886,347	-	-
Recreation	2,889,149	2,649,632	-	-
Community development	3,912,792	3,447,425	-	-
Admin/Community Services	3,765,358	3,317,320	-	-
Interest on long-term debt	31,775	138,291	-	-
Sewer	-	-	4,810,475	3,886,252
Solid Waste	-	-	1,573,346	1,609,295
Storm Drain	-	-	187,913	212,571
Total expenses	<u>29,480,907</u>	<u>26,854,030</u>	<u>6,571,734</u>	<u>5,708,118</u>
Change in Net Assets	(109,346)	12,568,084	1,076,845	582,394
Transfers	(200,397)	(193,381)	200,397	193,381
Net Assets - beginning of year	<u>80,655,000</u>	<u>68,280,297</u>	<u>10,141,327</u>	<u>9,365,552</u>
Net Assets - end of year	<u>\$ 80,345,257</u>	<u>\$ 80,655,000</u>	<u>\$ 11,418,569</u>	<u>\$ 10,141,327</u>

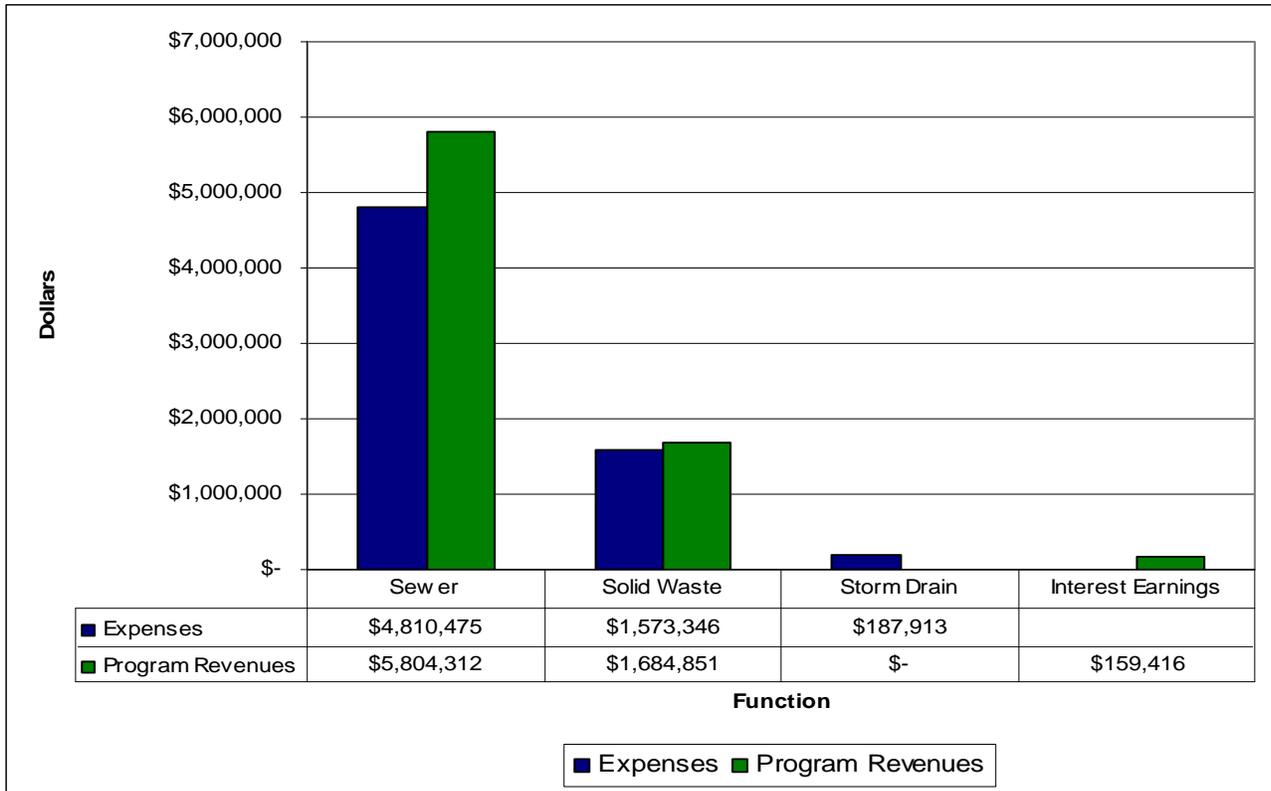
Program Expenses and Revenues - Governmental Activities



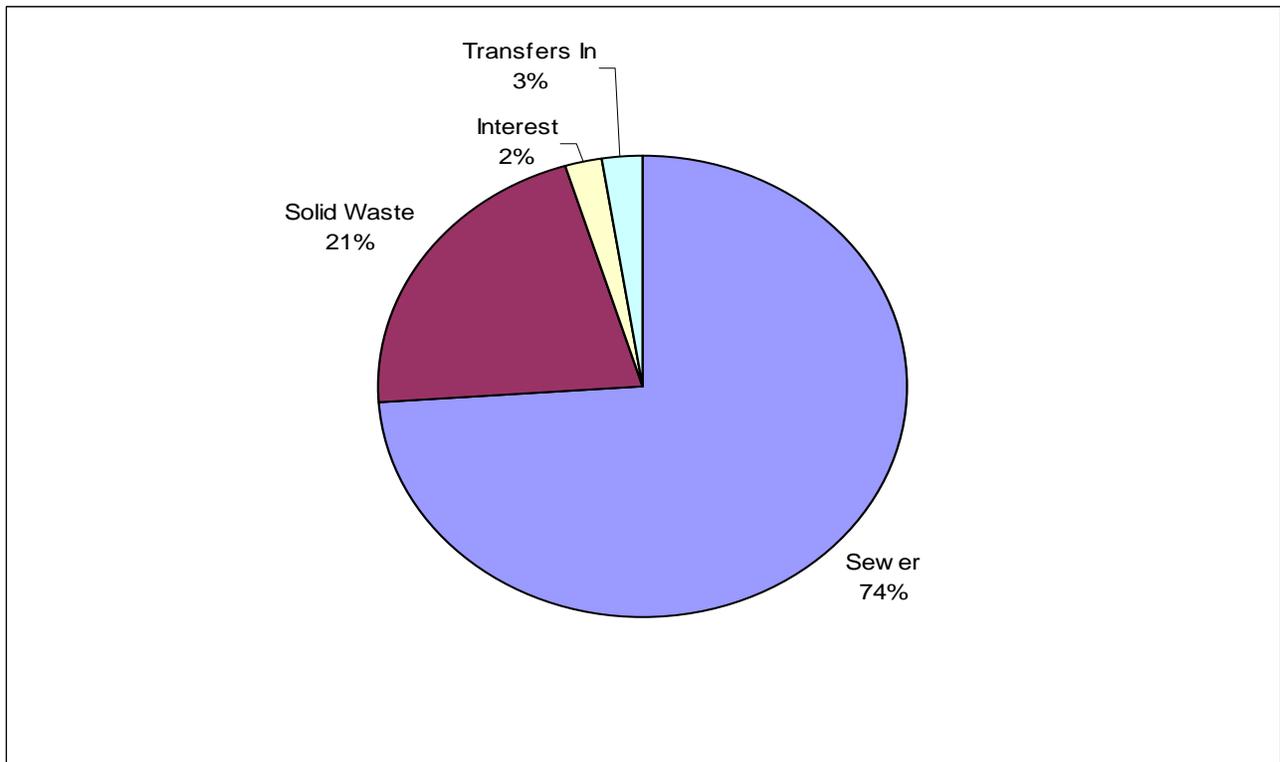
Government Revenues - All Sources



Program Expenses and Revenues - Business-Type Activities



Business Revenues - All Sources



Business-Type Activities

The programs for the business-type activities include sewer and solid waste collection management. These activities represent 12% of the total net assets. The City's net assets from business-type activities increased by \$1.3 Million or 13% in line with recently enacted sewer rate adjustments. Currently Storm Drain and Urban Runoff Pollution Control Program (URPP) are categorized as Enterprise activities, but lacking a fee that pays for these services, we may need to reevaluate Storm Drain and URPP as a General Fund activity. Key elements follow:

- 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.
- Sewer revenue increased by \$1.3 million, or 30%, reflective of a newly adopted rate structure designed to facilitate long-term sewer infrastructure capital needs. As mentioned last year, the City of Los Altos is no longer acting as a pass through for sewer assessments for the Town of Los Altos Hills.
- Sewer service expenditures increased approximately \$1 million or 24% from FY2008. With the revenue patterns noted above, net assets increased by nearly \$1.1 million for these operations in line with the recent rate projections ending the year with total Net Assets of \$10.3 million.
- Service fee revenue for solid waste collection management increased by 9% or \$145,000. Net assets for the fund increased by \$131,000 for a total fund balance of \$869,000. The existing fund balance is sufficient against future claims or issues but we should be mindful to maintain the balance between revenues and expenditures as we entertain new services in the upcoming year.
- The General Fund contributes to the Storm Drain Fund in an amount that nearly offsets the annual expenses. For FY2009, the transfer equaled \$200,397 resulting in a year-end fund balance of \$244,162, a slight increase from the previous year of \$12,484. In the absence of a voter approved rate assessment for this activity, the annual General Fund contribution can be expected to increase significantly as State mandated storm drain requirements continue to tap into City resources.

FUND FINANCIAL ANALYSIS

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 use 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 \$37.1 million, an increase of \$1.7 million over the prior year.

Of the total of all governmental fund balances, only 3.6% remains as unreserved and undesignated within the General Fund, the City's main operating fund. In the past year the City has followed the practice of transferring year end resources to the capital projects fund for the maintenance and development of infrastructure. No such transfers were made this year as the City has opted to fortify economic contingency reserves in anticipation of a long and protracted economic recovery. As the City looks ahead we can project the need for increased services and increasing costs to maintain our current standard of living. With this in mind, defining a dedicated source of income for infrastructure, as well as economic development initiatives remain critical strategic endeavors.

Including the unreserved and undesignated General Fund balance noted above, the City has taken the prudent path of establishing key fund balance reserve designations -what some might call "rainy day funds." These key reserves are as defined in the below listed table:

<i>General Fund Designations & Reserves</i>	<i>June 30, 2009</i>
<i>Emergency Operating Designation</i>	\$3,306,228
<i>Public Employee Retirement (PERS) Designation</i>	3,005,795
<i>Payment Obligations</i>	38,777
<i>Unreserved Fund Balance</i>	1,338,030
<i>Total General Fund</i>	\$7,688,830

The General Fund is the primary operating fund of the City. The emergency and operating reserves are reasonable safeguards in the event of an economic or financial crisis. They are certainly important safeguards to have in the current financial climate we exist in. The PERS reserve also is prudent given recent market conditions and served to facilitate the pay down of PERS liabilities approved in the FY2010 budget. As we look ahead, if additional funds are needed, the Council can authorize a transfer from any of the other funds, which have available resources.

Beyond the General Fund, surrounding and supporting funds also have key balances of importance intended to support future anticipated facility maintenance and construction needs in support of a longer term infrastructure planning model:

<i>Other Key Fund Balances</i>	<i>June 30, 2009</i>
<i>Ongoing Capital Project Designations</i>	\$7,241,452
<i>Capital Project Unreserved Balances</i>	6,518,093
<i>Equipment Replacement Fund Reserves</i>	4,388,583
<i>Los Altos Treatment Plant Sale Proceeds</i>	4,120,109
<i>Community Facility Renewal Fund (Newly Formed)</i>	3,665,592
<i>Total</i>	\$25,933,829

The Capital Projects Fund balance can vary materially as progress occurs on approved projects and external funding availability. The primary funding source for capital projects has been transfers from the General Fund, Gas Tax Fund, and one-time grants. The City maintains a pay-as-you-go funding philosophy, in lieu of issuing debt for capital improvements. For FY2009, general government capital project spending approximated \$3.1 million, commensurate with the prior year. Significant project progress occurred in the following maintenance and renovation projects as presented in rounded dollar amounts:

Annual Street Resurfacing	\$ 870,000
Community Center Master Plan	340,000
City Council Audio Visual Upgrades & Video Streaming	240,000
Recreation Facility Improvements	180,000
Street Restriping	160,000
Downtown Parking Opportunity Study	114,000
First Street Streetscape Design	110,000
Rehabilitation Portland Avenue Bridge	104,000
Traffic & Bicycle Safety Upgrades	100,000
Financial & Recreation System Upgrades	100,000
Annual Concrete Sidewalk Repairs	75,000
Grant & Montclair Playground Renovations	65,000
Rehabilitation Fremont Avenue Bridge	63,000
San Antonio Road Streetscape Design	55,000
Demolition of 400 Main Street	44,000
Housing Element	40,000
El Camino Real Median Landscape	30,000
Loyola Corners Streetscape Design	25,000

The remaining dollars in the Capital Project Fund was spent on a broad range of miscellaneous projects as Engineering continues to make progress on the long list of funded capital projects. In prior years, City Council undertook a prioritization of all capital projects to provide collectively understood direction to staff as to their top priorities as evidenced within the FY2010 Capital Improvement Project Plan.

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

Unrestricted net assets at the end of the year in the Sewer Fund approached \$7 million, in the Storm Drain Fund equaled \$244,041, and in the Solid Waste Fund \$869,342. 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 & Debt Administration

Capital assets: The City's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounts to \$46.4 million (net of accumulated depreciation).

This investment in capital assets includes land, buildings, improvements, machinery and equipment, and streets. At June 30, 2009, net capital assets of the governmental activities totaled \$43.1 million and the net capital assets of the business-type activities totaled \$3.3 million. Depreciation on capital assets is recognized in the government-wide financial statements and increased by 7% based commensurate with an increased capital base. Additional information on capital assets can be found in footnote 5 of these financial statements.

Capital Assets at June 30, 2009

	Governmental Activities	Business -Type Activities	Total	Total
	2009	2009	2009	2008
Land	\$ 11,404,867	\$ -	\$ 11,404,867	\$11,404,867
Work in Progress	2,010,160	1,273,583	3,283,743	974,142
Buildings	15,160,108	1,960,430	17,120,538	17,673,984
Improvements	1,293,245	-	1,293,245	1,379,330
Machinery & Equipment	1,497,477	82,240	1,579,717	1,268,264
Infrastructure	11,723,402	122	11,723,524	12,275,670
Total Assets	\$ 43,089,259	\$ 3,316,375	\$ 46,405,634	\$ 44,976,257

Debt Administration: At the end of the current fiscal year, City bond and assessment debt decreased by approximately \$100,000 compared to FY2008. The total outstanding bond debt balance at year-end approximates \$2.4 million and relates primarily to the purchase of Rosita Park (formerly known as the Saint Williams site). In the current year no additional bond debt was incurred and the City has no capital leases.

The remaining debt balance is made up of long-term obligations for employee compensated absence accruals of \$1.4 million. This obligation increased modestly moving only with salary and benefit changes from year to year.

Additional information on long-term obligations can be found in footnotes 6 and 7 to these financial statements.

Long Term Debt as of June 30, 2009

	Governmental Activities	Business-Type Activities	2009 Total	2008 Total
Certificate of Participation	\$ 2,115,000	\$ -	\$ 2,115,000	\$ 2,195,000
Special Assessment Debt - City commitment	290,000		290,000	311,000
Capital Lease	-	-	-	-
Compensated absences	1,388,222	55,873	1,444,095	1,192,561
Total:	<u>\$ 3,793,222</u>	<u>\$ 55,873</u>	<u>\$ 3,849,095</u>	<u>\$ 3,698,561</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The adopted FY2009 General Fund budget equaled \$27.4 million and changed modestly by \$445,265 to \$27.9 million. Prior year encumbrances account for the bulk of these adjustments, leaving adjustments in appropriations during the fiscal year of less than 1%. Most encumbrances related to equipment purchases and/or pending contract services:

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

General Fund revenue is forecast to decrease by 5% as reflected in the budget for FY2010 while expenditures were cut commensurately by 4%. In full recognition of the fiscal challenges ahead, the FY2010 budget was proactively developed to maintain a sound fiscal posture, presents a balanced General Fund, and enhances contingency reserve levels in light of historic economic uncertainties. Key FY2010 budgetary highlights are noted below:

- An increase of 3% in property tax receipts including secured property tax, unsecured property tax, Homeowner Property Tax Relief, property tax in lieu of vehicle license fees, and supplemental property tax. Property tax will be about 45% of all governmental funds revenue.
- Other taxes will generally be lower. Utilizing the most recent data provided to the City's Finance Department, anticipated Sales Tax revenue has been projected to decline by 15% in line with general regional and national trends. Hotel Tax is also expected to decrease 15% from the current year's budgeted estimate.
- The housing market has been hard hit in this recessionary period. Both Community Development and Interest & Rent Income are expected to be lower in the coming year with declines of 17% and 19% respectively.
- A modest Franchise Fee growth of 6% is anticipated given the recent increase in State established rates as well as the collection of Government Public Education fees.
- Although reflective of operational and organizational restructuring, no new positions are added in FY2010 with the number of authorized positions remaining unchanged at 130.
- General operational cost savings of over \$1.2 million were projected given a series of expense cuts and deferrals. This budget also maintained seven frozen positions city-wide subject to strategic and fiscal review during the budget year.
- Honors multi-year labor contracts the City entered into in 2007. Of our 130 authorized positions, seventy (70) are represented; and forty-nine (49) are not represented, excluding Departmental Directors/Managers. Based upon the language in those contracts, and the stipulated CPI adjustment, the employees are to receive the "floor" percentage adjustment delineated for FY2010 of 3%.
- PERS pension rates increased minimally. For public safety employees, the adjustment is .52%; for miscellaneous employees, the increase is .23%. Health insurance increased by 7.5% based upon the coverage identified in the labor agreements.
- Reflects the substantial pay down of safety CALPERS pension side fund liability balances effectively reducing safety pension costs by over 8% resulting in annual cash flow savings of over \$200,000.
- Includes a newly established "State Revenue Stabilization Reserve" designed to backfill the possibility of a State tax takeaway. Possible revenue sources that could be targeted by the State include the COPS grant proceeds, Motor Vehicle Licensing Fees, Gas Tax, and Property Tax. A total of \$1.1 million has been directed into this new reserve, sufficient to cover a 6% loss of property tax as well as other subvention monies.

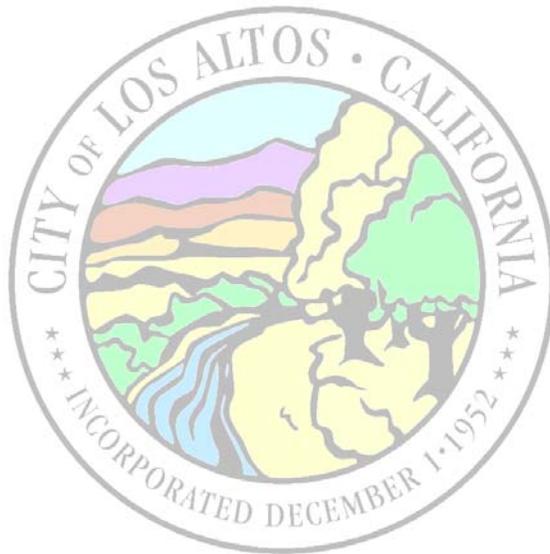
- The planning and design process for the development of the civic center property continues. This process is currently in the final stages of the design phase with several options being considered by the Council. An extensive outreach to the community has taken place to date and the consideration of a variety of funding options began in 2009. Financing sources under consideration include the use of available City resources, the possible sale of surplus land, voter approved debt and/or assessments, and community donations/contributions. These plans will certainly shape our financial projections in the coming years.
- The FY2010 budget newly adopted sewer rate increases based on the recently completed rate study. In the prior year, the City entered into a new sewer agreement with the Town of Los Altos Hills modifying our usage control from permit based to flow based. Los Altos Hills now has responsibility to bill their customers.

For a more current discussion of the state of the economy beyond those assumptions made in the FY2010 budget process, the reader should also refer to the transmittal letter included in this document.

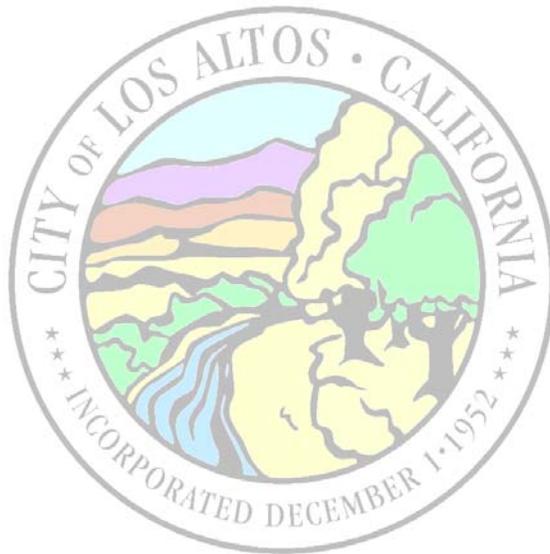
CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Finance Director, One North San Antonio Road, Los Altos, CA 94022.

BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



City of Los Altos
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 41,090,391	\$ 8,378,039	\$ 49,468,430
Accounts receivable, net	3,656,659	535,168	4,191,827
Interest receivable	147,179	-	147,179
Assessments receivable	562	-	562
Deferred Charges	87,031	-	87,031
Prepaid items and inventory	15,695	-	15,695
Total current assets	44,997,517	8,913,207	53,910,724
Noncurrent assets:			
Restricted cash and investments	172,182	-	172,182
Capital assets:			
Nondepreciable assets	13,415,027	1,273,583	14,688,610
Depreciable assets, net	44,734,574	12,649,453	57,384,027
Total capital assets	58,149,601	13,923,036	72,072,637
Less accumulated depreciation	(15,060,342)	(10,606,661)	(25,667,003)
Capital assets, net	43,089,259	3,316,375	46,405,634
Total noncurrent assets	43,261,441	3,316,375	46,577,816
Total assets	88,258,958	12,229,582	100,488,540
LIABILITIES			
Current liabilities:			
Accounts payable	1,352,467	726,467	2,078,934
Interest payable	17,923	-	17,923
Accrued liabilities	613,299	21,225	634,524
Other payable	395,816	-	395,816
Unearned revenue	352,967	-	352,967
Compensated absences payable - due within one year	347,056	13,698	360,754
Claims and judgments payable-due within one year	180,818	-	180,818
Long-term debt - due within one year	107,000	-	107,000
Total current liabilities	3,367,346	761,390	4,128,736
Noncurrent liabilities:			
Compensated absences payable	1,041,166	42,175	1,083,341
OPEB liability	182,552	7,448	190,000
Claims and judgments payable	1,024,637	-	1,024,637
Long-term debt - due in more than a year	2,298,000	-	2,298,000
Total noncurrent liabilities	4,546,355	49,623	4,595,978
Total liabilities	7,913,701	811,013	8,724,714
NET ASSETS			
Invested in capital assets, net of related debt	40,684,259	3,316,375	44,000,634
Restricted for:			
Capital projects	625,966	-	625,966
Debt service	719,090	-	719,090
Special projects and programs	2,119,444	-	2,119,444
Other purpose	12,000	-	12,000
Total restricted	3,476,500	-	3,476,500
Unrestricted	36,184,498	8,102,194	44,286,692
Total net assets	\$ 80,345,257	\$ 11,418,569	\$ 91,763,826

See accompanying Notes to Basic Financial Statements.

City of Los Altos
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Public safety	\$ 13,563,433	\$ 584,969	\$ 108,158	\$ -	\$ 693,127
Public works	5,318,401	179,819	478,770	977,637	1,636,226
Recreation	2,889,149	1,472,240	4,143	10,000	1,486,383
Community development	3,912,792	1,867,668	47,732	23,668	1,939,068
Admin / community services	3,765,358	969,623	6,000	88,847	1,064,470
Interest on long-term debt	31,775	-	-	-	-
Total governmental activities	29,480,908	5,074,319	644,803	1,100,152	6,819,274
Business-type activities:					
Sewer	4,810,475	5,804,312	-	-	5,804,312
Solid waste	1,573,346	1,684,851	-	-	1,684,851
Storm Drain	187,913	-	-	-	-
Total business-type activities	6,571,734	7,489,163	-	-	7,489,163
Total primary government	\$ 36,052,642	\$ 12,563,482	\$ 644,803	\$ 1,100,152	\$ 14,308,437

General revenues and transfers:

Taxes:

- Property taxes
- Sales taxes
- Utility users taxes
- Other taxes
- Franchise fees
- Total taxes

Interest income

Miscellaneous

Transfers

Total general revenues and transfers

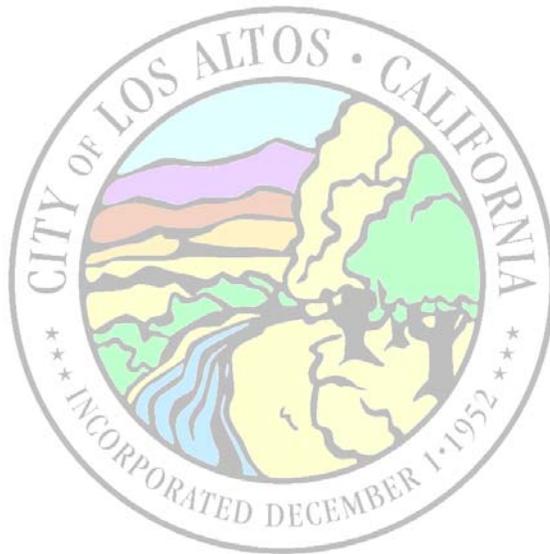
Change in net assets

Net assets - beginning of year

Net assets - end of year

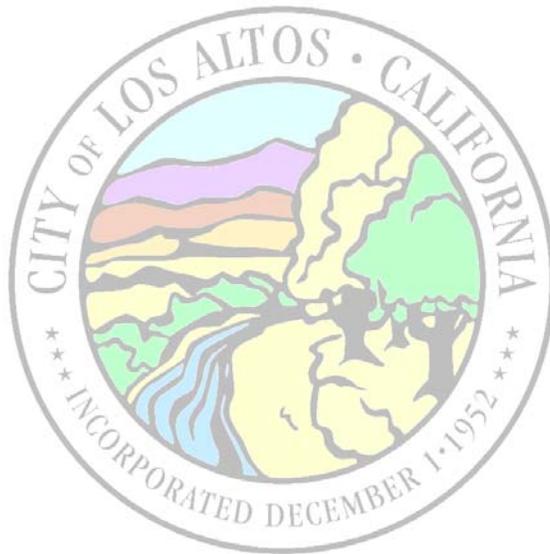
Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (12,870,306)	\$ -	\$ (12,870,306)
(3,682,175)	-	(3,682,175)
(1,402,766)	-	(1,402,766)
(1,973,724)	-	(1,973,724)
(2,700,888)	-	(2,700,888)
(31,775)	-	(31,775)
<u>(22,661,634)</u>	<u>-</u>	<u>(22,661,634)</u>
-	993,837	993,837
-	111,505	111,505
-	(187,913)	(187,913)
<u>-</u>	<u>917,429</u>	<u>917,429</u>
<u>(22,661,634)</u>	<u>917,429</u>	<u>(21,744,205)</u>
12,758,916	-	12,758,916
2,697,494	-	2,697,494
2,530,162	-	2,530,162
2,146,465	-	2,146,465
1,458,445	-	1,458,445
<u>21,591,482</u>	<u>-</u>	<u>21,591,482</u>
759,774	159,416	919,190
201,032	-	201,032
(200,397)	200,397	-
<u>22,351,891</u>	<u>359,813</u>	<u>22,711,704</u>
(309,743)	1,277,242	967,499
<u>80,655,000</u>	<u>10,141,327</u>	<u>90,796,327</u>
<u>\$ 80,345,257</u>	<u>\$ 11,418,569</u>	<u>\$ 91,763,826</u>



FUND FINANCIAL STATEMENTS

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



GOVERNMENTAL FUND FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be major funds by the City in the fiscal year 2008-09. Individual non-major funds may be found in the Other Supplementary Information section.

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, fire, street and parks maintenance and recreation activities.

Los Altos Treatment Plant Sale Proceeds

Accounts for the proceeds from the sale of the Los Altos treatment plant site.

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 Capital Projects Fund

Accounts for the revenues and expenditures related to the replacement of certain City equipment and vehicles.

Community Facilities Renewal Capital Projects Fund

Accounts for the revenues and expenditures related to the community facilities renewal efforts.

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, 2009

	Major Funds				
	General	Los Altos Treatment Plant Sale Proceeds	Capital Projects	Equipment Replacement Capital Projects	Community Facilities Renewal Capital Projects
ASSETS					
Cash and investments	\$ 8,968,872	\$ 4,120,109	\$ 14,586,830	\$ 4,388,583	\$ 3,665,592
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	845,378	-	147,923	-	-
Interest	147,179	-	-	-	-
Assessments	-	-	-	-	-
Prepays	4,955	-	-	-	-
Due from other funds	34,078	-	13,720	-	-
Inventory	10,740	-	-	-	-
Total assets	\$ 10,011,202	\$ 4,120,109	\$ 14,748,473	\$ 4,388,583	\$ 3,665,592
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 961,340	\$ -	\$ 361,912	\$ -	\$ -
Accrued liabilities	613,299	-	-	-	-
Other payable	395,816	-	-	-	-
Unearned revenue	351,917	-	1,050	-	-
Due to other funds	-	-	-	-	-
Total liabilities	2,322,372	-	362,962	-	-
Fund Balances:					
Reserved for:					
Encumbrances	11,082	-	-	-	-
Veteran Memorial	12,000	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	625,966	-	-
Special programs and projects	-	-	-	-	-
Inventory and prepaids	15,695	-	-	-	-
Total reserved	38,777	-	625,966	-	-
Unreserved, designated for:					
PERS	3,005,795	-	-	-	-
Emergency and operating	3,306,228	-	-	-	-
Capital projects	-	-	7,241,452	4,388,583	-
Unreserved, undesignated, reported in:					
General fund	1,338,030	-	-	-	-
Special revenue funds	-	4,120,109	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	6,518,093	-	3,665,592
Total fund balances	7,688,830	4,120,109	14,385,511	4,388,583	3,665,592
Total liabilities and fund balances	\$ 10,011,202	\$ 4,120,109	\$ 14,748,473	\$ 4,388,583	\$ 3,665,592

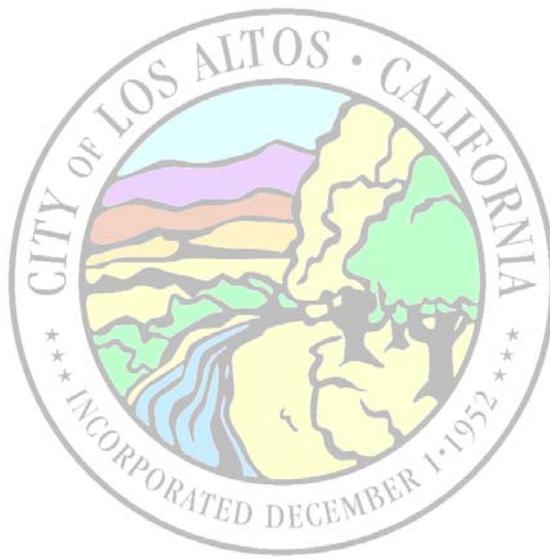
See accompanying Notes to Basic Financial Statements.

Non-Major Governmental		
Funds		Total
\$ 2,640,235	\$	38,370,221
172,182		172,182
56,376		1,049,677
-		147,179
562		562
-		4,955
-		47,798
-		10,740
<u>\$ 2,869,355</u>	<u>\$</u>	<u>39,803,314</u>

\$ 9,516	\$	1,332,768
-		613,299
-		395,816
-		352,967
21,305		21,305
<u>30,821</u>		<u>2,716,155</u>

-		11,082
-		12,000
726,675		726,675
-		625,966
2,119,444		2,119,444
-		15,695
<u>2,846,119</u>		<u>3,510,862</u>

-		3,005,795
-		3,306,228
-		11,630,035
-		1,338,030
-		4,120,109
(7,585)		(7,585)
-		10,183,685
<u>2,838,534</u>		<u>37,087,159</u>
<u>\$ 2,869,355</u>	<u>\$</u>	<u>39,803,314</u>



City of Los Altos
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2009

Total Fund Balances - Total Governmental Funds	\$ 37,087,159
Amounts 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	43,089,259
Long-term receivable from the sale of the Los Altos Treatment Plant is not available to pay for current-period expenditures and therefore is deferred in the fund.	2,566,667
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.	(17,923)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Governmental-Wide Statement of Net Assets.	1,508,838
The cost associated with the issuance of debt, net of amortization, is a use of current resources in the fund statement. Therefore, is was not reported as an asset in the Governmental Funds Balance Sheet.	87,031
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	(107,000)
Long-term liabilities - non-current portion	(2,298,000)
OPEB liability	(182,552)
Compensated Absences - current portion	(347,056)
Compensated Absences - non-current portion	(1,041,166)
Total long-term liabilities	<u>(3,975,774)</u>
Net Assets of Governmental Activities	<u><u>\$ 80,345,257</u></u>

See accompanying Notes to Basic Financial Statements.

City of Los Altos
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2009

	Major Funds				
	General	Los Altos Treatment Plant Sale Proceeds	Capital Projects	Equipment Replacement Capital Projects	Community Facilities Renewal Capital Projects
REVENUES:					
Taxes	\$ 17,073,788	\$ -	\$ -	\$ -	\$ -
Licenses and permits and park-in-lieu	2,531,792	-	-	-	-
Intergovernmental	3,059,251	-	319,713	-	-
Grants and donations	22,074	-	235,504	-	-
Charges for services	3,421,870	-	-	-	-
Fines and forfeitures	271,951	-	-	-	-
Interest and rentals	725,454	155,581	-	-	-
Other	185,449	-	112,515	-	-
Total revenues	27,291,629	155,581	667,732	-	-
EXPENDITURES:					
General government:					
Public safety	13,127,786	-	55,330	-	-
Public works	4,267,872	-	770,196	-	-
Recreation	2,304,229	-	138,928	-	-
Community development	3,198,052	-	626,685	-	-
Admin / Community services	3,384,805	-	190,621	-	-
Capital improvements	-	-	1,287,940	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	26,282,744	-	3,069,700	-	-
REVENUES OVER (UNDER) EXPENDITURES	1,008,885	155,581	(2,401,968)	-	-
OTHER FINANCING SOURCES (USES):					
Transfers in	321,864	-	912,135	-	1,000,000
Transfers out	(361,897)	-	-	(1,000,000)	-
Total other financing sources (uses)	(40,033)	-	912,135	(1,000,000)	1,000,000
SPECIAL ITEM:					
Proceeds from sale of capital assets, net	-	2,166,667	-	-	-
Total special item	-	2,166,667	-	-	-
Net change in fund balance	968,852	2,322,248	(1,489,833)	(1,000,000)	1,000,000
FUND BALANCES:					
Beginning of year	6,719,978	1,797,861	15,875,344	5,388,583	2,665,592
End of year	\$ 7,688,830	\$ 4,120,109	\$ 14,385,511	\$ 4,388,583	\$ 3,665,592

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental		
Funds		Total
\$ 40,918	\$	17,114,706
-		2,531,792
986,394		4,365,358
47,732		305,310
-		3,421,870
56,647		328,598
63,623		944,658
61,306		359,270
<u>1,256,620</u>		<u>29,371,562</u>
-		13,183,116
-		5,038,068
-		2,443,157
1,513		3,826,250
47,732		3,623,158
-		1,287,940
101,000		101,000
102,701		102,701
<u>252,946</u>		<u>29,605,390</u>
<u>1,003,674</u>		<u>(233,828)</u>
161,500		2,395,499
<u>(1,233,999)</u>		<u>(2,595,896)</u>
<u>(1,072,499)</u>		<u>(200,397)</u>
-		2,166,667
-		2,166,667
<u>(68,825)</u>		<u>1,732,442</u>
<u>2,907,359</u>		<u>35,354,717</u>
<u>\$ 2,838,534</u>	<u>\$</u>	<u>37,087,159</u>

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, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 1,732,442
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.	1,766,703
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 expense is not reported as expenditures in governmental funds.	(1,435,036)
The installment payments received from the Los Altos Treatment Plant sale provide current financial resources and, therefore, are reported as revenues in the funds. In the Government-Wide Statement of Net Assets, the proceed reduced the long-term receivable in the Statement of Net Assets.	(2,166,667)
Long-term compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in governmental funds.	(241,070)
OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(182,552)
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.	94,313
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.	77,613
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.	44,511
Change in Net Assets of Governmental Activities	<u><u>\$ (309,743)</u></u>

See accompanying Notes to Basic Financial Statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

ENTERPRISE FUNDS

The funds describe below were the City's Enterprise funds. Individual Internal Service Funds may be found in the Other Supplementary Information section.

Sewer

To account for the operation (including waste water treatment) of the City's sewer treatment 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 2004-05 at the direction of the City Council.

City of Los Altos
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Major Enterprise Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 7,177,362	\$ 953,573	\$ 247,104	\$ 8,378,039	\$ 2,720,170
Receivables:					
Accounts	322,854	212,314	-	535,168	40,315
Total current assets	7,500,216	1,165,887	247,104	8,913,207	2,760,485
Noncurrent assets:					
Capital assets:					
Nondepreciable	1,273,583	-	-	1,273,583	-
Depreciable	10,680,232	-	1,969,221	12,649,453	-
Less accumulated depreciation	(8,637,561)	-	(1,969,100)	(10,606,661)	-
Total capital assets, net	3,316,254	-	121	3,316,375	-
Total noncurrent assets	3,316,254	-	121	3,316,375	-
Total assets	10,816,470	1,165,887	247,225	12,229,582	2,760,485
LIABILITIES					
Current liabilities:					
Accounts payable	432,847	293,620	-	726,467	19,699
Accrued liabilities	16,580	2,424	2,221	21,225	-
Due to other funds	-	-	-	-	26,493
Compensated absences - current portion	13,698	-	-	13,698	-
Claims and judgments - current portion	-	-	-	-	180,818
Total current liabilities	463,125	296,044	2,221	761,390	227,010
Noncurrent liabilities:					
Compensated absences - noncurrent portion	42,175	-	-	42,175	-
OPEB liabilities	6,105	501	842	7,448	-
Claims and judgments - noncurrent portion	-	-	-	-	1,024,637
Total noncurrent liabilities	48,280	501	842	49,623	1,024,637
Total liabilities	511,405	296,545	3,063	811,013	1,251,647
NET ASSETS					
Invested in capital assets, net of related debt	3,316,254	-	121	3,316,375	-
Unrestricted	6,988,811	869,342	244,041	8,102,194	1,508,838
Total net assets	\$ 10,305,065	\$ 869,342	\$ 244,162	\$ 11,418,569	\$ 1,508,838

See accompanying Notes to Basic Financial Statements.

City of Los Altos
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the year ended June 30, 2009

	Major Enterprise Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities Internal Service Funds
OPERATING REVENUES:					
Charges for services	\$ 5,718,747	\$ 1,684,851	\$ -	\$ 7,403,598	\$ 1,120,619
Other	85,565	-	-	85,565	28,603
Total operating revenues	5,804,312	1,684,851	-	7,489,163	1,149,222
OPERATING EXPENSES:					
Outside services	2,864,933	1,521,082	64,722	4,450,737	27,500
Employee services	637,206	22,053	80,072	739,331	-
Repairs and maintenance	1,128,844	16,558	3,584	1,148,986	-
Claims reimbursement	-	-	-	-	645,805
Insurance	43,000	13,289	-	56,289	311,558
Administration	-	364	154	518	119,848
Depreciation	136,492	-	39,381	175,873	-
Total operating expenses	4,810,475	1,573,346	187,913	6,571,734	1,104,711
OPERATING INCOME (LOSS)	993,837	111,505	(187,913)	917,429	44,511
NONOPERATING REVENUE:					
Interest	140,124	19,292	-	159,416	-
Total nonoperating revenues	140,124	19,292	-	159,416	-
INCOME (LOSS) BEFORE TRANSFERS	1,133,961	130,797	(187,913)	1,076,845	44,511
TRANSFERS:					
Transfers in	-	-	200,397	200,397	-
Total transfers	-	-	200,397	200,397	-
Change in net assets	1,133,961	130,797	12,484	1,277,242	44,511
NET ASSETS:					
Beginning of the year	9,171,104	738,545	231,678	10,141,327	1,464,327
End of the year	\$ 10,305,065	\$ 869,342	\$ 244,162	\$ 11,418,569	\$ 1,508,838

See accompanying Notes to Basic Financial Statements.

City of Los Altos
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2009

	Major Enterprise Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities
					Internal Service
					Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 5,938,682	\$ 1,675,117	\$ -	\$ 7,613,799	\$ -
Cash received from other funds	-	-	-	-	1,150,465
Cash payments to suppliers for goods and services	(3,689,587)	(1,366,603)	(66,364)	(5,122,554)	-
Cash payments to employees for services	(620,637)	(22,053)	(80,071)	(722,761)	-
Cash payments to claimants	-	-	-	-	(598,768)
Insurance premiums and settlements	(43,000)	(13,289)	-	(56,289)	(493,227)
Net cash provided (used) by operating activities	1,585,458	273,172	(146,435)	1,712,195	58,470
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	-	-	200,397	200,397	-
Net cash provided (used) by noncapital financing activities	-	-	200,397	200,397	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital asset additions	(1,273,584)	-	-	(1,273,584)	-
Net cash provided (used) by capital and related financing activities	(1,273,584)	-	-	(1,273,584)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest	140,124	19,292	-	159,416	-
Net cash provided (used) by investing activities	140,124	19,292	-	159,416	-
Net increase (decrease) in cash and cash equivalents	451,998	292,464	53,962	798,424	58,470
CASH AND CASH EQUIVALENTS:					
Beginning of year	6,725,364	661,109	193,142	7,579,615	2,661,700
End of year	<u>\$ 7,177,362</u>	<u>\$ 953,573</u>	<u>\$ 247,104</u>	<u>\$ 8,378,039</u>	<u>\$ 2,720,170</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 993,837	\$ 111,505	\$ (187,913)	\$ 917,429	\$ 44,511
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	136,492	-	39,381	175,873	-
Changes in assets and liabilities:					
Accounts receivable	134,370	(9,734)	-	124,636	(25,250)
Accounts payable	287,610	168,476	(966)	455,120	(33,394)
Accrued liabilities	16,580	2,424	2,221	21,225	-
Due to other funds	-	-	-	-	26,493
Compensated absences	10,464	-	-	10,464	-
OPEB liabilities	6,105	501	842	7,448	-
Claims and judgments	-	-	-	-	46,110
Total adjustments	591,621	161,667	41,478	794,766	13,959
Net cash provided (used) by operating activities	\$ 1,585,458	\$ 273,172	\$ (146,435)	\$ 1,712,195	\$ 58,470

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Fund

Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. It is 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 Net Assets
June 30, 2009

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 1,073,478
Interest receivable	5,182
Total assets	\$ 1,078,660
LIABILITIES	
Accounts payable	\$ 159,570
Due to others	919,090
Total liabilities	\$ 1,078,660

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

City of Los Altos
Notes to Basic Financial Statements
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. *Financial Reporting Entity*

The City 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, recreation, community development & engineering, 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. The District is a blended component unit as it is governed by a board comprise of the City's elected council. Complete financial information for the above component unit may be obtained from the City at One North San Antonio Road, Los Altos, CA 94022.

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.

Government-Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities 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 Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Government-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.

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

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

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

- Due to, due from other funds
- Transfers in, transfers out

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally 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.

Governmental Fund Financial Statements

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

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Governmental Fund Financial Statements, Continued

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Proprietary Fund Financial Statements, Continued

Proprietary funds distinguish operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from 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 fund represents agency fund that is used to account for the operating activities and for the special assessment collections pertaining to the North County Library Authority. Agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The agency fund is accounted for on the modified accrual basis of accounting as are the Governmental funds explained above.

Internal Service Funds

The internal service funds account for services provided to other departments pertaining to the self-insurance dental program, the unemployment insurance, the workers' compensation insurance, and the liability insurance, on a cost reimbursement basis.

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.

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

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Cash, Cash Equivalents and Investments, Continued

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

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

Government-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 Basic Financial Statements, Continued
For the year ended June 30, 2009

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 distribution” 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 the 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 asset; or
- 3) Present replacement cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Capital Assets, Continued

The accumulated depreciation, defined as the total depreciation from the date of construction/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 financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 government-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 receivable 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 revenue 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 revenue is recorded are grants received but not yet earned or available, interest on interfund advances receivable, long-term assessments, and long-term loans receivable.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

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:

Government-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 generally accepted accounting principles 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 Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Budgetary Information, Continued

Budget Basis of Accounting

Budgetary comparisons are presented in the Supplementary Information section, as listed in the table of contents, for the General Fund, the Gas Taxes, the Community Development Block Grant Fund, and the Downtown Parking Fund. 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 these funds.

P. New Pronouncements

In 2009, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pension Plans* - This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*- This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - The Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* - This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At the May 27, 2008 meeting, the City Council authorized the debt owed by the Community Improvement Capital Project Fund to the Facility Fund and to the Equipment Replacement Fund be forgiven in the fiscal year 2008-09.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, Continued

The City Council also authorized the merging of the Community Improvement Capital Project Fund and the Facility Fund in the fiscal year 2008-09. The merged fund was renamed Community Facilities Renewal Fund.

The Edith Avenue Foothill Noise Wall Debt Service Fund deficit fund balance in the amount of \$7,585 at June 30, 2009 is expected to be cured with General Fund transfers, pending research and City Council approval.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Cash Deposits

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 49,468,430
Cash and investments held by bond trustee	172,182
Fiduciary funds:	
Cash and investments	1,073,478
Total cash and investments	\$ 50,714,090

Cash and investments as of June 30, 2009 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	8,941,067
Investments	41,771,723
Total cash and investments	\$ 50,714,090

B. Investments

Under the provisions of the City's investment policy and in accordance with Section 53601 of the California Government Code, the City is authorized to invest or deposit in the following:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Bills, Notes and Bonds	5 years	None	None
U.S. Government-Sponsored Enterprise Agencies	5 years	30%	None
Banker's Acceptance	180 Days	30%	30%
Commercial Paper	180 Days	15%	10%
Negotiable Certificates of Deposit	3 years	50%	\$100,000
Repurchase Agreements	15 days	30%	None
Mutual Funds	N/A	30%	10%
Local Agency Investment Fund	N/A	None	None

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

C. Risk Disclosures

Interest Risk: Interest rate risk is the market rate changes that adversely affect the fair value of an investment. Generally, the sensitivity of an investment fair value to changes in market rates is greater when the maturity of the investment is longer. Typically, the City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	Fair Value	Weighted Average Maturity In Years
State Investment Pool	41,656,292	0.62
Money Market Mutual Funds	172,182	0.02
Total	\$ 41,828,474	

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 usually measured 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 Unrated
State Investment Pool	41,656,292	N/A	41,656,292
Money Market Mutual Funds	172,182	N/A	172,182
Total	\$ 41,828,474		\$ 41,828,474

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, 2009, the City's bank balance was \$9,123,561 and the corresponding book balance was \$8,891,101. The difference between the bank balance and the book balance represents outstanding checks and deposits in transit. Of the bank balance, \$100,000 was covered by federal depository insurance and \$9,023,561 was collateralized.

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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

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 as reported in the accompanying financial statements is 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).

As of June 30, 2009, the City had \$41,656,292 invested in LAIF, which had invested 14.71% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 14.72% in the previous year. The LAIF fair value factor of 1.001364207 was used to calculate the fair value of the investments in LAIF.

4. INTERFUND TRANSACTIONS

Fund Financial Statements

A. Due To/From Other Funds

The due to/from other funds to be repaid out of future earning or charges at June 30, 2009 consisted of:

		Due to Other Funds		
		Non-Major Governmental Funds	Internal Service Funds	Total
Due From Other Funds	General Fund	\$ 7,585	\$ 26,493	\$ 34,078
	Capital Projects	13,720	-	13,720
	Total	\$ 21,305	\$ 26,493	\$ 47,798

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

4. INTERFUND TRANSACTIONS, Continued

Fund Financial Statements, Continued

B. Transfers

Transfers for the year ended June 30, 2009 were as follows:

		Transfers In					Total
		General Fund	Capital Projects	Community Facilities Renewal Capital Project	Non-Major Governmental Funds	Enterprise Storm Drain	
Transfers Out	General Fund	\$ -	\$ -	\$ -	\$ 161,500	\$ 200,397	\$ 361,897
	Equipment Replacement						
	Capital project	-	-	1,000,000	-	-	1,000,000
	Non-major						
	Governmental Funds	321,864	912,135	-	-	-	1,233,999
	Total	<u>\$ 321,864</u>	<u>\$ 912,135</u>	<u>\$ 1,000,000</u>	<u>\$ 161,500</u>	<u>\$ 200,397</u>	<u>\$ 2,595,896</u>

Transfers are used to move unrestricted general fund revenues to finance various programs accounted for in other funds based on budgetary authorizations. Additionally, transfers are also used to move revenues from the general fund to the debt service fund as the principal and interest payments become due.

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2009, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Construction in progress	\$ 2,010,160	\$ 1,273,583	\$ 3,283,743
Land	11,404,867	-	11,404,867
Total non-depreciable assets	<u>13,415,027</u>	<u>1,273,583</u>	<u>14,688,610</u>
Depreciable assets:			
Buildings	21,668,810	10,151,094	31,819,904
Improvement other than buildings	2,333,630	-	2,333,630
Machinery and equipment	3,771,115	529,138	4,300,253
Infrastructure	16,961,019	1,969,221	18,930,240
Total depreciable assets	<u>44,734,574</u>	<u>12,649,453</u>	<u>57,384,027</u>
Less accumulated depreciation	<u>(15,060,342)</u>	<u>(10,606,661)</u>	<u>(25,667,003)</u>
Total depreciable assets, net	<u>29,674,232</u>	<u>2,042,792</u>	<u>31,717,024</u>
Total capital assets	<u>\$ 43,089,259</u>	<u>\$ 3,316,375</u>	<u>\$ 46,405,634</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for governmental activities for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Deletions	Transfer	Balance June 30, 2009
Non-depreciable assets:					
Construction in progress	\$ 974,142	\$ 1,279,411	\$ -	\$ (243,393)	\$ 2,010,160
Land	11,404,867	-	-	-	11,404,867
Total nondepreciable assets	<u>12,379,009</u>	<u>1,279,411</u>	<u>-</u>	<u>(243,393)</u>	<u>13,415,027</u>
Depreciable assets:					
Buildings	21,668,810	-	-	-	21,668,810
Improvements other than buildings	2,333,630	-	-	-	2,333,630
Machinery and equipment	3,436,602	502,610	(411,490)	243,393	3,771,115
Infrastructure	16,961,019	-	-	-	16,961,019
Total depreciable assets	<u>44,400,061</u>	<u>502,610</u>	<u>(411,490)</u>	<u>243,393</u>	<u>44,734,574</u>
Accumulated depreciation:					
Buildings	(6,057,123)	(451,579)	-	-	(6,508,702)
Improvements	(954,300)	(86,085)	-	-	(1,040,385)
Machinery and equipment	(2,285,203)	(384,607)	396,172	-	(2,273,638)
Infrastructure	(4,724,852)	(512,765)	-	-	(5,237,617)
Total accumulated depreciation	<u>(14,021,478)</u>	<u>(1,435,036)</u>	<u>396,172</u>	<u>-</u>	<u>(15,060,342)</u>
Total depreciable assets, net	<u>30,378,583</u>	<u>(932,426)</u>	<u>(15,318)</u>	<u>243,393</u>	<u>29,674,232</u>
Total governmental activities capital assets, net	<u>\$ 42,757,592</u>	<u>\$ 346,985</u>	<u>\$ (15,318)</u>	<u>\$ -</u>	<u>\$ 43,089,259</u>

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2009 are as follows:

Public safety	\$ 237,718
Public works	619,765
Recreation	428,203
Community development	40,734
Admin / community services	108,616
Total depreciation expense	<u>\$ 1,435,036</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Non Depreciable assets:				
Construction in progress	\$ -	\$ 1,273,583	\$ -	\$ 1,273,583
Total nondepreciable assets	-	1,273,583	-	1,273,583
Depreciable assets:				
Buildings	\$ 10,151,094	\$ -	\$ -	\$ 10,151,094
Infrastructure	1,969,221	-	-	1,969,221
Machinery and equipment	529,138	-	-	529,138
Total depreciable assets	12,649,453	-	-	12,649,453
Accumulated depreciation:				
Buildings	(8,088,797)	(101,867)	-	(8,190,664)
Infrastructure	(1,929,718)	(39,381)	-	(1,969,099)
Machinery and equipment	(412,273)	(34,625)	-	(446,898)
Total accumulated depreciation	(10,430,788)	(175,873)	-	(10,606,661)
Total depreciable assets, net	2,218,665	(175,873)	-	2,042,792
Total business-type activities capital assets, net	\$ 2,218,665	\$ 1,097,710	\$ -	\$ 3,316,375

Depreciation expense for business-type activities for the year ended June 30, 2009 is as follows:

Sewer	\$ 136,492
Storm drain	39,381
Total	<u>\$ 175,873</u>

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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT

A. Governmental Activities Long-Term Debt

Summary of changes in governmental activities long-term debt for the year ended June 30, 2009 is as follows:

	Balance July 1, 2008	Debt Issued	Debt Retired	Balance June 30, 2009	Due in One Year	Due in More Than One Year
Certificate of participation	\$ 2,195,000	\$ -	\$ (80,000)	\$ 2,115,000	\$ 85,000	\$ 2,030,000
Special Assessment Debt with City Commitment	311,000	-	(21,000)	290,000	22,000	268,000
Total	\$ 2,506,000	\$ -	\$ (101,000)	\$ 2,405,000	\$ 107,000	\$ 2,298,000

Certificates of Participation

Certificates of participation payable at June 30, 2009 consisted of the following:

	Balance June 30, 2009	Due in One Year	Due in More Than One Year
2004 Refunding	\$ 2,115,000	\$ 85,000	\$ 2,030,000
Total	\$ 2,115,000	\$ 85,000	\$ 2,030,000

2004 Refunding Certificate of Participation

On November 1, 1996, the City issued \$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 acre Saint William School site for public purposes 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 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 debts and refunding bonds, or new debt) of \$318,478.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2004 Refunding Certificate of Participation, Continued

At June 30, 2009, future debt service requirements for the 2004 Refunding were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2010	\$ 85,000	\$ 79,278	\$ 164,278
2011	85,000	77,366	162,366
2012	90,000	75,282	165,282
2013	95,000	72,808	167,808
2014	95,000	69,958	164,958
2015-2019	540,000	298,318	838,318
2020-2024	655,000	184,802	839,802
2025-2027	470,000	40,588	510,588
Total	\$ 2,115,000	\$ 898,400	\$ 3,013,400

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, 2009, all these districts were in compliance with the repayment and other requirements of their respective debt issues.

The Raymundo Curb & Gutter Assessment District (District) Improvement Bond was issued on August 3, 2005 to provide financing for the street improvements in that District. The bonds are payable from a special property tax levied to those residents living within the District.

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

	Interest Rate	Maturity Date	Balance July 1, 2008	Retirements	Balance June 30, 2009
Avalon Drive - Curb & Gutter	5.80%	2015	\$ 63,000	\$ (7,000)	\$ 56,000
Raymundo - Curb & Gutter	4.65%	2021	248,000	(14,000)	234,000
Total			\$ 311,000	\$ (21,000)	\$ 290,000

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Special Assessment Debt with City Commitment, Continued

At June 30, 2009, future debt service requirements for the Special assessment debt with City commitment were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2010	\$ 22,000	\$ 13,578	\$ 35,578
2011	23,000	12,451	35,451
2012	24,000	11,272	35,272
2013	25,000	10,041	35,041
2014	26,000	8,763	34,763
2015-2019	121,000	24,735	145,735
2020-2021	49,000	2,301	51,301
Total	\$ 290,000	\$ 83,141	\$ 373,141

B. Debt Covenants and Restrictions

For June 30, 2009, 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 issues.

7. COMPENSATED ABSENCES

The City's compensated absences at June 30, 2009, were as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Balance Due Within One Year	Balance Due in More Than One Year
Governmental activities	\$ 1,147,152	\$ 902,847	\$ (661,777)	\$ 1,388,222	\$ 347,056	\$ 1,041,166
Business-type activities	45,409	35,735	(25,271)	55,873	13,968	41,905
Total	\$ 1,192,561	\$ 938,582	\$ (687,048)	\$ 1,444,095	\$ 361,024	\$ 1,083,071

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

8. DEFERRED REVENUE

At June 30, 2009, deferred revenues were recorded because the revenues have not been earned or the funds were not available to finance the expenditures of the current period:

	Governmental Activities
Fees collected in advance	\$ 352,967
	<u>\$ 352,967</u>

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, 2009, the City contributed \$ 251,513 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.

The City's contributions to ABAG equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

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.

As of June 30, 2009, \$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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. RISK MANAGEMENT, Continued

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 portion, 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,		
	2009	2008	2007
Unpaid claims, beginning of year	\$ 1,159,345	\$ 834,764	\$ 1,126,535
Incurred claims and changes in estimates	691,915	993,859	(212,433)
Claim payments	(645,805)	(669,278)	(79,338)
Unpaid claims, end of year	\$ 1,205,455	\$ 1,159,345	\$ 834,764

The estimated amount of claims and judgments due within one year is approximately \$180,818.

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 years 2007, 2008 and 2009, 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. 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 dental plan, the employee is required to submit the dental claims to the insurance carrier or the other plan first. For dental years 2006, 2007 and 2008, the plan began on November 1 and ended on October 31. The annual maximum dental reimbursement was \$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 years ended October 31, 2006, 2007 and 2008 are as follows:

Dental Year Ended October 31,	Contribution Amount	Reimbursement Amount
2006	\$ 91,254	\$ 75,340
2007	93,247	88,520
2008	96,965	94,106

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. SELF-FUNDED REIMBURSEMENT DENTAL PLAN, Continued

On October 14, 2008, the City Council adopted Resolution 2008-45 modifying the dental year and benefits. The new dental year begins from January 1 and ends on December 31, with the exception of the first new dental year which began on November 1, 2008 and ends on December 31, 2009. The annual maximum dental reimbursement for the first new dental year is increased to \$1,500 for each employee and \$1,000 for each dependent. In subsequent dental years, the maximum dental coverage for both employees and dependents are increased annually based on the Consumer Price Index but not to exceed 3%.

11. PENSION PLANS

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. Effective with the June 30, 2003 actuarial valuation, PERS required that retirement plans with less than 100 members be included in risk pools. These risk pools are cost-sharing multiple-employer defined benefit retirement plans that pool risk. Both the City's Safety Police and Miscellaneous retirement plans are included in these risk pools.

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 \$909,708 for the year ended June 30, 2009. The City was required to contribute at an actuarial determined rate of 28.264% for the period from July 1, 2008 through June 30, 2009 of annual covered payroll for safety employees and 14.448% of annual covered payroll for miscellaneous employees. The contribution rate is established annually and may be amended by PERS. Included in the employer contribution rates are the amortization of Side Funds which were created to account for the difference between the funded status of the pool and the funded status of the City plans at the time of joining the risk pool. As of June 30, 2009, the estimated balance of the Side Fund for the public safety plan was approximately \$3.5 million. The estimated balance of the Side Fund for the miscellaneous plan was approximately \$1.9 million. On June 23, 2009, the City Council authorized the use of PERS reserve to pay down the public safety side fund in the fiscal year 2009-10.

Annual Pension Cost – For 2008-2009, the City's annual pension cost of \$2,021,041 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases range from 3.25% to 14.45%. Both (a) and (b) included an inflation component of 3.0%. 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 Basic Financial Statements, Continued
For the year ended June 30, 2009

11. PENSION PLANS, Continued

California Public Employees' Retirement Plan, Continued

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)		Percentage of APC Contributed	Net Pension Obligation
	Miscellaneous	Safety		
06/30/2007	\$ 887,546	\$ 843,644	100%	\$ -
06/30/2008	988,777	866,271	100%	-
06/30/2009	1,103,628	917,412	100%	-

Funding Status as of the Most Recent Actuarial Date - The City retirement plans for miscellaneous and safety employees are part of the PERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City's miscellaneous and safety employees is no longer available nor disclosed.

12. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description. The City of Los Altos Retiree Healthcare Plan ("Plan") is a single-employer defined benefit healthcare plan administered by the City. The Plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employees' Retirement System healthcare program (PEMHCA). Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its non-represented employees and the unions representing City employees. The Retiree Healthcare Plan does not issue a financial report.

The City provides a retiree medical contribution using the "5% unequal method," where the retiree contribution is increased annually until it equals the PEMHCA minimum contribution (\$97 per month for 2008 and \$101 per month for 2009). In 2009, the City's contribution is \$40.40 per month. The City does not provide contributions for retiree dental, vision, or life insurance benefits.

Funding Policy. The City will continue to pay for retiree healthcare benefits on a pay-as-you go basis. For fiscal year 2009, The City contributed approximately \$16,527 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

12. OTHER POST EMPLOYMENT BENEFITS, Continued

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's Net OPEB obligation:

Annual required contribution	\$ 207,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>(0)</u>
Annual OPEB cost (expense)	207,000
Contributions made to irrevocable trust	(0)
Benefit payments made outside of trust	<u>(17,000)</u>
Increase in net OPEB obligation	190,000
Net OPEB obligation - beginning of year	<u>0</u>
Net OPEB obligation - end of year	<u>190,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2009 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/07	N/A	N/A	N/A
6/30/08	N/A	N/A	N/A
6/30/09	\$ 207,000	8.0%	\$ 190,000

Funded Status and Funding Progress. The funded status of the Plan as of January 1, 2009, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 1,662,000
Actuarial value of Plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	1,662,000
Funded ratio (actuarial value of Plan assets/AAL)	0%
Covered payroll (active Plan participants)	10,884,000
UAAL as a percentage of covered payroll	15.3%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

12. OTHER POST EMPLOYMENT BENEFITS, Continued

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. The PEMHCA minimum was assumed to annually increase by 4.5%. The UAAL is amortized as a level percentage of projected payroll over 30 years on a closed basis commencing with fiscal year 2009.

13. CONTINGENCIES

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.

14. OTHER INFORMATION

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, CA 94303.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

14. OTHER INFORMATION, Continued

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's service area. The City performs administrative and accounting services for NCLA. In 1991, the NCLA issued Special Tax Bonds in the amount of \$3,645,000. As of June 30, 2009, the Special Tax Bonds outstanding debt amounted to \$930,000. The audited financial statements can be obtained by contacting the NCLA at One North San Antonio Road, Los Altos, CA 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.

15. SPECIAL ITEM

On November 30, 2007, the City entered a purchase and sale agreement with the City of Palo Alto to sell the City's share of the Los Altos Treatment Plant (LATP) to the City of Palo Alto for \$6.5 million. Proceeds of the sale are to be paid in three installments. The City received the first payment of \$1,765,541 at the close of escrow in January 2008. This amount represents the first installment of \$2,166,666 less the title and escrow fees of \$1,125 and the estimated preliminary development costs of \$400,000. The City of Palo Alto will refund unused portion of this \$400,000 to the City by the end of the fifth year from the date of the close of escrow. In January 2009, the City received the second installment in the amount of \$2,166,667. The last installment in the amount of \$2,166,667 is due to the City on January 5, 2010.

16. SUBSEQUENT EVENT NOTE DISCLOSURE

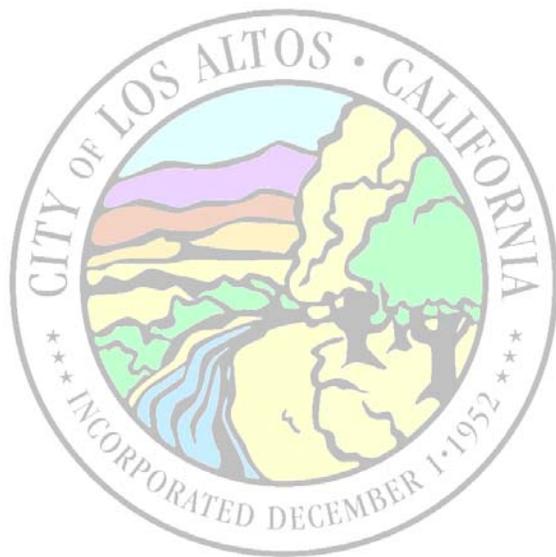
Subsequent to June 30, 2009, the State of California (State) has decided to borrow, to defer certain revenue payments and to take certain funds from local governments including the City. These amounts are very significant to the City and are as follows:

- 8% of Property Taxes \$1.02 million

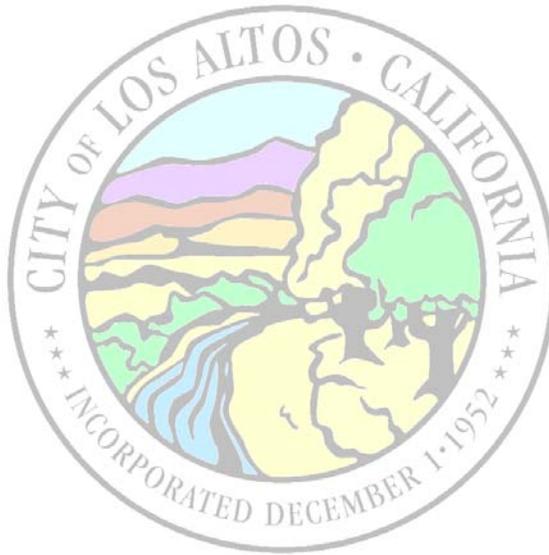
City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

16. SUBSEQUENT EVENT NOTE DISCLOSURE, Continued

Property Taxes borrowed by the State for fiscal year 2009-2010 were nearly \$2 billion statewide to help the State's budget shortfall. Legislators and the Governor promised to allow local agencies to sell their eventual repayment from the State to investors to cover the property taxes and to pay the full cost of the sale, or securitization. Passage of Senate Bill 67 (SB 67) was accomplished on October 14, 2009. A future bond sale is necessary to complete the funding or securitization. The City subsequently participates in the securitization program which successfully closed the bonds sales on November 19, 2009.



REQUIRED SUPPLEMENTARY INFORMATION



City of Los Altos
Required Supplementary Information
For the year ended June 30, 2009

1. BUDGETS AND BUDGETARY ACCOUNTING

The City adopts a budget annually that 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.

Budgets are adopted on a basis consistent with generally accepted accounting principles 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.

The Los Altos Treatment Plant Sale Proceeds Fund currently does not have an adopted budget. Pursuant to Resolution 2008-36, the sale proceeds may not be appropriated nor expended until directed by future action of the City Council.

City of Los Altos
Required Supplementary Information, Continued
For the year ended June 30, 2009

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

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

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 16,457,867	\$ 16,457,867	\$ 17,073,788	\$ 615,921
Licenses, permits and park in-lieu	2,738,563	2,738,563	2,531,792	(206,771)
Intergovernmental	3,537,081	3,537,081	3,059,251	(477,830)
Grants and donations	-	-	22,074	22,074
Charges for services	3,678,955	3,678,955	3,421,870	(257,085)
Fines and forfeitures	211,000	211,000	271,951	60,951
Interest and rentals	1,271,652	1,271,652	725,454	(546,198)
Other	156,066	156,066	185,449	29,383
Total revenues	28,051,184	28,051,184	27,291,629	(759,555)
EXPENDITURES:				
Current:				
Public safety	13,731,812	13,738,812	13,127,785	611,027
Public works	4,681,897	4,756,850	4,267,872	488,978
Recreation	2,323,535	2,332,335	2,304,229	28,106
Community development	3,432,280	3,413,708	3,198,052	215,656
Admin / Community services	3,278,698	3,651,782	3,384,805	266,977
Total expenditures	27,448,222	27,893,487	26,282,743	1,610,744
REVENUES OVER (UNDER) EXPENDITURES	602,962	157,697	1,008,886	851,189
OTHER FINANCING SOURCES (USES):				
Transfers in	435,500	-	321,864	321,864
Transfers (out)	(1,395,566)	(361,897)	(361,897)	-
Total other financing sources (uses)	(960,066)	(361,897)	(40,033)	321,864
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	\$ (357,104)	\$ (204,200)	968,853	\$ 1,173,053
FUND BALANCES:				
Beginning of year			<u>6,719,978</u>	
End of year			<u>\$ 7,688,831</u>	

City of Los Altos
Required Supplementary Information, Continued
For the year ended June 30, 2009

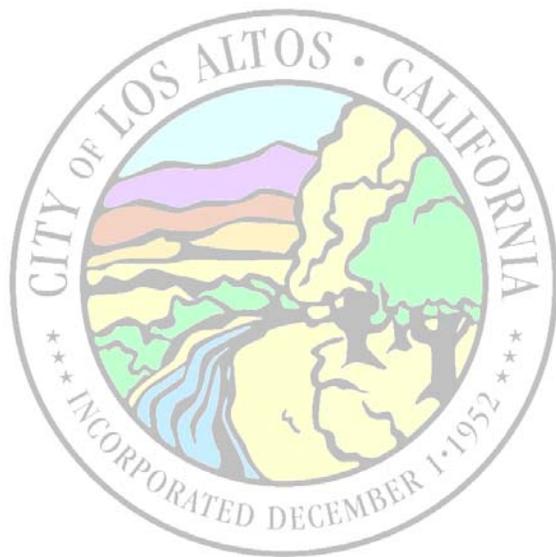
2. PENSION PLAN

The City retirement plans for miscellaneous and safety employees are part of the PERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City's miscellaneous and safety employees is no longer available nor disclosed.

3. OTHER POST EMPLOYEMENT BENEFITS

Schedule of Funding Progress
(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
1/1/09	0	\$ 1,662	\$ 1,662	0%	\$ 10,884	15.3%



SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

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, and 2107.5

To account for the revenues received from the State gas taxes under the provision of the Streets and Highways Codes. These revenues are restricted to uses related to construction and improvements, and maintenance and repair of local streets.

Proposition 1B Fund

To account for the allocated bond fund amount from the State under the Proposition 1B provisions.

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 programs, the human services programs through local nonprofit agencies, and the accessibility improvements in compliance with the American with Disabilities Act.

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 Fund

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

Traffic Impact Fee Fund

To account for revenues received from development. The revenues are dedicated for transportation improvements within the city.

Estate Donation Fund

To account for donations received that are dedicated for purposes specified by the donors.

NON-MAJOR GOVERNMENTAL FUNDS, Continued

DEBT SERVICE FUNDS

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 principal and interest on Certificates of Participation and related authorized costs.

Grant Fremont Sewer

To account for the accumulation of financial resources that are used to pay principal, interest, and other 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.

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 with that improvement district.

City of Los Altos
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009

	Special Revenue					
	Vehicle Impound	Supplemental Law Enforcement	Gas Taxes	Proposition 1B	Storm Drain Deposits	Community Development Block Grants
ASSETS						
Cash and investments	\$ -	\$ -	\$ 15,739	\$ 448,023	\$ 56,086	\$ 13,615
Restricted cash and investments	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles):						
Accounts	-	44,783	-	-	-	11,593
Assessments	-	-	-	-	-	-
Total assets	\$ -	\$ 44,783	\$ 15,739	\$ 448,023	\$ 56,086	\$ 25,208
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,516
Due to other funds	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	9,516
Fund Balances:						
Reserved:						
Special programs and projects	-	44,783	15,739	448,023	56,086	15,692
Debt service	-	-	-	-	-	-
Unreserved, undesignated	-	-	-	-	-	-
Total fund balances	-	44,783	15,739	448,023	56,086	15,692
Total liabilities and fund balances	\$ -	\$ 44,783	\$ 15,739	\$ 448,023	\$ 56,086	\$ 25,208

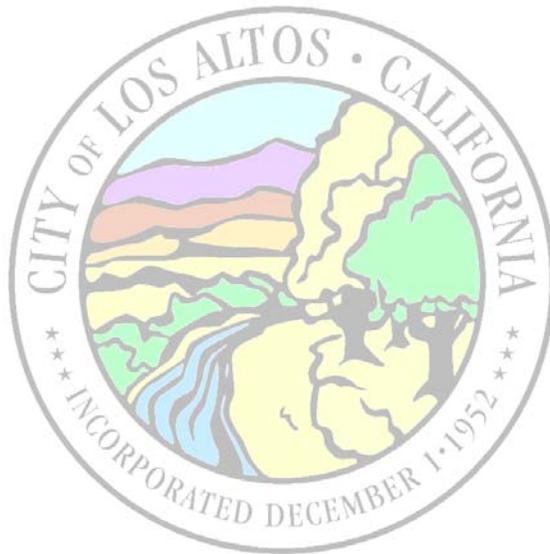
Special Revenue					Debt Service				
Downtown Parking	In Lieu Park Land	Traffic Impact Fee	Estate Donation	North Los Altos Water District	General	Grant Fremont Sewer	Oak Truman Sewer	Morton Alford Sewer	Elmhurst Curb and Gutter
\$ 146,667	\$ 963,380	\$ 416,842	\$ 12,232	\$ 104,308	\$ 197,562	\$ 38,968	\$ 57,246	\$ 51,068	\$ 603
-	-	-	-	-	172,182	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>\$ 146,667</u>	<u>\$ 963,380</u>	<u>\$ 416,842</u>	<u>\$ 12,232</u>	<u>\$ 104,308</u>	<u>\$ 369,744</u>	<u>\$ 38,968</u>	<u>\$ 57,246</u>	<u>\$ 51,068</u>	<u>\$ 603</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
146,667	963,380	416,842	12,232	-	-	-	-	-	-
-	-	-	-	104,308	369,744	38,968	57,246	51,068	603
-	-	-	-	-	-	-	-	-	-
<u>146,667</u>	<u>963,380</u>	<u>416,842</u>	<u>12,232</u>	<u>104,308</u>	<u>369,744</u>	<u>38,968</u>	<u>57,246</u>	<u>51,068</u>	<u>603</u>
<u>\$ 146,667</u>	<u>\$ 963,380</u>	<u>\$ 416,842</u>	<u>\$ 12,232</u>	<u>\$ 104,308</u>	<u>\$ 369,744</u>	<u>\$ 38,968</u>	<u>\$ 57,246</u>	<u>\$ 51,068</u>	<u>\$ 603</u>

(Continued)

City of Los Altos
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2009

	Debt Service				Total Non-Major Governmental Funds
	Edith Avenue Foothill Noise Wall	El Monte Foothill Noise Wall	Avalon Drive Curb and Gutter	Raymundo Curb and Gutter	
ASSETS					
Cash and investments	\$ -	\$ 24,801	\$ 43,639	\$ 49,456	\$ 2,640,235
Restricted cash and investments	-	-	-	-	172,182
Receivables (net of allowance for uncollectibles):					
Accounts	-	-	-	-	56,376
Assessments	-	-	562	-	562
Total assets	\$ -	\$ 24,801	\$ 44,201	\$ 49,456	\$ 2,869,355
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 9,516
Due to other funds	7,585	-	-	13,720	21,305
Total liabilities	7,585	-	-	13,720	30,821
Fund Balances:					
Reserved:					
Special programs and projects	-	-	-	-	2,119,444
Debt service	-	24,801	44,201	35,736	726,675
Unreserved, undesignated	(7,585)	-	-	-	(7,585)
Total fund balances	(7,585)	24,801	44,201	35,736	2,838,534
Total liabilities and fund balances	\$ -	\$ 24,801	\$ 44,201	\$ 49,456	\$ 2,869,355

(Concluded)



City of Los Altos
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2009

	Special Revenue					
	Vehicle	Supplemental	Gas	Proposition	Storm Drain	Community
	Impound	Law Enforcement	Taxes	1B	Deposits	Development Block Grants
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	100,000	468,590	417,804	-	-
Grants and donations	-	-	-	-	-	47,732
Fines and forfeitures	56,647	-	-	-	-	-
Interest and rentals	-	-	6,408	14,617	-	-
Other	-	-	-	-	-	-
Total revenues	56,647	100,000	474,998	432,421	-	47,732
EXPENDITURES:						
Current:						
Community development	-	-	-	-	-	-
Admin/community services	-	-	-	-	-	47,732
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	47,732
REVENUES OVER (UNDER) EXPENDITURES	56,647	100,000	474,998	432,421	-	-
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	(56,647)	(55,217)	(609,143)	(439,946)	-	-
Total other financing sources (uses)	(56,647)	(55,217)	(609,143)	(439,946)	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	44,783	(134,145)	(7,525)	-	-
FUND BALANCES:						
Beginning of year	-	-	149,884	455,548	56,086	15,692
End of year	\$ -	\$ 44,783	\$ 15,739	\$ 448,023	\$ 56,086	\$ 15,692

Special Revenue					Debt Service				
Downtown Parking	In Lieu Park Land	Traffic Impact Fee	Estate Donation	North Los Altos Water District	General	Grant Fremont Sewer	Oak Truman Sewer	Morton Alford Sewer	Elmhurst Curb and Gutter
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
11,141	19,685	8,974	264	-	1,009	-	-	-	-
36,302	-	24,842	-	-	162	-	-	-	-
47,443	19,685	33,816	264	-	1,171	-	-	-	-
1,513	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	80,000	-	-	-	-
-	-	-	-	-	82,644	-	-	-	-
1,513	-	-	-	-	162,644	-	-	-	-
45,930	19,685	33,816	264	-	(161,473)	-	-	-	-
-	-	-	-	-	161,500	-	-	-	-
-	(73,046)	-	-	-	-	-	-	-	-
-	(73,046)	-	-	-	161,500	-	-	-	-
45,930	(53,361)	33,816	264	-	27	-	-	-	-
100,737	1,016,741	383,026	11,968	104,308	369,717	38,968	57,246	51,068	603
\$ 146,667	\$ 963,380	\$ 416,842	\$ 12,232	\$ 104,308	\$ 369,744	\$ 38,968	\$ 57,246	\$ 51,068	\$ 603

(Continued)

City of Los Altos
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2009

	Debt Service				Total Non-Major Governmental Funds
	Edith Avenue	El Monte	Avalon Drive	Raymundo	
	Foothill Noise Wall	Foothill Noise Wall	Curb and Gutter	Curb and Gutter	
REVENUES:					
Taxes	\$ -	\$ -	\$ 13,537	\$ 27,381	\$ 40,918
Intergovernmental	-	-	-	-	986,394
Grants	-	-	-	-	47,732
Fines and forfeitures	-	-	-	-	56,647
Interest and rentals	-	-	788	737	63,623
Other	-	-	-	-	61,306
Total revenues	-	-	14,325	28,118	1,256,620
EXPENDITURES:					
Current:					
Community development	-	-	-	-	1,513
Admin/community services	-	-	-	-	47,732
Debt service:					
Principal	-	-	7,000	14,000	101,000
Interest and fiscal charges	-	-	6,156	13,901	102,701
Total expenditures	-	-	13,156	27,901	252,946
REVENUES OVER (UNDER) EXPENDITURES	-	-	1,169	217	1,003,674
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	161,500
Transfers out	-	-	-	-	(1,233,999)
Total other financing sources (uses)	-	-	-	-	(1,072,499)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	-	1,169	217	(68,825)
FUND BALANCES:					
Beginning of year	(7,585)	24,801	43,032	35,519	2,907,359
End of year	\$ (7,585)	\$ 24,801	\$ 44,201	\$ 35,736	\$ 2,838,534

(Concluded)

City of Los Altos
Statement of Changes in Fiduciary Net Assets and Liabilities
For the year ended June 30, 2009

	Balance <u>July 1, 2008</u>	Additions	Deletions	Balance <u>June 30, 2009</u>
Assets:				
Cash and investments	\$ 1,220,821	\$ 1,068,933	\$ (1,216,276)	\$ 1,073,478
Interest receivable	10,357	5,182	(10,357)	5,182
	<u>1,231,178</u>	<u>1,074,115</u>	<u>(1,226,633)</u>	<u>1,078,660</u>
Total assets	<u>\$ 1,231,178</u>	<u>\$ 1,074,115</u>	<u>\$ (1,226,633)</u>	<u>\$ 1,078,660</u>
Liabilities:				
Accounts payable	\$ 114,148	\$ 930,228	\$ (884,806)	\$ 159,570
Due to others	1,117,030	143,887	(341,827)	919,090
	<u>1,231,178</u>	<u>1,074,115</u>	<u>(1,226,633)</u>	<u>1,078,660</u>
Total liabilities	<u>\$ 1,231,178</u>	<u>\$ 1,074,115</u>	<u>\$ (1,226,633)</u>	<u>\$ 1,078,660</u>

City of Los Altos
Budgetary Comparison Schedule
Gas Taxes
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 545,000	\$ 545,000	\$ 468,590	\$ (76,410)
Interest and rentals	10,000	10,000	6,408	(3,592)
Total revenues	<u>555,000</u>	<u>555,000</u>	<u>474,998</u>	<u>(80,002)</u>
EXPENDITURES:				
Current:				
Public works	210,000	210,000	-	210,000
Total expenditures	<u>210,000</u>	<u>210,000</u>	<u>-</u>	<u>210,000</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>345,000</u>	<u>345,000</u>	<u>474,998</u>	<u>129,998</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers (out)	-	-	(609,143)	(609,143)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(609,143)</u>	<u>(609,143)</u>
Net change in fund balances	<u>\$ 345,000</u>	<u>\$ 345,000</u>	<u>(134,145)</u>	<u>\$ (479,145)</u>
FUND BALANCES:				
Beginning of year			149,884	
End of year			<u>\$ 15,739</u>	

City of Los Altos
Budgetary Comparison Schedule
Community Development Block Grant Fund
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Grants and donations	\$ 138,000	\$ 138,000	\$ 47,732	\$ (90,268)
Total revenues	138,000	138,000	47,732	(90,268)
EXPENDITURES:				
Current:				
Public works	88,000	88,000	-	88,000
Admin / community services	50,000	50,000	47,732	2,268
Total expenditures	138,000	138,000	47,732	90,268
REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
FUND BALANCES:				
Beginning of year			15,692	
End of year			<u>\$ 15,692</u>	

City of Los Altos
Budgetary Comparison Schedule
Downtown Parking Fund
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Interest and rentals	\$ 9,300	\$ 9,300	\$ 11,141	\$ 1,841
Other	30,000	30,000	36,302	6,302
Total revenues	<u>39,300</u>	<u>39,300</u>	<u>47,443</u>	<u>8,143</u>
EXPENDITURES:				
Current:				
Community development	10,000	10,000	1,513	8,487
Total expenditures	<u>10,000</u>	<u>10,000</u>	<u>1,513</u>	<u>8,487</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>29,300</u>	<u>29,300</u>	<u>45,930</u>	<u>16,630</u>
FUND BALANCES:				
Beginning of year			<u>100,737</u>	
End of year			<u>\$ 146,667</u>	

INTERNAL SERVICE FUNDS

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

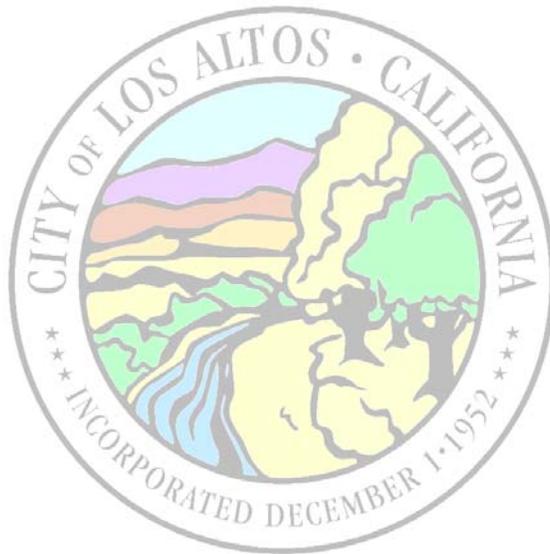
To account for the unemployment insurance premiums and claims made against the City. Funds are provided primarily from charges to departments.

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, 2009

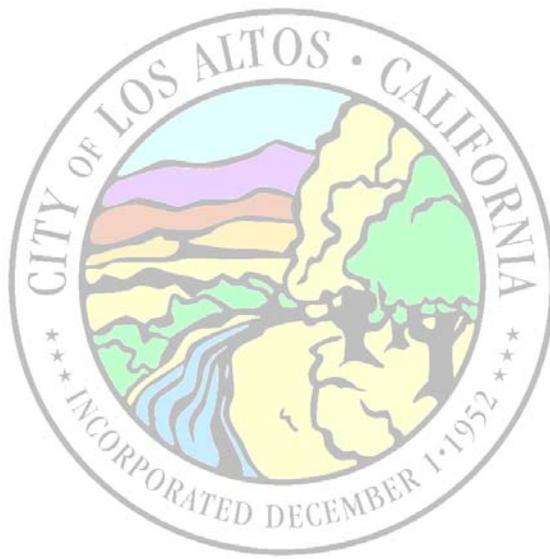
	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
ASSETS					
Current assets:					
Cash and investments	\$ 185,376	\$ -	\$ 1,606,571	\$ 928,223	\$ 2,720,170
Accounts receivable	-	-	29,596	10,719	40,315
Total assets	185,376	-	1,636,167	938,942	2,760,485
LIABILITIES					
Current liabilities:					
Accounts payable	7,240	-	10,650	1,809	19,699
Due to other funds	-	26,493	-	-	26,493
Claims and judgments - current portion	-	-	152,024	28,794	180,818
Noncurrent liabilities:					
Claims and judgments - noncurrent portion	-	-	861,470	163,167	1,024,637
Total liabilities	7,240	26,493	1,024,144	193,770	1,251,647
NET ASSETS					
Unrestricted	178,136	(26,493)	612,023	745,172	1,508,838
Total net assets	\$ 178,136	\$ (26,493)	\$ 612,023	\$ 745,172	\$ 1,508,838

City of Los Altos
Combining Statement of Revenues, Expenses and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2009

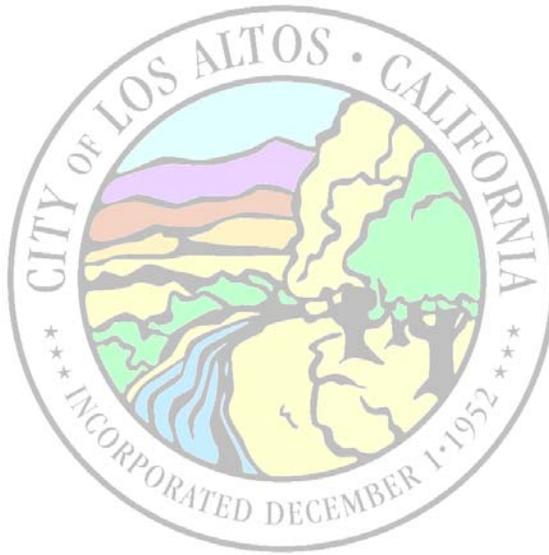
	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
OPERATING REVENUES:					
Charges for services	\$ 96,480	\$ 3,370	\$ 609,467	\$ 411,302	\$ 1,120,619
Other	1,898	-	26,203	502	28,603
Total operating revenues	98,378	3,370	635,670	411,804	1,149,222
OPERATING EXPENSES:					
Outside services	-	-	27,500	-	27,500
Claims reimbursement	112,692	30,891	402,191	100,031	645,805
Insurance	-	-	60,045	251,513	311,558
Administration	-	-	52,753	67,095	119,848
Total operating expenses	112,692	30,891	542,489	418,639	1,104,711
OPERATING INCOME (LOSS)	(14,314)	(27,521)	93,181	(6,835)	44,511
NET ASSETS:					
Beginning of the year	192,450	1,028	518,842	752,007	1,464,327
End of the year	\$ 178,136	\$ (26,493)	\$ 612,023	\$ 745,172	\$ 1,508,838

City of Los Altos
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2009

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
CASH FLOWS FROM					
OPERATING ACTIVITIES:					
Cash received from other funds	\$ 98,378	\$ 29,863	\$ 606,563	\$ 415,661	\$ 1,150,465
Cash payments to claimants	(111,765)	(30,891)	(402,191)	(53,921)	(598,768)
Insurance premiums and administration	-	-	(171,529)	(321,698)	(493,227)
Net cash provided (used) by operating activities	(13,387)	(1,028)	32,843	40,042	58,470
CASH AND INVESTMENTS:					
Beginning of year	198,763	1,028	1,573,728	888,181	2,661,700
End of year	\$ 185,376	\$ -	\$ 1,606,571	\$ 928,223	\$ 2,720,170
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (14,314)	\$ (27,521)	\$ 93,181	\$ (6,835)	\$ 44,511
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Changes in assets and liabilities:					
Accounts receivable	-	-	(29,107)	3,857	(25,250)
Accounts payable	927	-	(31,231)	(3,090)	(33,394)
Due to other funds	-	26,493	-	-	26,493
Claims and judgments payable	-	-	-	46,110	46,110
Net cash provided (used) by operating activities	\$ (13,387)	\$ (1,028)	\$ 32,843	\$ 40,042	\$ 58,470



STATISTICAL SECTION (Unaudited)



Statistical Section **June 30, 2009**

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

Financial Trends

The following schedules contain information to help the reader understand how the City's financial performance and well-being have changed over time:

1. Net Assets by Component,
2. Changes in Net Assets,
3. Fund Balances of Governmental Funds, and
4. Changes in Fund Balance of Governmental Funds.

Revenue Capacity

The following schedules contain information to help the reader assess the government's most significant local revenue source, the property tax:

1. Tax Revenues by Source, Governmental Funds,
2. Assessed Value of Taxable Property,
3. Direct and Overlapping Property Tax Rates,
4. Principal Property Taxpayers, and
5. Property Tax Levies and Collections.

Debt Capacity

The following schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type,
2. Schedule of Direct and Overlapping Bonded Debt,
3. Legal Debt Margin, and
4. Bonded Debt Pledged Revenue Coverage.

Demographic and Economic Information

The following schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

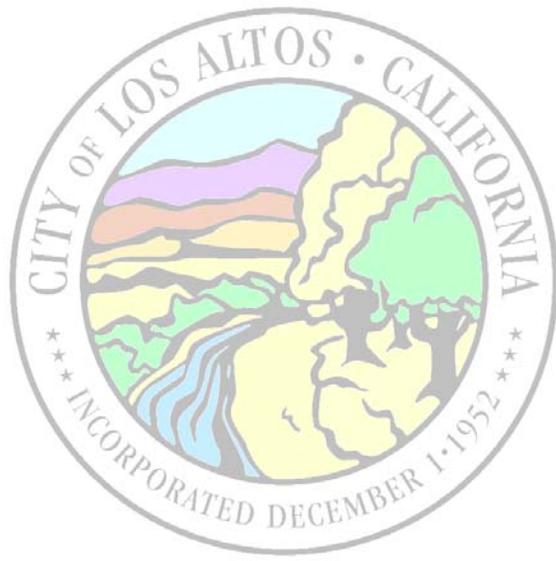
1. Demographic and Economic Statistics, and
2. Principal Employers.

Operating Information

The following schedules contain service data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time Equivalent City Government Employees by Function,
2. Operating Indicators by Function/Program, and
3. Capital Asset Statistics by Function/Program.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



City of Los Altos
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Governmental activities							
Invested in capital assets, net of related debt	\$ 38,536	\$ 38,589	\$ 39,023	\$ 37,877	\$ 38,186	\$ 40,251	\$ 40,684
Restricted	2,007	2,081	3,792	2,403	2,709	3,366	3,477
Unrestricted	14,699	16,114	16,178	23,343	27,386	37,038	36,184
Total governmental activities net assets	<u>55,242</u>	<u>56,784</u>	<u>58,993</u>	<u>63,623</u>	<u>68,281</u>	<u>80,655</u>	<u>80,345</u>
Business-type activities							
Invested in capital assets, net of related debt	\$ 2,760	\$ 2,646	\$ 2,510	\$ 2,527	\$ 2,388	\$ 2,219	\$ 3,316
Restricted	-	-	-	-	-	-	-
Unrestricted	2,751	2,736	4,228	5,511	6,977	7,922	8,102
Total business-type activities net assets	<u>5,511</u>	<u>5,382</u>	<u>6,738</u>	<u>8,038</u>	<u>9,365</u>	<u>10,141</u>	<u>11,418</u>
Primary government							
Invested in capital assets, net of related debt	\$ 41,296	\$ 41,235	\$ 41,533	\$ 40,404	\$ 40,574	\$ 42,470	\$ 44,000
Restricted	2,007	2,081	3,792	2,403	2,709	3,366	3,477
Unrestricted	17,450	18,850	20,406	28,854	34,363	44,960	44,286
Total primary government net assets	<u>\$ 60,753</u>	<u>\$ 62,166</u>	<u>\$ 65,731</u>	<u>\$ 71,661</u>	<u>\$ 77,646</u>	<u>\$ 90,796</u>	<u>\$ 91,763</u>

Source:

City of Los Altos Finance Department

Note:

The City implemented the new reporting model in the fiscal year 2002-03.
Until 10 years of data are available, only the available years will be presented.

City of Los Altos
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Expenses							
Governmental activities:							
Public safety	\$ 8,878	\$ 8,853	\$ 9,856	\$ 9,913	\$ 11,033	\$ 12,415	\$ 13,563
Public works	3,396	3,594	4,498	4,224	4,799	4,886	5,318
Recreation	1,898	2,129	2,212	2,405	2,460	2,650	2,889
Community development	2,065	2,042	2,383	2,604	2,875	3,448	3,913
Admin/Community services	2,309	2,262	2,313	2,502	2,655	3,317	3,765
Interest on long-term activities	263	365	149	151	146	138	32
Total governmental activities expenses	18,809	19,245	21,411	21,799	23,968	26,854	29,480
Business-type activities:							
Sewer	3,085	3,711	3,167	3,324	3,712	3,886	4,810
Solid waste	1,833	1,071	1,125	1,264	1,575	1,609	1,574
Storm drain	-	-	118	183	181	213	188
Total Business-type activities expenses	4,918	4,782	4,410	4,771	5,468	5,708	6,572
Total primary government expenses	\$ 23,727	\$ 24,027	\$ 25,821	\$ 26,570	\$ 29,436	\$ 32,562	\$ 36,052
Program Revenues							
Governmental activities:							
Charges for services:							
Public safety	\$ 448	\$ 517	\$ 508	\$ 377	\$ 499	\$ 527	\$ 585
Public works	178	250	231	156	228	204	180
Recreation	1,363	1,569	1,604	1,545	1,665	1,654	1,472
Community development	1,374	1,754	1,854	2,644	2,501	3,372	1,867
Admin/Community services	589	540	543	580	1,166	967	969
Operating grants and contributions:							
Public safety	151	131	123	136	112	118	108
Public works	537	545	549	535	541	511	479
Recreation	-	5	11	42	9	27	4
Community development	262	212	76	126	141	285	48
Admin/Community services	10	6	6	6	6	6	6
Capital grants and contributions							
Public safety	-	-	-	-	121	4	-
Public works	86	5	588	498	322	923	978
Recreation	-	139	-	-	1	492	10
Community development	-	-	-	-	-	-	24
Admin/Community services	-	-	-	-	-	-	89
Total governmental activities program revenues	4,998	5,673	6,093	6,645	7,312	9,090	6,819
Business-type activities:							
Charges for services:							
Sewer	\$ 2,653	\$ 3,534	\$ 4,273	\$ 4,264	\$ 4,833	\$ 4,467	\$ 5,804
Solid waste	1,013	1,155	1,309	1,455	1,471	1,540	1,685
Storm drain	-	-	-	-	-	-	-
Total business-type activities program revenues	3,666	4,689	5,582	5,719	6,304	6,007	7,489
Total primary government program revenues	\$ 8,664	\$ 10,362	\$ 11,675	\$ 12,364	\$ 13,616	\$ 15,097	\$ 14,308
Net (expense)/revenue:							
Governmental activities	(13,811)	(13,572)	(15,318)	(15,154)	(16,656)	(17,764)	(22,661)
Business-type activities	(1,252)	(93)	1,172	948	836	299	917
Total primary government net (expense)/revenue	\$ (15,063)	\$ (13,665)	\$ (14,146)	\$ (14,206)	\$ (15,820)	\$ (17,465)	\$ (21,744)

City of Los Altos
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
General Revenues and Other Changes in Net Assets							
Governmental activities							
Taxes:							
Property taxes	\$ 6,379	\$ 6,707	\$ 8,580	\$ 9,767	\$ 10,903	\$ 11,875	\$ 12,759
Sales taxes	2,464	2,331	2,553	2,662	2,750	2,872	2,697
Utility users taxes	1,825	1,886	1,970	2,101	2,274	2,483	2,530
Other taxes	3,156	3,181	231	235	2,682	2,703	2,147
Franchise fees	951	1,012	1,048	1,110	1,164	2,029	1,458
Sale of Capital Assets-net	-	-	-	-	-	6,499	-
Interest income	454	307	495	1,048	1,414	1,353	760
Miscellaneous	349	331	2,831	3,050	323	517	201
Transfers	91	35	(183)	(187)	(197)	(193)	(200)
Total governmental activities	<u>15,669</u>	<u>15,790</u>	<u>17,525</u>	<u>19,786</u>	<u>21,313</u>	<u>30,138</u>	<u>22,352</u>
Business-type activities							
Interest income	-	-	-	-	296	284	160
Transfers	(91)	(35)	183	187	197	193	200
Total business-type activities	<u>(91)</u>	<u>(35)</u>	<u>183</u>	<u>187</u>	<u>493</u>	<u>477</u>	<u>360</u>
Total primary government	<u>\$ 15,578</u>	<u>\$ 15,755</u>	<u>\$ 17,708</u>	<u>\$ 19,973</u>	<u>\$ 21,806</u>	<u>\$ 30,615</u>	<u>\$ 22,712</u>
Change in Net Assets							
Governmental activities	1,858	2,218	2,207	4,632	4,657	12,374	(309)
Business-type activities	(1,343)	(128)	1,355	1,135	1,329	776	1,277
Total primary government	<u>\$ 515</u>	<u>\$ 2,090</u>	<u>\$ 3,562</u>	<u>\$ 5,767</u>	<u>\$ 5,986</u>	<u>\$ 13,150</u>	<u>\$ 968</u>

Source:

City of Los Altos Finance Department

Note:

The City implemented the new reporting model in the fiscal year 2002-03.
 Until 10 years of data are available, only the available years will be presented.

* - Storm Drain activities were included in Sewer before the fiscal year 2004-05.

City of Los Altos
Fund Balances - Governmental Funds
Last Ten Fiscal Years

(modified accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year									
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
General fund										
Reserved	\$ 84	\$ 87	\$ 31	\$ 4,510	\$ 5,225	\$ 5,412	\$ 5,872	\$ 131	\$ 228	\$ 39
Unreserved	2,472	3,248	3,718	300	420	305	206	6,157	6,492	7,650
Total general fund	\$ 2,556	\$ 3,335	\$ 3,749	\$ 4,810	\$ 5,645	\$ 5,717	\$ 6,078	\$ 6,288	\$ 6,720	\$ 7,689
All other governmental funds										
Reserved	\$ 1,160	\$ 894	\$ 805	\$ 11,520	\$ 12,642	\$ 15,492	\$ 20,591	\$ 4,604	\$ 5,484	\$ 3,472
Unreserved, reported in:										
Special revenue funds	-	-	-	564	725	-	-	(21)	1,798	4,120
Capital projects funds	9,639	12,470	12,162	-	(780)	(775)	(770)	18,876	21,360	21,814
Debt service funds	969	955	621	-	-	(8)	(8)	(8)	(8)	(8)
Total all other governmental funds	\$ 11,768	\$ 14,319	\$ 13,588	\$ 12,084	\$ 12,587	\$ 14,709	\$ 19,813	\$ 23,451	\$ 28,634	\$ 29,398

Source:
City of Los Altos Finance Department

City of Los Altos
Changes in Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year									
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Revenues										
Taxes	\$ 6,960	\$ 7,792	\$ 8,755	\$ 9,393	\$ 10,117	\$ 12,263	\$ 13,781	\$ 15,205	\$ 16,566	\$ 17,115
License, permits and park-in-lieu	1,505	1,970	1,846	1,810	2,170	2,198	2,568	2,522	3,493	2,532
Intergovernmental	5,989	6,379	5,227	5,233	4,790	4,048	4,515	4,323	4,470	4,365
Grants and donations	611	1,321	1,274	301	392	701	549	359	1,294	305
Charges for services	2,955	2,813	3,003	2,657	2,885	2,997	3,272	3,701	3,673	3,422
Fines and forfeitures	197	156	216	254	284	268	201	264	286	329
Interest and rentals	1,413	1,682	1,143	731	609	906	1,338	1,692	1,857	945
Other	212	102	285	201	211	419	395	777	1,284	359
Total revenues	<u>19,842</u>	<u>22,215</u>	<u>21,749</u>	<u>20,580</u>	<u>21,458</u>	<u>23,800</u>	<u>26,619</u>	<u>28,843</u>	<u>32,923</u>	<u>29,372</u>
Expenditures										
General government										
Public safety	7,127	7,392	8,142	8,424	8,813	9,428	10,067	11,084	12,217	13,183
Public works	2,101	2,220	2,362	2,805	3,236	3,961	3,775	4,321	4,286	5,038
Recreation	1,404	1,786	1,737	1,685	1,801	1,820	1,952	2,103	2,257	2,443
Community development	1,585	1,817	1,849	2,012	2,040	2,293	2,606	2,922	3,384	3,826
Administration/Community services	1,572	1,776	2,009	2,208	2,206	2,215	2,414	2,658	3,222	3,623
Capital improvements	3,113	2,605	4,760	3,052	1,637	1,348	72	1,374	2,719	1,288
Debt service										
Principal	608	639	683	342	145	199	193	193	657	101
Interest and fiscal charges	338	319	260	221	145	158	146	143	138	103
Total expenditures	<u>17,848</u>	<u>18,554</u>	<u>21,802</u>	<u>20,749</u>	<u>20,023</u>	<u>21,422</u>	<u>21,225</u>	<u>24,798</u>	<u>28,880</u>	<u>29,605</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,994</u>	<u>3,661</u>	<u>(53)</u>	<u>(169)</u>	<u>1,435</u>	<u>2,378</u>	<u>5,394</u>	<u>4,045</u>	<u>4,043</u>	<u>(233)</u>
Other financing sources (uses)										
Debt issuance	-	101	-	-	2,372	-	257	-	-	-
Payment to refunded bonded escrow agent	-	-	-	-	(2,506)	-	-	-	-	-
Transfers in	8,445	5,465	4,847	4,531	3,938	5,652	6,639	6,153	5,388	2,396
Transfers out	(8,426)	(5,896)	(5,107)	(4,804)	(3,902)	(5,834)	(6,827)	(6,350)	(5,581)	(2,596)
Total Other financing sources (uses)	<u>19</u>	<u>(330)</u>	<u>(260)</u>	<u>(273)</u>	<u>(98)</u>	<u>(182)</u>	<u>69</u>	<u>(197)</u>	<u>(193)</u>	<u>(200)</u>
Special items										
Sale of capital assets-net	-	-	-	-	-	-	-	-	1,798	2,167
Total special items	<u>-</u>	<u>1,798</u>	<u>2,167</u>							
Net change in fund balances	<u>\$ 2,013</u>	<u>\$ 3,331</u>	<u>\$ (313)</u>	<u>\$ (442)</u>	<u>\$ 1,337</u>	<u>\$ 2,196</u>	<u>\$ 5,463</u>	<u>\$ 3,848</u>	<u>\$ 5,648</u>	<u>\$ 1,734</u>
Debt service as a percentage of non-capital expenditures	6.4%	6.0%	5.5%	3.2%	1.6%	1.8%	1.6%	1.4%	3.0%	0.7%

Source: City of Los Altos Finance Department

City of Los Altos
Tax Revenues by Source - Governmental Funds
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Property</u>	<u>Business Licenses</u>	<u>Utility Users</u>	<u>Transient Occupancy</u>	<u>Building Development</u>	<u>Special Assessments</u>	<u>Total</u>
1999-00	\$ 4,800,572	\$ 323,505	\$ 1,469,850	\$ 208	\$ 234,573	\$ 130,973	\$ 6,959,681
2000-01	5,341,863	290,975	1,825,109	-	283,055	50,901	7,791,903
2001-02	6,148,343	312,243	1,832,299	254,887	157,526	49,706	8,755,004
2002-03	6,379,459	340,969	1,824,795	633,861	158,311	55,229	9,392,624
2003-04	6,707,237	333,668	1,885,591	945,649	117,654	127,138	10,116,937
2004-05	8,580,232	365,859	1,969,699	1,057,995	256,646	32,149	12,262,580
2005-06	9,766,623	364,602	2,100,663	1,260,279	248,349	40,015	13,780,530
2006-07	10,902,569	380,470	2,274,478	1,469,867	137,461	39,848	15,204,693
2007-08	11,875,286	417,934	2,483,138	1,525,090	223,248	41,056	16,565,752
2008-09	12,758,918	403,338	2,530,162	1,289,722	91,648	40,918	17,114,706

Source:

City of Los Altos Finance Department

**City of Los Altos
Assessed Value of Taxable Property
Last Ten Fiscal Years**

Fiscal Year	Residential Property	Commercial Property	Other	Net Unsecured	Total Taxable Assessed Value (1)	Total Direct Tax Rate (2)
1999-00	\$ 3,647,125,022	\$ 285,182,682	\$ 62,085,405	\$ 62,730,139	\$ 4,057,123,248	1%
2000-01	4,037,170,644	308,354,623	78,447,835	64,192,787	4,488,165,889	1%
2001-02	4,626,324,290	367,458,673	100,863,680	89,404,527	5,184,051,170	1%
2002-03	4,857,875,155	403,640,089	89,722,887	94,541,745	5,445,779,876	1%
2003-04	5,323,684,512	434,476,752	82,641,608	83,406,442	5,924,209,314	1%
2004-05	5,793,122,535	420,622,052	81,325,037	78,123,781	6,373,193,405	1%
2005-06	6,426,969,808	457,811,338	81,562,137	79,379,615	7,045,722,898	1%
2006-07	7,015,252,860	495,435,150	83,502,556	82,870,129	7,677,060,695	1%
2007-08	7,682,199,728	533,699,456	84,676,730	91,811,067	8,392,386,981	1%
2008-09	8,305,988,140	560,724,394	92,700,494	104,778,047	9,064,191,075	1%

Source:
HdL Coren & Cone

- (1) - The California State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any property improvements of substantial value to the property. These values are considered to be full market values.
- (2) - California cities do not set their own direct tax rate. The California State Constitution establishes the rate at 1% and the County of Santa Clara is responsible for allocating a portion of that amount to all the taxing entities within each of the City's tax rate areas. In the fiscal year 2008-09, the City has 14 tax rate areas and received a total of approximately 11.66% of that 1% rate.

City of Los Altos
 Direct and Overlapping Tax Rates
 Last Ten Fiscal Years
 (rate per \$1,000 of assessed value)

Overlapping Rates (1)

Fiscal Year	Basic County-Wide	Santa Clara Retirement	County Library Retirement	Los Altos Elementary School	Mountain View Elementary School	Cupertino School	Whisman School Bond	Foothill-De Anza College	Mountain View Los Altos High School	Fremont Union High School	Santa Clara Valley Water District	El Camino Hospital
1999-00	1.0000	0.0319	0.0024	0.0506	-	-	-	-	0.0234	-	0.0085	-
2000-01	1.0000	0.0356	0.0024	0.0446	-	-	-	-	0.0379	-	0.0075	-
2001-02	1.0000	0.0364	0.0024	0.0457	-	-	-	-	0.0319	-	0.0062	-
2002-03	1.0000	0.0388	0.0024	0.0398	0.0370	0.0329	0.0328	0.0108	0.0188	0.0246	0.0072	-
2003-04	1.0000	0.0388	0.0024	0.0483	0.0388	0.0357	-	0.0110	0.0183	0.0249	0.0087	-
2004-05	1.0000	0.0388	0.0024	0.0487	0.0423	0.0360	-	0.0129	0.0193	0.0268	0.0092	-
2005-06	1.0000	0.0388	0.0024	0.0452	0.0378	0.0350	-	0.0119	0.0179	0.0260	0.0078	-
2006-07	1.0000	0.0388	0.0024	0.0551	0.0340	0.2098	-	0.0346	0.0169	0.0243	0.0072	0.0129
2007-08	1.0000	0.0388	0.0024	0.0526	0.0294	0.0306	-	0.0123	0.0148	0.0339	0.0061	0.0129
2008-09	1.0000	0.0388	0.0024	0.0526	0.0294	0.0306	-	0.0123	0.0148	0.0339	0.0061	0.0129

Source:
 County of Santa Clara Finance Agency

(1) - Overlapping rates are those of local and county governments that apply to property owners within the City of Los Altos; however, not all of these overlapping rates apply to all Los Altos property owners.

**City of Los Altos
Principal Property Taxpayers
Current Year and Nine Years Ago**

Taxpayer	2008-09			1999-00		
	Total Assessed Value	Rank	% of City's Est. Total Property Tax Revenue	Total Assessed Value	Rank	% of City's Est. Total Property Tax Revenue
Behringer Harvard El Camino Real LP	\$ 39,525,000	1	0.44%			
Springwood Apartments LLC	26,320,996	2	0.29%			
Los Altos Gardens I Limited Partnership	22,021,780	3	0.25%			
Compass Grand Los Altos LLC	20,884,267	4	0.23%			
Rambus, Inc.	18,535,210	5	0.20%			
David & Lucile Packard Foundation	18,356,103	6	0.20%	\$ 10,947,754	3	0.27%
4 Seasons Associates LLC	18,018,077	7	0.20%			
KRC Los Altos Limited Partnership	17,455,117	8	0.19%			
Los Altos Hotel Associates LLC	16,207,392	9	0.18%			
Village Court Partners	14,937,582	10	0.17%	10,404,774	4	0.26%
Kenneth T. Namimatsu, Et Al				21,113,906	1	0.52%
Transamerica Senior Props Inc				15,100,000	2	0.37%
Steve J. Vidovich, Et. Al.				9,290,637	5	0.23%
Cornerstone Properties II				7,968,783	6	0.20%
Sissu Limited Partnership				6,875,077	7	0.17%
American Estate Company				6,804,798	8	0.17%
Altos Properties				6,620,296	9	0.16%
Burnham Pacific Operating LP				6,294,514	10	0.16%
Total	<u>\$ 212,261,524</u>		<u>2.35%</u>	<u>\$ 101,420,539</u>		<u>2.50%</u>

Source:
HdL Coren & Cone

**City of Los Altos
Principal Employers
Current Year and Fiscal Year 2005-2006**

Employer	2008-09			2005-06		
	Employees(1)	Rank	% of Total City Employment	Employees(1)	Rank	% of Total City Employment
Los Altos School District	568	* (2)	1	495	1	4.16%
Rambus	223		2	254	2	2.13%
Los Altos High School	217	(3)	3	206	4	1.73%
Whole Food Market	198		4	185	5	1.55%
Coldwell Banker/Coldwell Banker Residential	151		5	211	3	1.77%
City of Los Altos	124		6	123	7	1.03%
Adobe Animal Hospital	110		7	125	6	1.05%
The David and Lucile Packard Foundation	106		8	83	9	0.70%
Alain Pinel Realtors	105		9	100	8	0.84%
Palo Alto Medical Foundation	103		10			
Andronico's Market				77	10	0.65%
Total	<u>1,905</u>		<u>15.24%</u>	<u>1,859</u>		<u>15.62%</u>

Sources:

- (1) City of Los Altos Finance Department, except otherwise stated
- (2) Los Altos School District
- (3) California State Department of Education

* - This number includes 119 substitute teachers.

Note: The Principal Employers information for nine years ago are not available; instead, data for the fiscal year 2005-06 are used for comparison purpose.

**City of Los Altos
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Santa Clara County			
	Overall Secured Tax Levy	Overall Unsecured Tax Levy	Unsecured Tax Collections	Overall % Delinquent Unsecured
1999-00	1,737,277,014	204,083,791	202,046,008	1.60
2000-01	1,894,006,816	227,194,023	225,229,529	1.62
2001-02	2,178,287,177	285,796,090	277,325,266	2.96
2002-03	2,350,156,060	294,833,129	282,888,132	4.05
2003-04	2,450,641,090	265,954,516	254,894,281	4.16
2004-05	2,585,477,929	246,825,818	239,154,534	3.11
2005-06	2,825,814,205	236,149,611	227,093,270	3.80
2006-07	3,112,397,937	246,156,802	233,263,667	5.23
2007-08	3,359,578,190	254,185,732	245,390,836	3.46
2008-09	3,570,784,932	272,719,751	259,616,142	3.70

Note:

The actual tax levy data for the City of Los Altos is not available because the Santa Clara County uses a factor known as the AB8 factors to apportion the 1% portion of the tax levies/collections to each of the jurisdictions within the county. The City's AB8 factors ranges from 0.0029 to 0.0033 for the past 10 years. Additionally, the City and the County adopted the "alternative method of property tax distributions" 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.

Source:

County of Santa Clara

City of Los Altos
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Total	Per Capita
	General Obligation Bond	Certificates of Participation	Special Assessment Bonds	Capital Lease		
1999-00	\$ 416,000	\$ 4,080,000	\$ 189,000	\$ 387,545	\$ 5,072,545	\$ 177
2000-01	216,000	3,715,000	255,783	347,229	4,534,012	162
2001-02	-	3,325,000	221,000	304,823	3,850,823	138
2002-03	-	3,040,000	186,000	282,802	3,508,802	127
2003-04	-	3,115,000	146,000	213,299	3,474,299	126
2004-05	-	3,010,000	101,000	163,948	3,274,948	119
2005-06	-	2,895,000	349,391	112,038	3,356,429	122
2006-07	-	2,775,000	331,000	57,436	3,163,436	113
2007-08	-	2,195,000	311,000	-	2,506,000	89
2008-09	-	2,115,000	290,000	-	2,405,000	85

Source:

- (1) City of Los Alto Finance Department
- (2) State of California Department of Finance for population information

Note: Per capita personal income is included in the Demographic and Economic Statistics.

City of Los Altos
Schedule of Direct and Overlapping Bonded Debt
June 30, 2009

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>Total Debt</u> <u>6/30/2009</u>	<u>%</u> <u>Applicable (1)</u>	<u>City's Share of</u> <u>Debt 6/30/09</u>
Santa Clara County	\$ 350,000,000	3.346	\$ 11,711,000
Santa Clara Valley Water District, Zone W-1	1,390,000	4.101	57,004
Foothill-De Anza Community College District	482,349,288	10.030	48,379,634
Fremont Union High School District	208,080,000	4.269	8,882,935
Mountain View-Los Altos Union High School District	35,638,260	29.328	10,451,989
Cupertino Union School District	124,159,021	7.120	8,840,122
Los Altos School District	94,359,000	53.283	50,277,306
El Camino Hospital District	145,820,000	19.732	28,773,202
North County Library Authority	930,000	65.590	609,987
Santa Clara Valley Water District Benefit Assessment District	161,485,000	3.346	5,403,288
City of Los Altos 1915 Act Bonds	290,000	100.000	290,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 173,676,467</u>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Santa Clara County General Fund Obligations	\$ 862,655,000	3.346	\$ 28,864,436
Santa Clara County Pension Obligations	389,174,822	3.346	13,021,790
Santa Clara County Board of Education Certificates of Participation	14,530,000	3.346	486,174
Foothill-De Anza Community College District Certificates of Participation	25,605,000	10.030	2,568,182
Mountain View-Los Altos Union High School District Certificates of Participation	6,880,000	29.328	2,017,766
Cupertino Union School District Certificates of Participation	1,215,000	7.120	86,508
City of Los Altos Certificates of Participation	2,525,000	100.000	2,525,000
Midpeninsula Regional Park District General Fund Obligations	116,673,031	5.823	6,793,871
Santa Clara County Vector Control District Certificates of Participation	4,125,000	3.346	138,023
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>\$ 56,501,750</u>
 COMBINED TOTAL DEBT			 <u><u>\$ 230,178,216</u></u> (2)

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

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

Ratios to Assessed Valuation:

Combined Direct Debt (\$2,525,000)	0.03%
Total Overlapping Tax and Assessment Debt	1.92%
Combined Total Debt	2.54%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

Source:

California Municipal Statistics, Inc.

**City of Los Altos
 Legal Debt Margin
 Last Ten Fiscal Years**

Fiscal Year	Assessed Valuation *	Debt Limit 15% of Assessed Valuation	Debt Applicable to Limit	Legal Debt Margin
1999-00	\$ 4,057,123,248	\$ 608,568,487	\$ 416,000	\$ 608,152,487
2000-01	4,488,165,889	673,224,883	216,000	673,008,883
2001-02	5,184,051,170	777,607,676	-	777,607,676
2002-03	5,445,779,876	816,866,981	-	816,866,981
2003-04	5,924,209,314	888,631,397	-	888,631,397
2004-05	6,373,193,405	955,979,011	-	955,979,011
2005-06	7,045,722,898	1,056,858,435	-	1,056,858,435
2006-07	7,677,060,695	1,151,559,104	-	1,151,559,104
2007-08	8,392,386,981	1,258,858,047	-	1,258,858,047
2008-09	9,064,191,075	1,359,628,661	-	1,359,628,661

Source:

* HdL Coren & Cone

**City of Los Altos
Pledged-Revenue Coverage
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Special Assessment Collected</u>		<u>Special Assessment Debt Service</u>		<u>Coverage</u>
			<u>Principal</u>	<u>Interest</u>	
1999-00	\$	130,973 (1)	\$ 29,000	\$ 15,273	2.96
2000-01		50,901	34,000	16,438	1.01
2001-02		49,706	34,783	16,081	0.98
2002-03		55,229	35,000	13,718	1.13
2003-04		127,138 (2)	40,000	10,719	2.51
2004-05		32,149	45,000	7,778	0.61
2005-06		40,014	26,000	12,651	1.04
2006-07		39,848	18,391	16,647	1.14
2007-08		41,056	20,000	15,686	1.15
2008-09		42,442	21,000	14,658	1.19

Source:

City of Los Altos Finance Department

(1) included assessment payments in advance for Avalon Dr Curb & Gutter Special Assessment.

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

**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)	Per Capita Personal Income (3)
1999-00	28,601	0.74%	6,769	2.39%	1.2%	66,776 (4)
2000-01	27,902	-2.44%	6,871	1.51%	2.8%	82,793
2001-02	27,825	-0.28%	7,009	2.01%	5.2%	75,626
2002-03	27,722	-0.37%	7,295	4.08%	4.9%	70,524
2003-04	27,512	-0.76%	7,491	2.69%	4.4%	71,158
2004-05	27,614	0.37%	7,530	0.52%	2.7%	74,398
2005-06	27,608	-0.02%	7,719	2.51%	2.3%	79,356
2006-07	28,104	1.80%	7,778	0.76%	2.3%	85,164
2007-08	28,291	0.67%	7,890	1.44%	3.0%	85,659
2008-09	28,458	0.59%	7,908	0.23%	6.1%	86,157 *

Sources:

- (1) State of California Department of Finance
- (2) State of California Department of Education
- (3) State of California Employment Development Department
- (4) 2000 Census

* This is an estimate.

City of Los Altos
Full-time Equivalent City Employees by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
<i>Public Safety</i>										
Police	37.25	37.25	35.50	35.50	35.50	35.50	35.50	36.50	36.50	36.50
Police Traffic Safety	3.00	3.00	2.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00
Communications	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Fire	-	-	-	-	-	-	-	-	-	-
<i>Public Works</i>	27.00	25.00	27.00	25.00	27.00	26.50	28.00	29.50	30.00	29.00
<i>Recreation</i>	14.25	14.25	14.25	14.25	8.25	8.25	8.25	6.75	7.00	7.00
<i>Community Development</i>										
Planning & Building	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.50	13.00	13.00
Engineering	5.25	6.25	7.25	6.25	7.25	8.00	9.00	9.00	9.00	9.00
Economic Development	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<i>Administration</i>										
City Management	3.25	3.25	3.55	3.55	3.60	3.50	3.50	4.25	4.10	6.25
Administration & Finance	8.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	11.00	10.00
<i>Sewer</i>	5.75	7.75	7.75	7.75	6.75	5.75	5.75	6.75	6.75	6.75
<i>Solid Waste</i>	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<i>Storm Drain</i>	-	-	-	0.25	0.25	0.50	0.50	1	1	1
Total	125.50	127.00	127.55	125.80	120.85	120.25	122.75	126.50	129.60	129.75

Source:

City of Los Altos Finance Department

City of Los Altos
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 *	2008-09 *
<i>Police:</i>										
Arrests	570	467	653	628	532	528	383	453	449	630
Moving citations issued	1,868	2,981	3,819	4,375	4,236	3,193	3,306	3,197	2,435	2,926
Parking citations issued	**	**	**	1,114	828	1,197	1,040	2,295	2,455	2,015
Municipal code violations issued	**	**	**	350	499	249	376	522	552	458
<i>Public Works:</i>										
Crack sealing in lineal feet	**	**	**	188,500	18,400	41,500	241,000	55,028	52,000	105,600
Street sign installed and replaced	**	**	**	713	3,094	517	578	434	245	206
<i>Recreation:</i>										
Classes/programs	**	**	**	1,880	2,078	1,981	2,384	1,890	1,781	1,332
Facility rentals	**	**	**	397	500	440	419	589	583	3,154 ***
Field/gymnasium permits	**	**	**	12	20	49	74	77	127	3,529 ***
<i>Planning:</i>										
Plan applications submitted	335	362	235	321	303	259	290	340	331	376
<i>Building:</i>										
Permits issued	3,608	3,705	2,660	1,540	1,651	1,735	1,871	1,733	1,759	1,602
Plan checks submitted	**	**	**	234	322	284	461	335	485	522
Inspections	**	**	**	6,705	6,447	5,593	7,742	7,307	7,236	6,204
<i>Sewer:</i>										
Cleaning and flushing in lineal feet	**	**	**	515,638	963,683	928,997	1,380,984	810,261	1,100,150	732,162
<i>Storm Drain:</i>										
Catch basin/storm drain cleaned (measured in storm inlets cleaned)	**	**	**	686	1,825	2,282	2,111	1,754	1,827	1,459

Source: City of Los Altos Quarterly Reports.

* Data for this fiscal year were provided by the corresponding departments.

Note:

** Data are not available for this period.

*** Data reflect uses instead of reservation.

City of Los Altos
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
<i>Police:</i>										
Station	1	1	1	1	1	1	1	1	1	1
<i>Recreation:</i>										
Number of Parks	10	10	10	10	10	10	10	10	10	10
Park Acreage	38	38	38	38	38	38	38	38	38	38
Number of Libraries	2	2	2	2	2	2	2	2	2	2
Number of History Museum	1	1	1	1	1	1	1	1	1	1
<i>Public Works:</i>										
Miles of Streets	125	125	125	125	125	125	125	127	127	127
Number of Traffic Signals	14	14	14	14	14	14	14	13	13	13
<i>Sewer:</i>										
Miles of Sewer Mains	141	141	141	141	141	141	141	141	141	141
<i>Storm Drain:</i>										
Miles of Storm Drain Mains	58	58	58	58	58	58	58	58	58	58

Source:
City of Los Altos