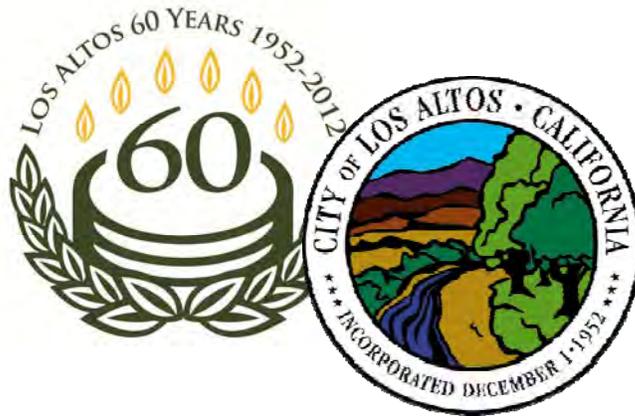


City of Los Altos



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2012



CITY OF LOS ALTOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal year ended June 30, 2012

T A B L E O F C O N T E N T S

| | <u>Page</u> |
|---|-------------|
| INTRODUCTORY SECTION | |
| Letter of Transmittal..... | i |
| GFOA Certificate of Achievement..... | ix |
| List of Officials..... | x |
| Organization Chart..... | xi |
| FINANCIAL SECTION | |
| Independent Auditors' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets..... | 21 |
| Statement of Activities..... | 22 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet..... | 26 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets..... | 29 |
| Statement of Revenues, Expenditures and Changes in Fund Balances..... | 30 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 32 |
| Proprietary Funds: | |
| Statement of Net Assets..... | 34 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)..... | 35 |
| Statement of Cash Flows..... | 36 |
| Fiduciary Funds: | |
| Statement of Assets and Liabilities..... | 38 |
| Notes to the Basic Financial Statements..... | 39 |

CITY OF LOS ALTOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal year ended June 30, 2012

T A B L E O F C O N T E N T S
(C O N T I N U E D)

| | <u>Page</u> |
|--|-------------|
| Required Supplementary Information: | |
| Schedule of Revenues and Expenditures – Budget and Actual: | |
| General Fund..... | 70 |
| Real Property Proceeds..... | 71 |
| Other Post Employment Benefits | 72 |
| Note to Required Supplementary Information..... | 73 |
| Other Supplementary Information: | |
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet..... | 78 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 82 |
| Schedules of Revenues, Expenditures and Changes in Fund Balances– Budget and Actual: | |
| Vehicle Impound..... | 85 |
| Gas Tax..... | 86 |
| Proposition 1B..... | 87 |
| Community Development Block Grant Fund | 88 |
| Downtown Parking..... | 89 |
| In-Lieu Park Land..... | 90 |
| Traffic Impact Fee | 91 |
| Estate Donation | 92 |
| Debt Service Fund | 93 |
| Internal Service Funds: | |
| Combining Statement of Net Assets | 96 |
| Combining Statement of Revenues, Expenses and Changes in Fund Net Assets | 97 |
| Combining Statement of Cash Flows | 98 |
| Agency Fund: | |
| Combining Statement of Changes in Fiduciary Net Assets and Liabilities | 100 |

CITY OF LOS ALTOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal year ended June 30, 2012

T A B L E O F C O N T E N T S
(C O N T I N U E D)

| | <u>Page</u> |
|---|-------------|
| STATISTICAL SECTION | |
| Net Assets by Component | 105 |
| Changes in Net Assets | 106 |
| Fund Balances – Governmental Funds | 108 |
| Changes in Fund Balances – Governmental Funds | 110 |
| Tax Revenues by Source – Governmental Funds | 112 |
| Assessed Value of Taxable Property | 113 |
| Direct and Overlapping Tax Rates | 114 |
| Principal Property Taxpayers..... | 115 |
| Property Tax Levies and Collections | 116 |
| Ratios of Outstanding Debt by Type | 117 |
| Schedule of Direct and Overlapping Bonded Debt | 118 |
| Legal Debt Margin | 119 |
| Demographic Statistics | 120 |
| Principal Employers | 121 |
| Full-Time Equivalent City Employees by Function/Program | 122 |
| Operating Indicators by Function/Program | 123 |
| Capital Asset Statistics by Function/Program | 124 |
| Trust and Agency Debt Administration | 125 |



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

December 20, 2012

**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, 2012 along with the Independent Auditors' Report. The CAFR was prepared by the City's Finance Department and the information contained therein 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 information, as presented, is 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 and Analysis (MDA) section of the CAFR and should be read in conjunction with it. The MDA 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 29,000 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, streets, facilities and parks maintenance, engineering, community development, recreation, solid waste and sewer. Fire protection is contracted with the Santa Clara County Central Fire Protection District.

SERVICE EFFORTS AND MAJOR INITIATIVES

Service Efforts and Budget Compliance

The City continues to provide a high level of service to its residents and citizens while adhering to its multi-year financial plan. Budget limits were met with the General Fund again reporting an operating surplus while contingency reserves were strengthened. Additional pension liability pay downs were acted on in line with the fiscal strategy set forth by Council. All major funds performed as expected and reflect cost saving efforts put in place during these times of economic recovery.

Major Initiatives

Capital Improvements: FY 2011/12 marks another year of capital re-investment into the community with substantial resources utilized for City-wide improvements. Some larger dollar capital expenditures of note this year include:

| | |
|-------------|---|
| \$2,239,700 | First Street Streetscape Construction |
| 543,100 | Annual Safe Routes to School |
| 419,600 | First Street Streetscape Intersection Improvements |
| 324,700 | Tri-City Safety Public Safety Virtual Consolidation |
| 303,500 | Rosita Park & Right of Way |
| 213,900 | San Antonio Road Resurfacing |
| 147,900 | Biennial Street Slurry Seal |
| 134,000 | Homestead Road Safety Improvements |
| 96,500 | Annual Concrete Repair |
| 68,000 | Community Center Project Master Plan |
| 60,200 | Annual Concrete Repair |
| 53,300 | Annual Street Striping |
| 47,500 | NPDES Compliance Design |
| 36,900 | San Antonio Club Rehabilitation |
| 30,100 | Miramonte Ave & Covington Road Traffic Signal |
| 25,400 | Traffic Sign Replacement |
| 25,000 | Fremont Avenue Bridge Replacement |

Downtown Revitalization: The City continues on with a series of capital projects aimed at revitalizing its core downtown district and promoting its overall attractiveness and vitality. These include the rehabilitation of San Antonio Road, the completion of street, intersection and signal improvements, and progress on phase II of the First Street improvements. During FY 2011/12 Phase I of First Street improvements were completed including the complete renovation of the First and Main Streets intersection, installation of new signals, and core sidewalk and lighting improvements. These upgrades have enhanced the pedestrian experience complimentary to the intersection improvements completed in the prior year. They also lay a foundation for the transformative private developments currently underway.

Noteworthy Private Developments: Significant private development progress was made this year with the completion of the Packard Foundation facility, a marquis architectural building, forward progress made on the development of the commercial property at 400 Main Street, and advancement on a complete redesign and expansion of Safeway's downtown store site. These endeavors underscore the strategic posture the City has taken in supporting economic development efforts. Other important private developments downtown include construction of a new office building with two luxury townhomes at 240 Third Street and 20 new townhomes on First Street South. Considering the active and completed developments this past year, private investment dollars of more than of \$50 million have been introduced into the downtown equation.

Pedestrian Safety, Roads and Walkways: Substantial resources were expended for a variety of roadway, pedestrian and bikeway initiatives and improvements. Nearly \$1 million was applied to street resurfacing and streetscape design projects, signal improvements and bicycle transportation updates, enhanced safety lighting and street striping, neighborhood traffic calming initiatives and Safe Routes to Schools improvements. These efforts support the City's high roadway condition index while increasing overall pedestrian, bicycle and vehicular safety.

Community Parks: The prior year saw completion of the full renovation of Rosita Park with final finishing touches made in FY 2011/12. Rosita is now adorned with refreshed fields, play equipment and other amenities in a capital project that was award-winning in its application of environmental and conservation measures. This year also marked the final sign-off of the remodel and refurbishment of the San Antonio Club recreation facility.

Enhanced Safety Technology: Expenditures were applied to furthering the Silicon Valley Regional Interoperability project. This important project is designed to enhance and coordinate regional public safety data and radio communications systems, with a focus on interoperability and strategic planning. It promotes shared technology systems that will enrich the abilities of the Los Altos, and surrounding public safety agencies, to communicate with each other in both routine and emergency situations. It also allows for the sharing of information that will assist the regional enactment of safety duties. Over \$300,000 was expended this year on a project that will continue through FY 2012/13.

City Pension Reform Actions: This year of reporting marked significant progress made in implementing pension reform changes aimed at controlling future costs and minimizing risk related to this area. In FY 2011/12, the City implemented second-tier lower benefit-level plans for all newly hired employees miscellaneous and safety employees. As part of this change, all new employees are required to make their full employee pension contributions. Recent labor negotiations with existing employees have also resulted in increased employee pension contributions implemented on a phased basis.

FINANCIAL CONTROLS AND PROCEDURES

Financial Policies and Standards: The City has followed a fiscally conservative philosophy of building and maintaining healthy financial reserves. This has allowed the City to sustain quality services to its residents in a time when many local agencies have been forced to cut back due to fiscal constraints. On an annual basis, the Council approves financial policies designed to promote sound financial management and ensure fiscal integrity. This CAFR reflects implementation of these financial guidelines and presents all fund reserves and assignments that define fund balance commitments and obligations as of the financial report date. Such policies have been updated to encompass the recent requirements of GASB 54.

Internal Control Structure: City management is responsible for establishing and maintaining fiscal internal controls important in safeguarding the assets of the government from loss, theft or misuse, and to ensure that accounting data is accurately compiled in accordance 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. This calendar year saw the final update of the City's purchasing policies, a significant attribute in the internal control model.

Cash Management Policies: 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, ensuring adequate liquidity as the second priority and maximizing yield as the third priority. This past year continued to display historic lows in interest rates with a drop in LAIF earnings rates below one half of 1%. This condition was, and is, expected to persist. Staff acted on the Council's plan to engage investment advisory services and have diversified the City's investment portfolio as a means of mitigating the impact of interest rate swings. As always, the emphasis remains on preserving the safety of principal.

Risk Management: The City has long been insured for general liability through a Joint Powers authority (JPA) that covers claims in an amount up to \$10 million with 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 such claims up to the statutory limits. The City has a \$1,000,000 deductible or self-insured liability. In the prior year, the deductible for Workers' Compensation was lowered to \$250,000 to further enhance risk protection.

GASB 45 Compliance: This report complies with the provisions of Government Accounting Standard Board Statement #45 (GASB 45). This standard pertains to Other Post Employee Benefits (OPEB) and requires the completion of an actuarial study to quantify and account for related liabilities. This recent reporting requirement is described in financial note 12 of the CAFR and the related liabilities reflected in the statements. As of June 30, 2012, the City's net OPEB obligation was valued at \$793,000, an amount reflected in the government-wide statements. Long-term unfunded liabilities equal \$2.1 million. Over the past three budget cycles, the City has earmarked and set aside \$400,000 in reserves to address this liability funding. Over the course of the next year, a variety of funding options available to the City including, but not limited to, the establishment of a trust will be evaluated. In the interim, these costs will be accounted for on a pay-as-you-go basis and included 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 MDA. This section highlights key financial performance indicators for our major funds.

General Fund

The General Fund, the primary operating fund of the City, performed favorably realizing operating revenues over expenditures of \$1.4 million. This reflects a staunch commitment to prudent financial planning, conservative budgeting and faithful departmental stewardship. At year end, the total General Fund balance equaled \$7.5 million with an unassigned fund balance of \$1.7 million after commitments and assignments of \$5.7 million. As planned for in the budget process, a portion of this surplus margin has been allocated to funding capital improvements, increasing existing economic reserves and further funding Other Post-Employment Benefits (OPEB) as directed per Council's discretion. The fiscal results herein bring the City closer to its General Fund contingency reserve target of 20% having achieved a level of 18%.

Considering the transfer and use of reserve activity listed below, most notably \$700,000 for future Capital Improvement Program commitments and \$850,000 to further pay-down CalPERS side fund liabilities, the final General Fund balance decreased by \$399,170. This non-operating and transfer activity is summarized as follows:

- \$850,000 to further pay-down the CalPERS side-fund liabilities
- \$700,000 transfer out of operating surplus reserves to the Capital Projects Fund
- \$211,000 transfer out to fund Storm Drain Fund activities
- \$200,000 transfer out to seed future equipment replacements
- \$167,000 transfer out for general debt service payments
- \$204,000 transfer in from the Gas Tax Fund for supporting engineering operations
- \$125,000 transfer in from public safety grant funds
- \$22,000 transfer in from safety vehicle impound fees

The recovery of the General Fund revenue stream continues to be lackluster, a condition that was much discussed and planned for in recent budget cycles. The current year turnaround in Property tax trends is encouraging with 2012 realizing 4% gains in contrast to a slight decrease in the prior year. Nonetheless, all indications are that moderate growth rates are expected to persist in this revenue source area. A table of year-to-year comparisons of key General Fund revenues follows:

| <i>Revenue (millions)</i> | <i>2011 Actual</i> | <i>2012 Actual</i> | <i>Variance \$</i> | <i>Variance %</i> |
|----------------------------|------------------------|------------------------|--------------------|-------------------|
| <i>Property Tax</i> | \$12.79 | \$13.30 | \$0.51 | 3.99% |
| <i>Sales Tax</i> | 2.59 | 2.74 | 0.15 | 5.79% |
| <i>Hotel Tax</i> | 1.52 | 1.78 | 0.26 | 17.11% |
| <i>Utility Users Tax</i> | 2.54 | 2.54 | 0 | 0.00% |
| <i>Other Taxes</i> | 0.93 | 0.91 | -0.02 | -2.15% |
| <i>Franchise Fees</i> | 1.81 | 1.73 | -0.08 | -4.42% |
| <i>Interest</i> | 0.23 | 0.07 | -0.16 | -69.57% |
| <i>Recreation</i> | 1.76 | 1.81 | 0.05 | 2.84% |
| <i>License and Permits</i> | 2.56 | 2.51 | -0.05 | -1.95% |
| <i>Other</i> | 1.92 | 1.51 | -0.41 | -21.35% |
| Total | \$28.65 | \$28.90 | \$0.25 | 0.87% |

General Fund revenues have increased slightly by 1% a trend that is below prior year levels. Revenues came in at 101% of our annual budget estimates with property tax, sales tax, hotel tax, franchise fees and recreation service fees being the front runners. Property tax, the City's mainstay, met budget projections and rebounded from its prior year sluggishness to comfortably evade the assessment reductions of the greater region. Sales tax came in at a 6% gain and continues its recovery coming off of double digit drops two years ago. The retail climate remains challenging and exists in a moderate recovery cycle. Tourism continues to be strong as indicated by the hotel tax gains of over 17% adding to a 13% increase last year. Interest income fell as projected in last year's report and strength in this area should not be expected given the federal government's continued easing policy. Utility users and Real Estate transfer tax performed well coming in over budget estimates. License and permit fees dropped slightly, by 2%, in contrast to last year's very strong performance. Recreation programs generated revenues of 3% above last year banner levels with enhanced programming and marketing. Franchise Fees were within budget but dropped slightly under the prior year mostly due to a decrease in solid waste contract fees. Reductions in Other Taxes and Other Income are mostly attributed to the State's shifting of Motor Vehicle Tax and the absence of one-time development fees realized in the prior year.

General Fund expenditures came in 5% below budget contributing to the net surplus mentioned above. Compared to last year, expenses increased by \$1.1 million or 4% mostly driven by labor and benefits, and professional service costs. The City's revenue base remains delicate in this cycle of recovery and rising costs in the areas of future pension rates, insurance and deferred maintenance costs remain a challenge. As such, the City's commitment to maintaining prudent, proactive and conservative fiscal planning is important.

Other Funds

Capital Project Funds: The Capital Projects Fund was very active, with expenditure levels reaching \$5 million, ending the year with a total Fund balance of \$6.4 million. \$2.2 million of this fund balance remains to be applied to the funding of future projects as identified in the City's five-year capital plan. Long-term forecasts again underscore the need to identify specific dedicated capital project funding sources as a means of eliminating this Fund's reliance on General Fund residual transfers.

The Community Facility Renewal Fund, a capital fund designed to support City-wide facility improvements, had a balance of \$7.1 million at year end, an increase of \$3.4 million as the result of Packard Foundation development fees. The Real Property Proceeds Fund ended the year with a balance of \$6.9 million with additional deposits on the conditional sale of property at 400 Main Street. Lastly, the Equipment Replacement Fund finished the year with a balance of \$3.7 million, a moderate drop from prior year levels.

Special Revenue, Internal and Enterprise Funds: All other Governmental and Business Type funds performed as expected. Non-major special revenue funds ended the year with a combined balance of \$3.9 million while Enterprise funds ended the year with combined net asset balances of \$13.5 million.

Trust and Agency Funds: The City acts as a custodian of funds held for the benefit of others including the administration of the North County Library Authority. In a change made last year, the long-standing Raymundo and Avalon curb and gutter special assessment districts were reclassified to the trust and agency group in recognition of the limited nature of this debt which is fully collateralized by homeowner assessments without City obligation. The Blue Oak Lane Sewer special assessment district is similarly treated.

ECONOMIC TRENDS

Although the City has performed relatively well this past year and maintained its target reserve levels and budget limits, an economic climate awash with financial uncertainty and historic nation-wide and global challenges continues to exist. As we navigate FY 2012/13 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, pension reform initiatives and sluggish retail activity, prompt us to remain resourceful, effective and efficient while developing our strategic and fiscal plans.

INDEPENDENT AUDIT

The public accounting firm of Burr Pilger Mayer (BPM) was newly selected this year to perform the annual independent audit as part of the City's rotation practice. Their first year 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, 2011. This was the seventh 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 notably, Shraddha Vakharia, Sarina Revillar and Courtney Makishima. We would like to express our appreciation to all members of the department who contributed in any part to the final product. We also want to thank Burr Pilger Mayer (BPM), our independent auditors, for their high level of service and professionalism in performing this year-end financial audit.

In closing, the continued leadership and support of the City Council enabled the staff to conduct the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Marcia Somers
City Manager



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, 2011

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.



Christopher P. Morrell

President

Jeffrey R. Emer

Executive Director

City of Los Altos
List of Principal Officials
As of June 30, 2012

ELECTED OFFICIALS

| | |
|---------------------|------------------------|
| Mayor | Valorie Cook Carpenter |
| Mayor Pro Tem | Jarrett Fishpaw |
| City Council | David Casas |
| City Council | Ron Packard |
| City Council | Megan Satterlee |

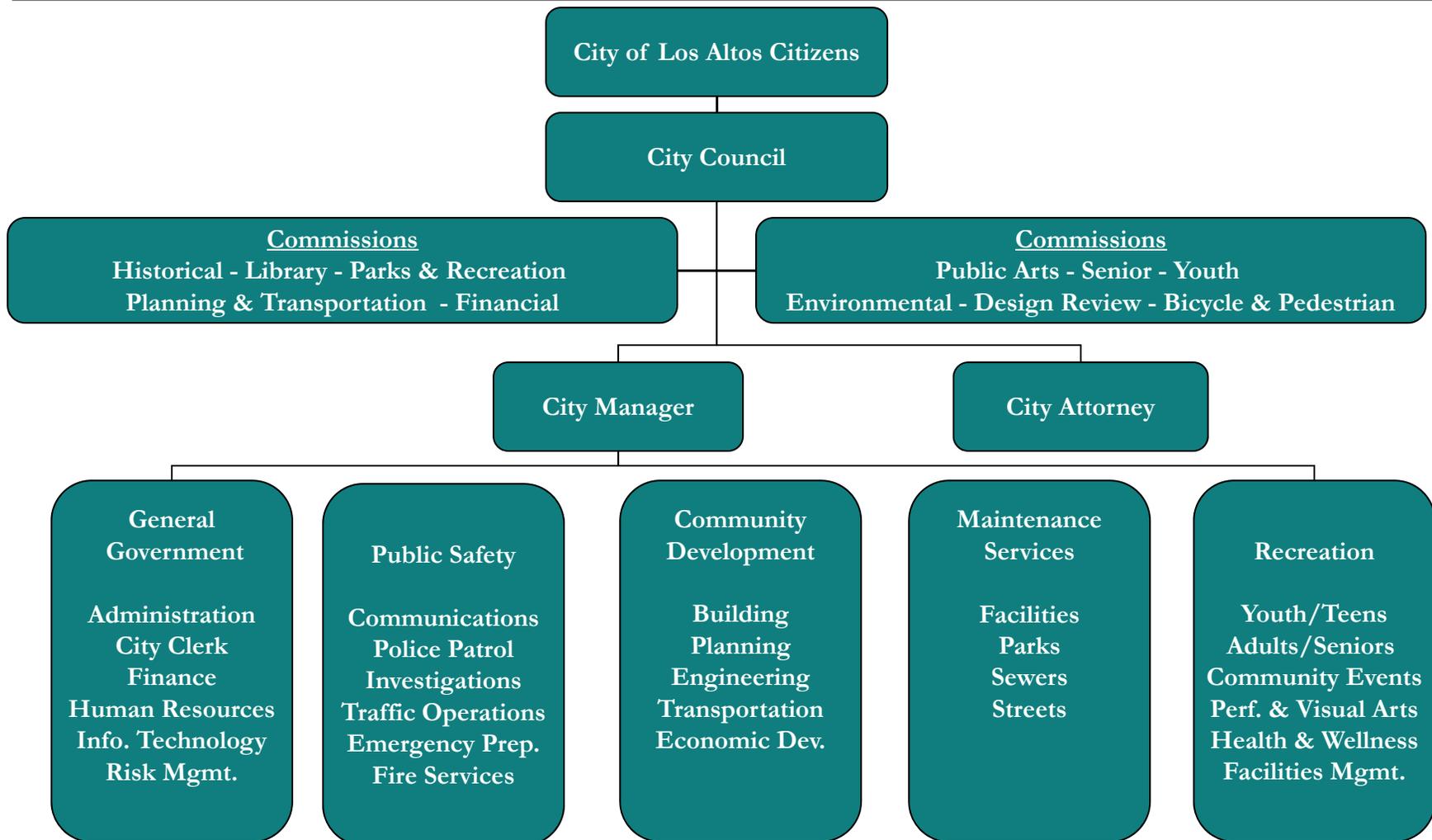
APPOINTED OFFICIALS

| | |
|---------------------|---------------|
| City Manager | Marcia Somers |
| City Attorney | Jolie Houston |

DEPARTMENTS

| | |
|--|------------------|
| Assistant City Manager | James Walgren |
| Assistant City Manager | J Logan |
| Deputy City Clerk | Jon Maginot |
| Engineering Services Manager | Jim Gustafson |
| Finance Director | Russell Morreale |
| Interim Maintenance Services Manager | Gil Fletcher |
| Police Chief | Tuck Younis |
| Recreation Director | Beverly Tucker |

City of Los Altos Organizational Chart June 30, 2012



A Great Place to Live & Raise a Family

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 the 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual non major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, 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.

Burr Pilger Mayer, Inc.

San Jose, California
December 20, 2012