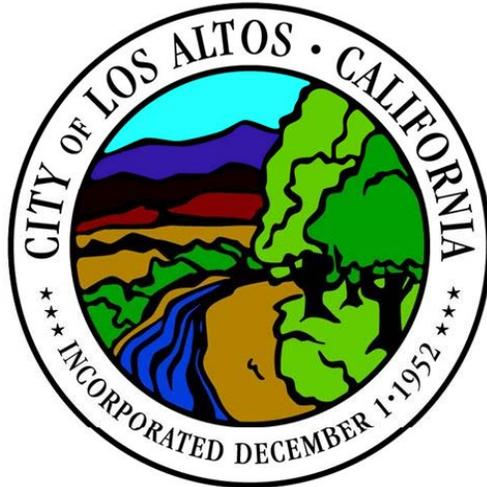


City of Los Altos



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



**CITY OF LOS ALTOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

Prepared by the Finance Department



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City of Los Altos
Comprehensive Annual Financial Report
For the year ended June 30, 2010

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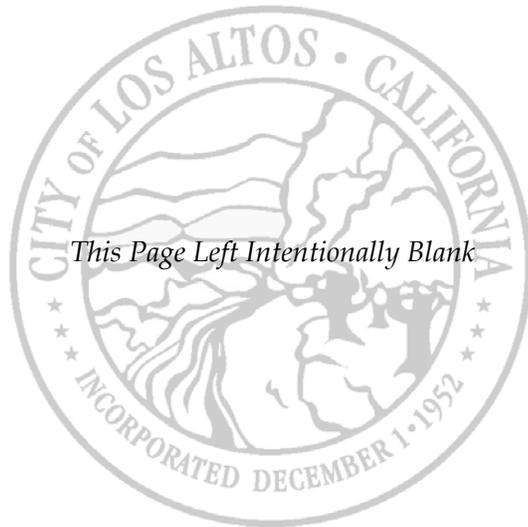
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FINANCE
ONE NORTH SAN ANTONIO ROAD
LOS ALTOS, CALIFORNIA 94022-3087

January 25, 2011

**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, 2010 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 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 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 FY2009-2010, the City continued to provide a high level of service to its residents and citizens, and adhered to its adopted financial plan as evidenced by the budget-to-actual reporting presented within this document. Budgetary limits were met with the General Fund reporting a healthy operating surplus again this year while pension side-fund liabilities were significantly paid-down. All major funds performed as expected and reserves have been generally increased and/or maintained.

Major Initiatives

Capital Improvements: FY2009-2010 has marked another year of progress in terms of infrastructure improvements. Some of the key capital expenditures of note include the following:

- \$555,000 - Woodland Library Remodel
- \$550,000 - Street Resurfacing
- \$435,000 - San Antonio Road Improvements
- \$390,000 - Pedestrian Safety Improvements
- \$315,000 - Blue Oak Lane Sewer Line
- \$295,000 - First Street Streetscape and Undergrounding
- \$225,000 - Storm Drain Master Plan
- \$210,000 - Rosita Park Improvements
- \$190,000 - Annual Street Striping and Signal Updates
- \$170,000 - Safe Routes to School and Bike Lanes
- \$165,000 - Concrete Repairs
- \$130,000 - Community Center Master Plan
- \$120,000 - Adobe Creek Pedestrian and Fremont Bridge Repairs

Downtown Revitalization: This past year, the City placed a focus on a series of capital projects intended to revitalize the core downtown district of Los Altos. These initiatives include streetscape improvements on San Antonio Road, the undergrounding of utilities in key sections of the downtown area and the commencement of exciting First Street improvements. Calendar 2010 also saw the approval of significant development agreements with the Packard Foundation for the construction of their state-of-the-art organizational headquarters. Additionally, a conditional sale agreement was entered into for the sale and development of the commercial property at First and Main, a key site for the downtown district. Although these endeavors will take time to complete and implement, they point to the strategic posture the City has taken in addressing key foundational economic development matters.

Community Center Master Plan: The City continues its progress in furthering the Community Center Master Plan. Holding several workshops followed by extensive and inclusive civic engagement, the Master Plan was ultimately approved by Council in June 2009. The scope of the project involves the complete redevelopment of the civic center campus and several key service facilities including 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 voter-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 endeavors.

FINANCIAL CONTROLS AND PROCEDURES

Financial Policies: Throughout the years, the City 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 Council approves financial policies designed to promote sound financial management and ensure fiscal integrity 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, 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 is expected to persist in the near term. Council and staff have engaged investment advisory services and started the process of developing investment opportunities and strategies that will mitigate the impact 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 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. Effective July 1, 2010, 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 recent standard pertains to 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 11 of the CAFR and the related liabilities reflected in the statements. As of June 30, 2010, the City's net OPEB obligation was valued at \$390,000, an amount reflected in the GASB 34 government-wide statements. Long-term unfunded liabilities equal \$1.7 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 charges 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 and we encourage all readers to review the MDA for a further analysis of the City's financial condition.

General Fund

The General Fund, the primary operating fund of the City, favorably exceeded expectations coming in with an operating surplus of \$2.5 million. We attribute this performance to our commitment to prudent financial planning, conservative budgeting and faithful stewardship. At year end, the total General Fund balance equaled \$7 million with an unreserved fund balance of \$2.4 million after policy and Council designations of \$4.6 million. As planned for in the FY2010-2011 operating budget, some of this surplus margin has been allocated to increasing existing economic reserves and further funding OPEB with any additional remaining to be utilized at Council's discretion. The fiscal results herein bring the City closer to achieving its General Fund contingency reserve target of 20% having increased to a level of 16% with the close of FY2009-2010.

Considering the transfer and use of reserve activity listed below, most notably the use of \$3 million to pay down existing safety pension side fund liabilities, the final General Fund balance decreased by \$638,000. This non-operating and transfer activity is as follows:

- \$610,000 transfer in of project savings from the Capital Projects Fund for contingency reserves
- \$276,994 transfer in from closed out and expired assessment district funds
- \$186,584 transfer in from the Gas Tax Fund for supporting engineering operations
- \$119,783 transfer in from public safety grant funds
- \$ 37,780 transfer in from safety vehicle impound fees
- \$600,000 transfer out to the Capital Projects Fund given Prop 1A securitization recovery
- \$330,000 transfer out to the Capital Projects Fund based on budget and mid-year projections
- \$165,000 transfer out for general debt service payments
- \$ 7,585 transfer out to dissolved and expired assessment district funds
- \$ 91,955 transfer out to subsidize storm drain operations
- \$3,005,795 use of General Fund designated PERS reserves to pay-down safety pension side-fund liabilities

The General Fund revenue stream appears to be gradually recovering from the recent recessionary economic trends, a condition that was much discussed and planned for in the recent and current budget cycle. Property tax continues to be the City's strong point with several other key areas showing signs of improvement this year as indicated in the trend chart below.

<i>Revenue (millions)</i>	<i>2009 Actual</i>	<i>2010 Actual</i>	<i>Variance \$</i>	<i>Variance %</i>
<i>Property Tax</i>	\$12.76	\$13.05	\$0.29	2.27%
<i>Sales Tax</i>	2.69	2.25	-0.44	-16.36%
<i>Hotel Tax</i>	1.29	1.35	0.06	4.65%
<i>Utility Users Tax</i>	2.53	2.51	-0.02	-0.79%
<i>Other Taxes</i>	0.77	0.89	0.12	15.58%
<i>Franchise Fees</i>	1.46	1.44	-0.02	-1.37%
<i>Interest</i>	0.6	0.2	-0.40	-66.67%
<i>Recreation</i>	1.47	1.49	0.02	1.36%
<i>License and Permits</i>	2.01	2.67	0.66	32.84%
<i>Other</i>	1.71	1.93	0.22	12.87%
Total	\$27.29	\$27.78	\$0.49	1.80%

General Fund revenues increased by 1.8% overall in contrast to a 4.21% decrease in the prior year. Revenues came in at 103% of our annual budget estimates with property tax, license and permit fees, hotel tax and real estate transfer tax being the front runners. Sales tax has dropped regionally and came in 16% under the prior year in a retail climate that remains challenging and is expected to turnaround slowly. That being said, sales tax did exceed budget projections. Tourism has seen a bit of an uptick as indicated by the hotel tax increase of nearly 5% - a welcome trend given a 15% decline last year. Interest income continues to drop dramatically as yield rates have fallen to historic lows in ranges well below 1% as compared to rates in the mid threes just a few years ago. Real estate transfer tax (as part of "Other Taxes") has displayed positive results coming in 47% higher than last year. Utility users tax remained relatively stable as did franchise fees. License and permit fees came in very strong at 32% above the prior year given increased activity and several significant one-time development fees. Recreation programs came in above last year revenue levels with enhanced programming and marketing.

General Fund expenditures came in 5% below budget contributing to the net surplus mentioned above. Compared to last year, expenses have remarkably decreased by \$1 million or 4% driven by cost containment measures put into place early in the budgetary process. Although this is good news indeed, we recognize that the City's revenue base remains delicate in this cycle of recovery and that rising costs in the areas of future pension rate, health and insurance costs remain a challenge. As such, we continue to reinforce the need to maintain prudent, proactive and conservative fiscal planning.

Other Funds

Capital Project Funds: The Capital Projects Fund was very active, with expenditure levels reaching \$4.4 million, ending the year with a total fund balance of \$11.8 million. As of June 30, 2010, \$1.9 million of this fund balance remains unreserved and available to be applied to the funding of future projects as identified in the City's five-year capital plan. Our 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 Capital Projects Fund (CFR), a fund designed to support city-wide facility improvements, had a balance of \$3.7 million at year end. Additionally, the Real Property Proceeds Fund ended the year with a balance of \$6.4 million having received a final installment payment for the sale of the treatment plant. Lastly, the Equipment Replacement Fund finished the year with a balance of \$4.4 million.

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 \$3.1 million while Enterprise funds ended the year with combined balances of \$12.3 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 this year of reporting, 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 newly formed Blue Oak Lane Sewer district special assessment district is similarly treated. This change has resulted in an overall increase to the City's equity.

ECONOMIC TRENDS

Although the City has performed relatively well this past year and maintained its target reserve levels, we exist in an economic climate and time replete with financial uncertainty and marked with historic nationwide and global challenges. As we navigate FY2010-2011 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, 2009. This was the fifth 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



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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, 2009

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



President

Executive Director

City of Los Altos
List of Principal Officials
As of June 30, 2010

ELECTED OFFICIALS

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

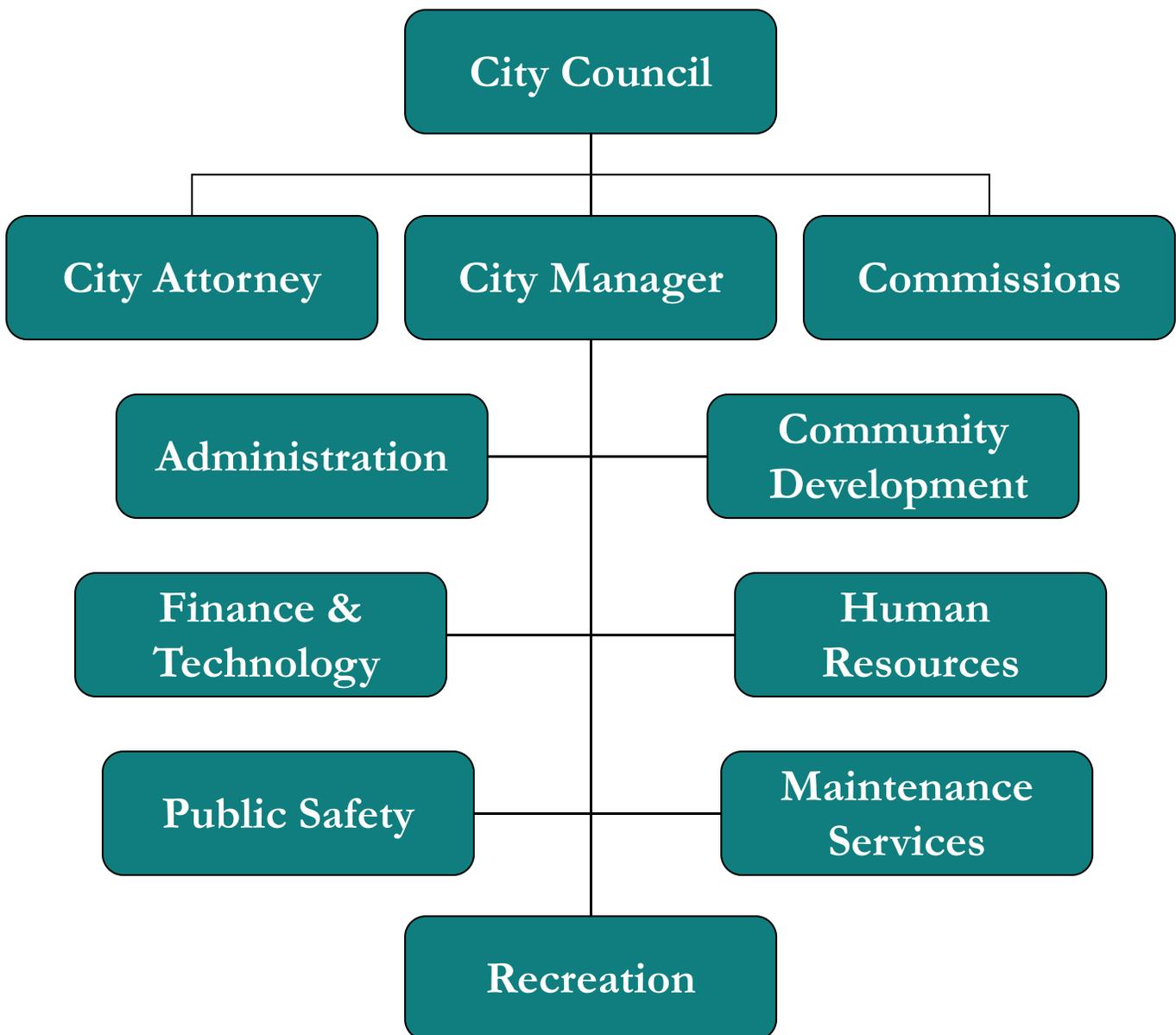
APPOINTED OFFICIALS

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 June 30, 2010



A Great Place to Live & Raise a Family



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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2011, 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.

To the Honorable Mayor and Members of City Council
of the City of Los Altos
Los Altos, California
Page 2

The Management Discussion and Analysis and the Required Supplementary Information on pages 3 to 19 and pages 79 to 83, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, combining fund statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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 & Larson, Inc.

San Francisco, California
January 20, 2011

City of Los Altos
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

The purpose of this discussion and analysis is to provide an overview of the City's financial performance and activities for the fiscal year ended June 30, 2010. We encourage readers of this report to consider this information in conjunction with the executive summary we have furnished in our letter of transmittal that can be found on pages i to vii of this report.

FINANCIAL HIGHLIGHTS

The City ended its fiscal year on a government-wide basis with total revenues of \$37.6 million, a 1.5% increase from the prior year, and expenses of \$35.7 million, a decrease of 1%. Operations resulted in an overall increase in net assets from both government and business operations and included the planned pay-down of existing employee pension (CalPERS) side-fund liabilities. Favorable fiscal results allowed the City to strengthen general reserves in line with budget projections and sustain capital project plans. The City received its third and final installment of \$2.2 million for the sale of the treatment plant bringing that fund balance up to \$6.4 million.

Revenue gains were mostly noted in community development fees, property tax, hotel occupancy tax and grant proceeds. Although still performing under prior year levels, sales tax exceeded budget expectations. Partially offsetting declines were notably experienced in interest and rent earnings.

Government-wide expenses decreased by 1% with continued attention given to cost control. Operational savings have resulted from a variety of factors including a decrease in public safety pension rates as a result of the side-fund pay-down, strategically managed staffing vacancies and diligent observance of budget target levels. Expenditures again reflect a concentrated use of resources for infrastructure maintenance, planning and public safety. Investments made in roadways, grounds and facilities approximated \$1.6 million with another \$2.8 million capitalized as projects in progress. This again underscores the City's commitment to maintaining a high standard of street, infrastructure and public facilities upkeep.

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. Following this direction, great progress has been made on several significant capital projects, including street maintenance and resurfacing, First Street design and streetscape, a major remodel of the Woodland Library, pedestrian traffic and bicycle safety upgrades including Adobe Creek pedestrian/Fremont bridge improvements, San Antonio median enhancements and road rehabilitation, street light beautification and signal painting, sidewalk repairs and street restriping. Much needed improvements to the City's emergency operating center were also completed. The City made significant capital investments in the maintenance and improvement of sewer systems, including installation of the Blue Oak Lane assessment district sewer lines addressing the City's last septic systems.

The City finished the year with a General Fund surplus of \$2.5 million before transfers, certainly a testament to its conservative budgeting approach and cost conscious stewardship. This surplus increased over the prior year although the margin of surplus remains under pre-recession peak period levels. We continue to scrutinize revenue and expense streams closely and proactively manage reserves as we develop future fiscal plans.

Government-Wide View

- Total net assets (excess of assets over liabilities) equaled \$94 million, an increase of \$2 million or 2% compared 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 million at year end, an amount level with last year's total. Governmental unrestricted assets dropped by \$700,000 or 2% while business-type activities increased by \$665,000 or 8%. It is important to note that unrestricted net assets, as presented in the government-wide section of the annual financial report, do not account for local designations, project assignments and/or policy reserves as classified within the fund section of the report.
- Governmental activities reported ending net assets of \$81.5 million, an increase of \$1 million or 1.2% above the prior year. The increase in government net assets is mostly attributed to positive operating results, driven by increased revenues and cost containment, partially offset by the substantial use of resources, nearly \$1.6 million, for infrastructure maintenance.
- Business-type activities reported ending net assets of \$12.3 million, an increase of \$1 million or 8% growth compared to last year given positive operating results in the Sewer Fund partially offset by the use of resources in the Solid Waste and Storm Drain activities.
- On a combined basis, restricted net assets remained relatively stable at \$3.4 million.
- This report includes an increase adjustment to beginning net equity as a result of the reclassification of City-administered special assessment limited liability obligation debt to the trust and agency category. Accordingly, the Government-Wide Statement of Net Assets no longer includes liabilities for the existing Raymundo and Avalon curb and gutter nor the newly-formed Blue Oak Lane sewer district assessment bonds, all of which are fully collateralized by homeowner real-property assessments.

Fund Level View

- The General Fund realized an operating surplus of \$2.5 million.
- General Fund revenues, excluding transfers, increased by \$500,000 or 2% to \$27.8 million. Related expenditures decreased from the previous year by \$1 million to \$25.3 million or 4% resulting in the surplus noted above.
- Total governmental fund balances were \$36.4 million at fiscal year end, a decrease of \$600,000 or 1%. When backing out the CalPERS pension side-fund liability pay-down of \$3 million, governmental fund resources of \$2.4 million or 6% were added during the year.

- General government capital projects spending approximated \$4.4 million with a continued focus on the maintenance of streets and facilities. Consequently, the Capital Projects Fund balance decreased by \$2.6 million net of supporting grant revenues.
- The Real Property Proceeds Fund increased by \$2.3 million with the receipt of the third and final treatment plant sale installment payment. A refund of estimated development costs of \$400,000 is due by 2012 and is reflected in the government-wide balances.
- The Community Facilities Renewal Capital Projects Fund remained level at \$3.7 million.
- The Equipment Replacement Fund remained level at \$4.4 million.
- Several stale-dated and expired assessment district funds, presented in the non-major governmental funds group, were formally dissolved with transfers of residual balances being made to the appropriate funds. This is the final year of presentation for these funds.
- Sewer operations ended the year favorably with an increase in net assets of \$1.2 million. Sewer revenues of \$5.4 million were \$490,000 or 8% lower than in the prior year given water usage trends and expenses came in \$400,000 under last year at \$4.4 million. The drop in expenses is attributed to lower overall maintenance costs, a benefit of consistent upkeep.
- Other Non-Major Governmental Funds performed within budget expectations ending the year with a total combined fund balance of \$3.1 million, an increase of \$400,000 over the prior year.

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, maintenance and public works services, planning, building, engineering 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 23 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, 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 maintains 24 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, Real Property Proceeds Fund and the Community Facilities Renewal Fund, all of which are considered to be major funds. Data from the other 19 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.

An annual appropriated budget is adopted each year for each governmental fund. 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 29 to 42 of this report.

Proprietary Funds: The City 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, Worker's 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 88 to 96 of this report.

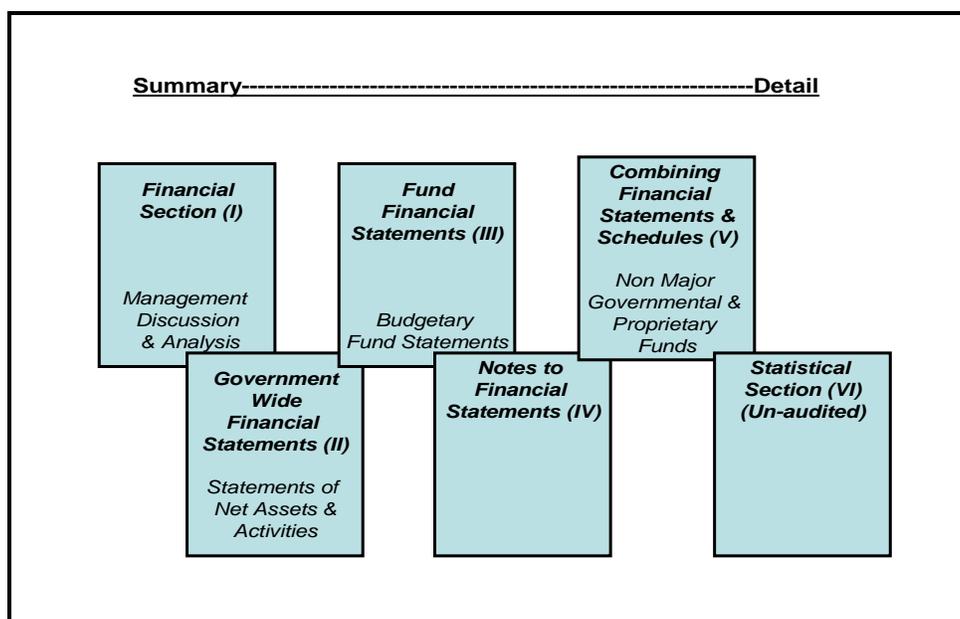
Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 46 to 77 of this report.

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.

The City as Trustee

Fiduciary Funds: The City is the trustee, or fiduciary, for the North County Library Authority and three special assessment districts - Raymundo and Avalon curb and gutter improvements, and Blue Oak Sewer Lane improvements. 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, 2010. 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	
	2010	2009	2010	2009
Cash and Investments	40,741,188	\$ 41,090,391	8,821,835	\$ 8,378,039
Other Assets	4,581,632	4,079,308	360,355	535,168
Capital Assets	44,626,040	43,089,259	3,551,702	3,316,375
Total Assets	89,948,860	88,258,958	12,733,892	12,229,582
Long-Term Debt	2,030,000	2,298,000		
Other Liabilities	6,436,012	5,615,701	415,676	811,013
Total Liabilities	8,466,012	7,913,701	415,676	811,013
Net Assets				
Investments in Capital - Net of Related Debt	42,596,040	40,684,259	3,551,702	3,316,375
Restricted	3,410,778	3,476,500	-	-
Unrestricted	35,476,030	36,184,498	8,766,514	8,102,194
Total Net Assets	\$ 81,482,848	\$ 80,345,257	\$ 12,318,216	\$ 11,418,569

The largest portion of the City's net assets (49%) 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; 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. The remaining balance of unrestricted net assets (47%) 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 remained relatively flat decreasing by less than 1%. This outcome is attributed to several factors: the collection of a \$2.2 million installment from the sale of the Los Altos treatment plant, a General Fund surplus of \$2.5 million, favorable enterprise business activity gains of nearly \$1 million, the collection of an additional \$1.2 million in special revenue dollars, offset by the \$3 million pre-payment of pension liabilities and an additional \$3 million in internally-funded capital projects.
- Government-wide net assets equaled \$93.8 million, an increase of \$2 million or 2%, mostly due to the resource inflow activity noted above.
- Business-type activities reported combined ending net assets of \$12.3 million at year end, \$1 million or 8% more than the prior year. As the City continues the Sewer and Storm Water Master Plan process, 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 revenue covered its respective expenses, storm drain activities were again in need of a General Fund subsidy. At June 30, 2010, the Storm Drain Fund has depleted most of its reserves leaving a balance of only \$137,000, less than one year of operating needs. This condition that will persist until a successful storm water fee is approved by the voters. Solid waste expenses exceeded revenue this year given one time costs associated with the contract renewal process.

Governmental Activities

Governmental programs include core general public services as noted above. Total governmental revenues increased by \$1.1 million or 4% while total expenses decreased by \$200,000 or 1%. Including all sources and uses, governmental net assets increased by \$1 million or 1.2%, ending the year with a total fund balance of \$81.5 million.

- Property tax continues to be the City's single largest source of revenue representing about 46% of ongoing general government-wide revenues. Compared to last year, property tax revenue increased \$300,000 or 2%.

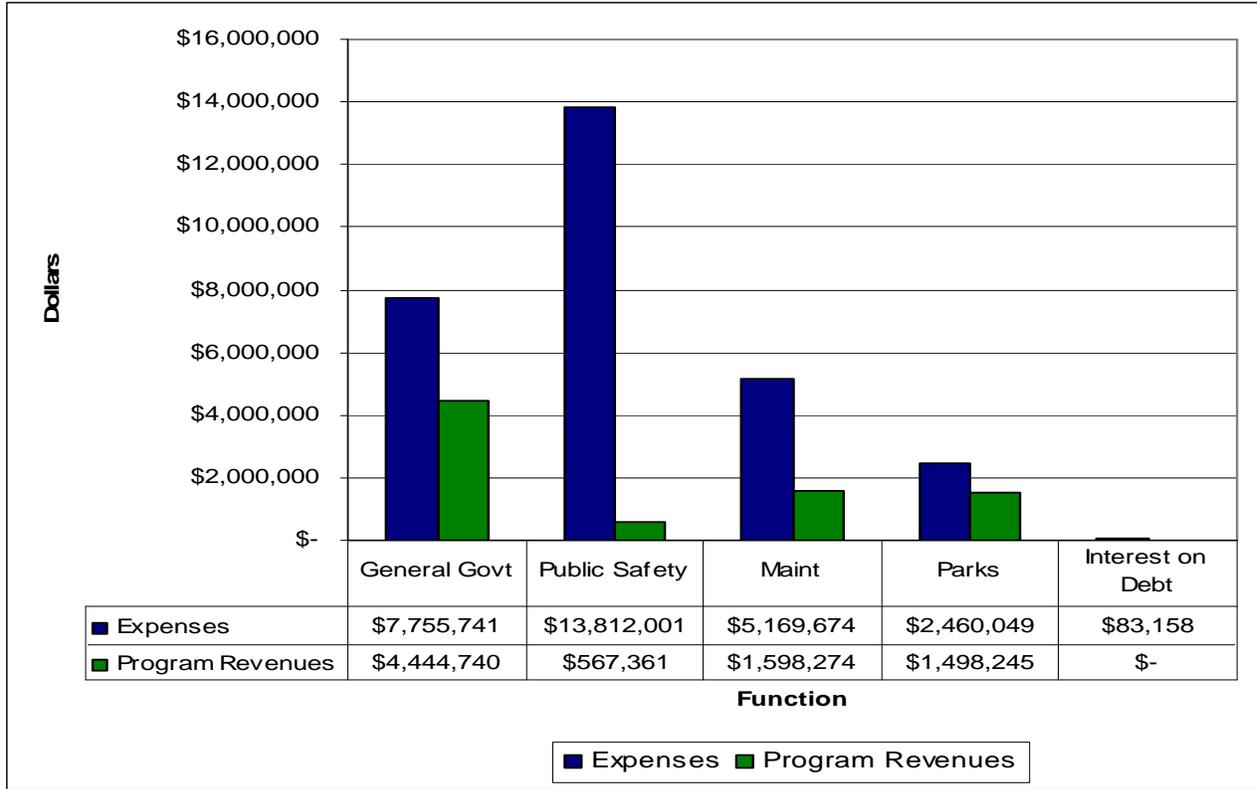
- Charges for services revenue, which make up about 20% of ongoing government revenues, increased by \$1.1 million or 22% given strong city-wide planning and building activity. This trend reflects a hopeful pick up in building and permitting activity as a leading indicator of a recessionary turnaround. Our philosophy is to set service fees at a level that provides full cost recovery in line with established policy and market trends.
- Other major taxes decreased by \$170,000 or 2% with a 16% drop in sales tax mitigated by a 4% increase in hotel occupancy tax, a 47% increase in real estate transfer tax, and the doubling of building development tax revenues.
- Interest revenues dropped by \$400,000 due to continued declines in interest rates. The City had invested all its funds in the Local Agency Investment Fund (LAIF) state pool which has dropped to historic yield rates, currently under 1%. This rate environment is expected to persist in the near term. 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.
- Government expenses, including allocated capital expense costs, decreased by \$200,000 or 1% overall. When backing out capital costs, government expenses decreased 4% comprised of a 1% drop in Public Safety expenditures, a 17% drop in Recreation Services, and a 10% drop in Maintenance Services. This is reflective of another year of cost-trimming measures put into place two years ago.
- Substantial capital maintenance costs, approximately \$3 million, were incurred. Areas of improvement include street repairs, striping, concrete maintenance, facility maintenance and major development planning/design studies.
- Interest on long-term debt remained level 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, the City experienced a \$2 million, or a 2% increase in net assets. This change from the prior year reflects the planned use of reserves for pension liability reduction and capital improvements.

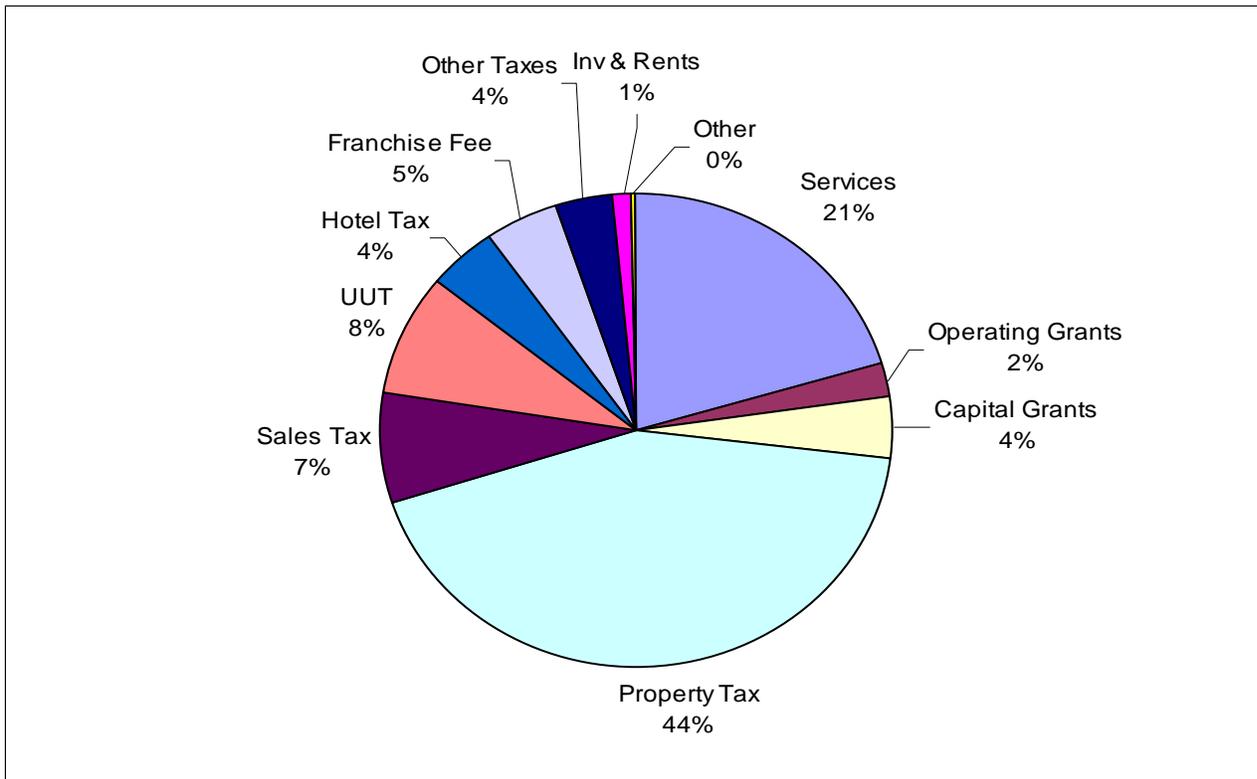
City of Los Altos Changes in Net Assets
Fiscal Year Ending June 30, 2010

	Governmental Activities		Business-Type Activities	
	2010	2009	2010	2009
Revenues				
Program Revenue				
Charges for Service	\$ 6,167,571	\$ 5,074,319	\$ 7,069,798	\$ 7,489,163
Operating Grants and Contributions	750,352	644,803	-	-
Capital Grants and Contributions	1,190,697	1,100,152	-	-
General Revenues				
Property Taxes	13,051,308	12,758,916	-	-
Sales Taxes	2,255,527	2,697,494	-	-
Utility User Tax	2,514,880	2,530,162	-	-
Other Taxes	2,453,206	2,146,465	-	-
Franchise Fees	1,436,928	1,458,445	-	-
Interest Income	340,893	759,774	53,483	159,416
Sale of Capital Assets	-	-	-	-
Miscellaneous	286,027	201,031	-	-
Total Revenues	30,447,389	29,371,561	7,123,281	7,648,579
Expenses				
Public Safety	13,812,001	13,563,432	-	-
Public Works	5,169,674	5,318,401	-	-
Recreation	2,460,049	2,889,149	-	-
Community Development	3,961,602	3,912,792	-	-
Admin/Community Services	3,794,139	3,765,358	-	-
Interest on Long-Term Debt	83,158	31,775	-	-
Sewer	-	-	4,438,067	4,810,475
Solid Waste	-	-	1,825,616	1,573,346
Storm Drain	-	-	199,189	187,913
Total Expenses	29,280,623	29,480,907	6,462,872	6,571,734
Excess (Deficiency) before transfers	1,166,766	(109,346)	660,409	1,076,845
Transfers	(239,238)	(200,397)	239,238	200,397
Change in Net Assets	927,528	(309,743)	899,647	1,277,242
Net Assets - Beginning of Year	80,345,257	80,655,000	11,418,569	10,141,327
Restatement	210,063			
Net Assets - End of Year	\$ 81,482,848	\$ 80,345,257	\$ 12,318,216	\$ 11,418,569

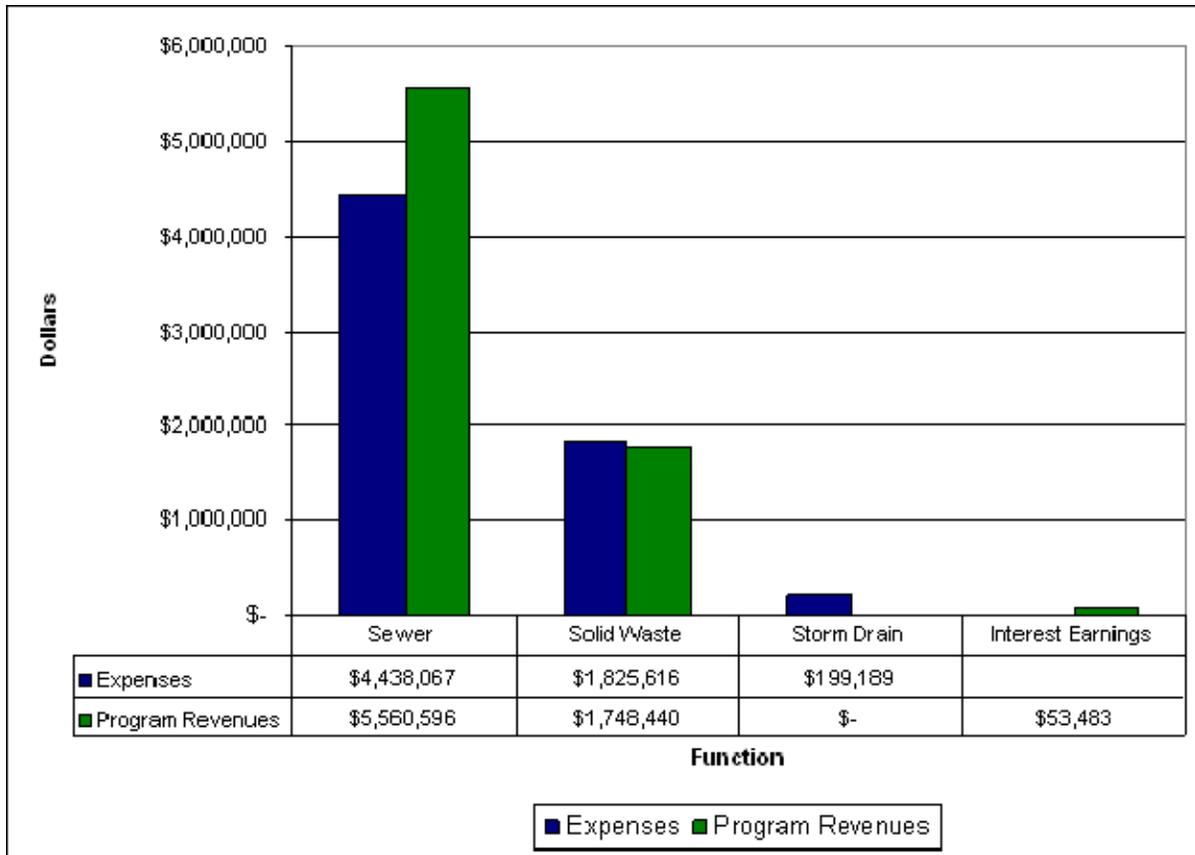
Program Expenses and Revenues - Governmental Activities



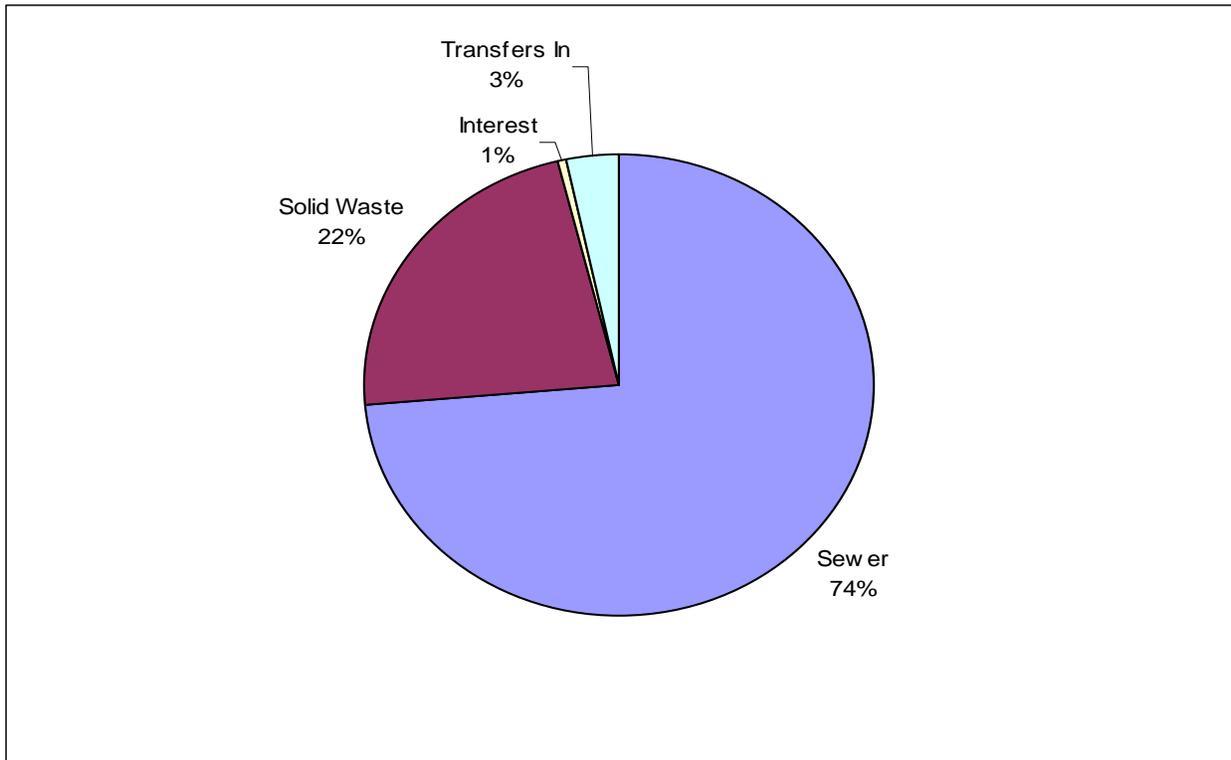
Government Revenues - All Sources



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 13% of the total net assets. Net assets from business-type activities increased by \$900,000 or 8%, given favorable sewer operating results. Currently, the Storm Drain and Urban Runoff Pollution Control Programs (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 General Fund activities. 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 plant 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 decreased by \$390,000 or 6% as a result of seasonal utility usage trends.
- Sewer service expenditures decreased approximately \$370,000 or 7%. With the revenue patterns noted above, net assets increased by \$1 million for these operations in line with the recent rate projections ending the year with total Net Assets of \$11.5 million.
- Service fee revenue for solid waste collection management remained relatively flat while expenditures increased by \$250,000 or 15% mostly due to costs incurred in the open procurement of new city-wide contract services. Net assets for the fund decreased by \$162,000 leaving a total fund balance of \$707,000.
- The General Fund contributes to the Storm Drain Fund to augment annual expenses. For FY2009-2010 the transfer equaled \$91,956 resulting in a year-end fund balance of \$137,000, a decrease from the previous year of \$107,000. 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 balances 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 \$36.4 million, a decrease of \$600,000 over the prior year.

Of the total of all governmental fund balances, only 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. A lower level of transfers resulted this year as the City continues 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 the 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 and Reserves</i>	<i>June 30, 2010</i>
<i>Emergency Operating</i>	\$3,726,228
<i>State Budget Stabilization</i>	730,000
<i>Other Post Employee Benefits (OPEB)</i>	100,000
<i>Payment Obligations</i>	142,609
<i>Unreserved Fund Balance</i>	2,351,722
<i>Total General Fund</i>	<i>\$7,050,559</i>

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. Similarly, the state budget stabilization reserve was created in response to California's delicate fiscal condition. They are certainly important safeguards to have in the current financial climate in which we exist. The OPEB reserve was initiated this year in response to GASB 45 requirements to recognize and set aside post-employment benefit liabilities.

Overall favorable operating results have led to a total fund balance of \$7 million and an unreserved fund balance of \$2.3 million.

As we look ahead, if additional funds are needed, 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 in support of the City's longer-term infrastructure planning model:

<i>Other Key Fund Balances</i>	<i>June 30, 2010</i>
<i>Ongoing Capital Projects</i>	\$9,622,191
<i>Capital Project Unreserved</i>	1,864,591
<i>Equipment Replacement</i>	4,388,583
<i>Real Property Proceeds</i>	6,421,996
<i>Community Facility Renewal</i>	3,665,592
<i>Total</i>	<i>\$25,962,953</i>

The Capital Projects Fund balance can vary materially as progress occurs on approved projects and external funding becomes available. For FY2009-2010, general government capital project spending approximated \$4.3 million, over \$1 million more than the prior year. Significant project progress occurred in the following maintenance and renovation projects as presented in rounded dollar amounts:

<i>FY2009-2010 Capital Projects</i>	<i>Amount Expended</i>
Woodland Library Remodel	\$555,000
Street Resurfacing	550,000
San Antonio Road Improvements	435,000
Pedestrian Safety Improvements	390,000
Blue Oak Lane Sewer Line	315,000
First Street Streetscape and Undergrounding	295,000
Storm Drain Master Plan	225,000
Rosita Park Improvements	210,000
Annual Street Striping and Signal Updates	190,000
Safe Routes to Schools and Bike Lanes	170,000
Concrete Repairs	165,000
Community Center Master Plan	130,000
Adobe Creek Pedestrian and Fremont Bridge Repairs	120,000
Heritage Oaks Play Equipment	100,000
Loyola Corners Streetscape Design	80,000
Patriot Corner Renovation	50,000
Redwood Grove Renovation	40,000
Neighborhood Traffic Mgmt Programs	30,000

The remaining capital project expenditures were applied to a broad range of projects as engineering continues to make progress on the long list of funded capital projects identified within the Capital Improvement Project Plan.

Proprietary Funds: 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 \$8 million, in the Storm Drain Fund equaled \$137,000 and in the Solid Waste Fund \$707,000. Factors concerning the changes in fund balance in these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets and Debt Administration

Capital Assets: The City's investment in capital assets for its governmental and business-type activities at year-end amounts to \$48.2 million (net of accumulated depreciation).

This investment in capital assets includes land, buildings, improvements, machinery and equipment, and streets. Net capital assets of the governmental activities totaled \$44.6 million and the net capital assets of the business-type activities totaled \$3.6 million. Depreciation on capital assets as recognized in the government-wide financial statements remained relatively flat. Additional information on capital assets can be found in footnote 5 of these financial statements.

Capital Assets as of June 30, 2010

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2010 Total</i>	<i>2009 Total</i>
<i>Land</i>	\$11,404,867	-	\$11,404,867	\$11,404,867
<i>Work in Progress</i>	4,064,587	1,638,957	5,703,544	3,283,743
<i>Buildings</i>	14,725,835	1,860,119	16,585,954	17,120,538
<i>Improvements</i>	1,457,740	-	1,457,740	1,293,245
<i>Machinery & Equip</i>	1,311,683	52,554	1,364,237	1,579,717
<i>Infrastructure</i>	11,661,329	72	11,661,401	11,723,524
<i>Total Assets</i>	\$44,626,041	\$3,551,702	\$48,177,743	\$46,405,634

Debt Administration: At the end of the current fiscal year, City bond and assessment debt decreased by approximately \$100,000. The total outstanding bond debt balance at year-end is approximately \$2 million and relates solely 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 \$1.6 million. This obligation increased in line 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, 2010

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2010 Total</i>	<i>2009 Total</i>
<i>Certificate of Participation</i>	\$2,030,000	0	\$2,030,000	\$2,115,000
<i>Compensated Absences</i>	1,553,342	49,070	1,602,412	1,444,095
<i>Total</i>	\$3,583,342	\$49,070	\$3,632,412	\$3,559,095

GENERAL FUND BUDGETARY HIGHLIGHTS

The adopted FY2009-2010 General Fund budget equaled \$26.6 million and changed modestly by \$200,000 to \$26.8 million during the year. Prior year encumbrances account for the bulk of these adjustments, leaving adjustments in appropriations during the fiscal year of less than 1%. Budget to Actual results came in favorably with revenues exceeding estimates by 4% and expenditures coming in at 94% of established limits.

ECONOMIC FACTORS AND FY2010-2011 BUDGET AND RATES

General Fund revenue is forecast to increase by 4% as reflected in the FY2010-2011 budget while expenditures are being held to a 3% increase. In full recognition of the fiscal challenges that remain, the budget was developed to maintain a sound fiscal posture, present a balanced General Fund and enhance contingency reserve levels in light of historic economic uncertainties. Key upcoming budget highlights are noted below:

- The budget projects an increase of 1% 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 makes up about 45% of all governmental funds revenue.
- Other taxes are estimated to experience modest increases. Utilizing the most recent data and regional and national trends, sales tax revenue is projected to decline by 2% as opposed to a prior year drop of 15%. Hotel occupancy tax is expected to have a turnaround increasing by 17% along with utility users tax projected to come in at 11% above prior year results.
- Although the housing resale market has been sluggish this past year, planning and building activity has shown strength. This trend, combined with significant planned commercial developments, has influenced a 15% projected increase in this revenue base as opposed to budget declines in the prior year.
- Franchise fees are projected to grow 26% bolstered by the recent increase in the newly-established waste hauling contract.
- No new positions were added with the number of authorized positions remaining unchanged at 130.
- General operational costs were again trimmed by 2.5% using a series of expense cuts and deferrals. This budget also maintained nine frozen positions city-wide subject to strategic and fiscal review during the budget year.
- The next year budget honors existing multi-year labor contracts. Of our 130 authorized positions, seventy (70) are represented and forty-nine (49) are not represented, excluding department directors/managers. Other salary levels were held flat.
- Overall PERS pension rates were adjusted downward as result of the pay-down of the City's side-fund liability. Rates for public safety employees decreased 8% while those for miscellaneous employees increased by 0.156%. Health insurance will increase by 7.5% based upon the coverage identified in the labor agreements.
- The strengthening of the "State Revenue Stabilization Reserve" continues in addressing the possibility of a State takeaway. Revenue sources that could be targeted by the State include the COPS grant proceeds, motor vehicle licensing fees and gas tax. A total of \$730,000 has been directed into this reserve to mitigate the loss of any State subvention monies. The City also continues to make progress on its goal to establish a 20% General Fund contingency fund reserve.

- The planning and design process for the development of the civic center continues. This process has undergone the final stages of the design with Council. An extensive outreach to the community has taken place to date and the consideration of a variety of funding options will evolve in 2011. 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 budget further augments the funding of Other Post Employee Benefits (OPEB) through the establishment of an internal set-aside reserve of \$200,000.

For a more current discussion of the state of the economy beyond those assumptions made in the FY2010-2011 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



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City of Los Altos
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 40,569,148	\$ 8,821,835	\$ 49,390,983
Accounts receivable, net	1,393,301	360,355	1,753,656
Interest receivable	85,956	-	85,956
Prepaid items and inventory	16,236	-	16,236
Total current assets	42,064,641	9,182,190	51,246,831
Noncurrent assets:			
Restricted cash and investments	172,039	-	172,039
Deferred Charges	80,344	-	80,344
Net pension asset	3,005,795	-	3,005,795
Capital assets:			
Nondepreciable assets	15,469,454	1,638,957	17,108,411
Depreciable assets, net	45,399,146	12,655,724	58,054,870
Total capital assets	60,868,600	14,294,681	75,163,281
Less accumulated depreciation	(16,242,559)	(10,742,979)	(26,985,538)
Capital assets, net	44,626,041	3,551,702	48,177,743
Total noncurrent assets	47,884,219	3,551,702	51,435,921
Total assets	89,948,860	12,733,892	102,682,752
LIABILITIES			
Current liabilities:			
Accounts payable	1,321,446	321,842	1,643,288
Interest payable	13,213	-	13,213
Accrued liabilities	652,896	29,574	682,470
Other payable	409,529	-	409,529
Unearned revenue	1,380	-	1,380
Compensated absences payable - due within one year	338,336	12,267	350,603
Claims and judgments payable-due within one year	316,185	-	316,185
Long-term debt - due within one year	85,000	-	85,000
Total current liabilities	3,137,985	363,683	3,501,668
Noncurrent liabilities:			
Compensated absences payable	1,215,006	36,803	1,251,809
OPEB liability	376,305	15,190	391,495
Claims and judgments payable	1,791,716	-	1,791,716
Long-term debt - due in more than a year	1,945,000	-	1,945,000
Total noncurrent liabilities	5,328,027	51,993	5,380,020
Total liabilities	8,466,012	415,676	8,881,688
NET ASSETS			
Invested in capital assets, net of related debt	42,596,041	3,551,702	46,147,743
Restricted for:			
Debt service	368,591	-	368,591
Special projects and programs	3,030,187	-	3,030,187
Other purpose	12,000	-	12,000
Total restricted	3,410,778	-	3,410,778
Unrestricted	35,476,029	8,766,514	44,242,543
Total net assets	\$ 81,482,848	\$ 12,318,216	\$ 93,801,064

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, 2010

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Public safety	\$ 13,812,001	\$ 465,845	\$ 101,516	\$ -	\$ 567,361
Public works	5,169,674	152,152	462,114	984,007	1,598,273
Recreation	2,460,049	1,498,245	-	-	1,498,245
Community development	3,961,602	2,954,200	56,023	6,823	3,017,046
Admin / community services	3,794,139	1,097,129	130,699	199,867	1,427,695
Interest on long-term debt	83,158	-	-	-	-
Total governmental activities	29,280,623	6,167,571	750,352	1,190,697	8,108,620
Business-type activities:					
Sewer	4,438,067	5,413,314	-	-	5,413,314
Solid waste	1,825,616	1,656,484	-	-	1,656,484
Storm Drain	199,189	-	-	-	-
Total business-type activities	6,462,872	7,069,798	-	-	7,069,798
Total primary government	\$ 35,743,495	\$ 13,237,369	\$ 750,352	\$ 1,190,697	\$ 15,178,418

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, as restated

Net assets - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (13,244,640)	\$ -	\$ (13,244,640)
(3,571,401)	-	(3,571,401)
(961,804)	-	(961,804)
(944,556)	-	(944,556)
(2,366,444)	-	(2,366,444)
(83,158)	-	(83,158)
<u>(21,172,003)</u>	<u>-</u>	<u>(21,172,003)</u>
-	975,247	975,247
-	(169,132)	(169,132)
-	(199,189)	(199,189)
<u>-</u>	<u>606,926</u>	<u>606,926</u>
<u>(21,172,003)</u>	<u>606,926</u>	<u>(20,565,077)</u>
13,051,308	-	13,051,308
2,255,527	-	2,255,527
2,514,880	-	2,514,880
2,453,206	-	2,453,206
1,436,928	-	1,436,928
<u>21,711,849</u>	<u>-</u>	<u>21,711,849</u>
340,893	53,483	394,376
286,027	-	286,027
(239,238)	239,238	-
<u>22,099,531</u>	<u>292,721</u>	<u>22,392,252</u>
927,528	899,647	1,827,175
<u>80,555,320</u>	<u>11,418,569</u>	<u>91,973,889</u>
<u>\$ 81,482,848</u>	<u>\$ 12,318,216</u>	<u>\$ 93,801,064</u>



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FUND FINANCIAL STATEMENTS

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



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GOVERNMENTAL FUND FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be major funds by the City in the fiscal year 2009-10. 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, maintenance services, community development and recreation activities.

Real Property Proceeds

Accounts for the proceeds from the sale of the property.

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, 2010

	Major Funds				
	General	Real Property Proceeds	Capital Projects	Equipment Replacement Capital Projects	Community Facilities Renewal Capital Projects
ASSETS					
Cash and investments	\$ 8,135,883	\$ 6,421,996	\$ 11,973,870	\$ 4,388,583	\$ 3,665,592
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	768,638	-	166,968	-	-
Interest	85,956	-	-	-	-
Prepays	14,787	-	-	-	-
Inventory	1,449	-	-	-	-
Total assets	\$ 9,006,713	\$ 6,421,996	\$ 12,140,838	\$ 4,388,583	\$ 3,665,592
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 893,399	\$ -	\$ 387,043	\$ -	\$ -
Accrued liabilities	652,896	-	-	-	-
Other payable	409,529	-	-	-	-
Deferred revenue	330	-	1,050	-	-
Total liabilities	1,956,154	-	388,093	-	-
Fund Balances:					
Reserved for:					
Encumbrances	114,373	-	-	-	-
Veteran Memorial	12,000	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Special programs and projects	-	-	265,963	-	-
Inventory and prepaids	16,236	-	-	-	-
Total reserved	142,609	-	265,963	-	-
Unreserved, designated for:					
Emergency and operating	3,726,228	-	-	-	-
Capital projects	-	-	9,622,191	-	-
State Budget Stabilization	730,000	-	-	-	-
OPEB	100,000	-	-	-	-
Unreserved, undesignated, reported in:					
General fund	2,351,722	-	-	-	-
Special revenue funds	-	6,421,996	-	-	-
Capital project funds	-	-	1,864,591	4,388,583	3,665,592
Total fund balances	7,050,559	6,421,996	11,752,745	4,388,583	3,665,592
Total liabilities and fund balances	\$ 9,006,713	\$ 6,421,996	\$ 12,140,838	\$ 4,388,583	\$ 3,665,592

See accompanying Notes to Basic Financial Statements.



Non-Major Governmental	
Funds	Total
\$ 2,923,603	\$ 37,509,527
172,039	172,039
46,320	981,926
-	85,956
-	14,787
-	1,449
<u>\$ 3,141,962</u>	<u>\$ 38,765,684</u>

\$ 9,147	\$ 1,289,589
-	652,896
-	409,529
-	1,380
<u>9,147</u>	<u>2,353,394</u>

-	114,373
-	12,000
368,591	368,591
-	-
2,764,224	3,030,187
-	16,236
<u>3,132,815</u>	<u>3,541,387</u>

-	3,726,228
-	9,622,191
-	730,000
-	100,000
-	-
-	2,351,722
-	6,421,996
-	9,918,766
<u>3,132,815</u>	<u>36,412,290</u>
<u>\$ 3,141,962</u>	<u>\$ 38,765,684</u>



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City of Los Altos
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds \$ 36,412,290

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 44,626,041

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. 400,000

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. (13,213)

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. 931,238

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. 80,344

Net pension asset was not current financial resources. Therefore, it was not reported in the governmental funds. 3,005,795

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 (85,000)

Long-term liabilities - non-current portion (1,945,000)

OPEB liability (376,305)

Compensated Absences - current portion (338,336)

Compensated Absences - non-current portion (1,215,006)

Total long-term liabilities (3,959,647)

Net Assets of Governmental Activities \$ 81,482,848

City of Los Altos
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	Major Funds				
	General	Real Property Proceeds	Capital Projects	Equipment Replacement Capital Projects	Community Facilities Renewal Capital Projects
REVENUES:					
Taxes	\$ 17,545,329	\$ -	\$ -	\$ -	\$ -
Licenses and permits and park-in-lieu	3,024,499	-	-	-	-
Intergovernmental	2,729,592	-	383,388	-	-
Grants and donations	103,456	-	271,864	-	-
Charges for services	3,494,047	-	-	-	-
Fines and forfeitures	208,245	-	-	-	-
Interest and rentals	343,923	135,220	-	-	-
Other	338,825	-	404,418	-	-
Total revenues	27,787,916	135,220	1,059,670	-	-
EXPENDITURES:					
General government:					
Public safety	12,993,671	-	236,517	-	-
Public works	3,833,794	-	586,385	-	-
Recreation	1,894,999	-	98,355	-	-
Community development	3,160,444	-	574,897	-	-
Admin / Community services	3,426,713	-	102,911	-	-
Capital improvements	-	-	2,784,189	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	25,309,621	-	4,383,254	-	-
REVENUES OVER (UNDER) EXPENDITURES	2,478,295	135,220	(3,323,584)	-	-
OTHER FINANCING SOURCES (USES):					
Transfers in	1,256,527	-	1,313,603	-	-
Transfers out	(1,367,298)	-	(622,785)	-	-
Total other financing sources (uses)	(110,771)	-	690,818	-	-
SPECIAL ITEM:					
PERS Side Fund Pay Down	(3,005,795)	-	-	-	-
Proceeds from sale of capital assets	-	2,166,667	-	-	-
Total special item	(3,005,795)	2,166,667	-	-	-
Net change in fund balance	(638,271)	2,301,887	(2,632,766)	-	-
FUND BALANCES:					
Beginning of year, as restated	7,688,830	4,120,109	14,385,511	4,388,583	3,665,592
End of year	\$ 7,050,559	\$ 6,421,996	\$ 11,752,745	\$ 4,388,583	\$ 3,665,592

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental Funds		Total
\$ -	\$ 17,545,329	
-	3,024,499	
567,014	3,679,994	
183,706	559,026	
-	3,494,047	
37,760	246,005	
25,259	504,402	
650,844	1,394,087	
<u>1,464,583</u>	<u>30,447,389</u>	
-	13,230,188	
-	4,420,179	
-	1,993,354	
34,788	3,770,129	
70,111	3,599,735	
-	2,784,189	
85,000	85,000	
81,181	81,181	
<u>271,080</u>	<u>29,963,955</u>	
<u>1,193,503</u>	<u>483,434</u>	
210,845	2,780,975	
<u>(1,030,130)</u>	<u>(3,020,213)</u>	
<u>(819,285)</u>	<u>(239,238)</u>	
-	(3,005,795)	
-	2,166,667	
-	(839,128)	
<u>374,218</u>	<u>(594,932)</u>	
<u>2,758,597</u>	<u>37,007,222</u>	
<u>\$ 3,132,815</u>	<u>\$ 36,412,290</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, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (594,932)
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.	2,970,102
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.	(1,432,623)
Net Loss from Capital Asset disposal 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.	(697)
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.	(165,120)
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.	(193,753)
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.	
Principal payment	85,000
Amortization of cost issuance	(6,687)
Governmental funds reported PERS Side Fund Pay Down as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, this expenditures is capitalized and allocated over the remaining amortization period.	3,005,795
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.	4,710
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.	(577,600)
Change in Net Assets of Governmental Activities	\$ 927,528

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

To account for the collection and disposal of solid waste, a self supporting activity that provides service on a user charge basis.

Storm Drain

To account for the operation of the City's urban runoff and storm drain activities.

City of Los Altos
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Major Enterprise Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 8,003,280	\$ 675,707	\$ 142,848	\$ 8,821,835	\$ 3,059,621
Receivables:					
Accounts	145,569	214,786	-	360,355	11,375
Total current assets	8,148,849	890,493	142,848	9,182,190	3,070,996
Noncurrent assets:					
Capital assets:					
Nondepreciable	1,638,957	-	-	1,638,957	-
Depreciable	10,686,503	-	1,969,221	12,655,724	-
Less accumulated depreciation	(8,773,830)	-	(1,969,149)	(10,742,979)	-
Total capital assets, net	3,551,630	-	72	3,551,702	-
Total noncurrent assets	3,551,630	-	72	3,551,702	-
Total assets	11,700,479	890,493	142,920	12,733,892	3,070,996
LIABILITIES					
Current liabilities:					
Accounts payable	140,950	180,892	-	321,842	31,857
Accrued liabilities	23,518	1,782	4,274	29,574	-
Compensated absences - current portion	12,267	-	-	12,267	-
Claims and judgments - current portion	-	-	-	-	316,185
Total current liabilities	176,735	182,674	4,274	363,683	348,042
Noncurrent liabilities:					
Compensated absences - noncurrent portion	36,803	-	-	36,803	-
OPEB liabilities	12,451	1,022	1,717	15,190	-
Claims and judgments - noncurrent portion	-	-	-	-	1,791,716
Total noncurrent liabilities	49,254	1,022	1,717	51,993	1,791,716
Total liabilities	225,989	183,696	5,991	415,676	2,139,758
NET ASSETS					
Invested in capital assets, net of related debt	3,551,630	-	72	3,551,702	-
Unrestricted	7,922,860	706,797	136,857	8,766,514	931,238
Total net assets	\$ 11,474,490	\$ 706,797	\$ 136,929	\$ 12,318,216	\$ 931,238

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, 2010

	Major Enterprise Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities Internal Service Funds
OPERATING REVENUES:					
Charges for services	\$ 5,359,806	\$ 1,656,484	\$ -	\$ 7,016,290	\$ 1,198,373
Other	53,508	-	-	53,508	17,752
Total operating revenues	5,413,314	1,656,484	-	7,069,798	1,216,125
OPERATING EXPENSES:					
Outside services	2,581,487	1,725,556	66,151	4,373,194	103,827
Employee services	631,931	85,567	129,995	847,493	-
Repairs and maintenance	1,045,381	1,193	2,993	1,049,567	-
Claims reimbursement	-	-	-	-	1,363,751
Insurance	43,000	13,300	-	56,300	275,349
Administration	-	-	-	-	50,798
Depreciation	136,268	-	50	136,318	-
Total operating expenses	4,438,067	1,825,616	199,189	6,462,872	1,793,725
OPERATING INCOME (LOSS)	975,247	(169,132)	(199,189)	606,926	(577,600)
NONOPERATING REVENUE:					
Interest	46,896	6,587	-	53,483	-
Total nonoperating revenues	46,896	6,587	-	53,483	-
INCOME (LOSS) BEFORE TRANSFERS	1,022,143	(162,545)	(199,189)	660,409	(577,600)
TRANSFERS:					
Transfers in	147,282	-	91,956	239,238	-
Total transfers	147,282	-	91,956	239,238	-
Change in net assets	1,169,425	(162,545)	(107,233)	899,647	(577,600)
NET ASSETS:					
Beginning of the year	10,305,065	869,342	244,162	11,418,569	1,508,838
End of the year	\$ 11,474,490	\$ 706,797	\$ 136,929	\$ 12,318,216	\$ 931,238

See accompanying Notes to Basic Financial Statements.

City of Los Altos
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2010

	Major Enterprise Funds			Total	Governmental
	Sewer	Solid Waste	Storm Drain		Activities
					Internal Service
					Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 5,590,599	\$ 1,654,012	\$ -	\$ 7,244,611	\$ -
Cash received from other funds	-	-	-	-	1,218,572
Cash payments to suppliers for goods and services	(3,911,827)	(1,840,119)	(67,092)	(5,819,038)	-
Cash payments to employees for services	(632,388)	(85,046)	(129,120)	(846,554)	-
Cash payments to claimants	-	-	-	-	(461,305)
Insurance premiums and settlements	(43,000)	(13,300)	-	(56,300)	(417,816)
Net cash provided (used) by operating activities	1,003,384	(284,453)	(196,212)	522,719	339,451
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	147,282	-	91,956	239,238	-
Net cash provided by noncapital financing activities	147,282	-	91,956	239,238	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital asset additions	(371,644)	-	-	(371,644)	-
Net cash provided by capital and related financing activities	(371,644)	-	-	(371,644)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest	46,896	6,587	-	53,483	-
Net cash provided by investing activities	46,896	6,587	-	53,483	-
Net increase (decrease) in cash and cash equivalents	825,918	(277,866)	(104,256)	443,796	339,451
CASH AND CASH EQUIVALENTS:					
Beginning of year	7,177,362	953,573	247,104	8,378,039	2,720,170
End of year	\$ 8,003,280	\$ 675,707	\$ 142,848	\$ 8,821,835	\$ 3,059,621
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 975,247	\$ (169,132)	\$ (199,189)	\$ 606,926	\$ (577,600)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	136,268	-	50	136,318	-
Changes in assets and liabilities:					
Accounts receivable	177,285	(2,472)	-	174,813	28,940
Accounts payable	(291,897)	(112,728)	-	(404,625)	12,158
Accrued liabilities	6,938	(642)	2,052	8,348	-
Due to other funds	-	-	-	-	(26,493)
Compensated absences	(6,803)	-	-	(6,803)	-
OPEB liabilities	6,346	521	875	7,742	-
Claims and judgments	-	-	-	-	902,446
Total adjustments	28,137	(115,321)	2,977	(84,207)	917,051
Net cash provided (used) by operating activities	\$ 1,003,384	\$ (284,453)	\$ (196,212)	\$ 522,719	\$ 339,451

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.

City of Los Altos
Statement of Fiduciary Net Assets
June 30, 2010

	Agency Funds
ASSETS	
Cash and investments	\$ 1,306,505
Account receivable	2,561
Total assets	\$ 1,309,066
LIABILITIES	
Accounts payable	\$ 183,703
Due to others	1,125,363
Total liabilities	\$ 1,309,066

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. *Financial Reporting Entity*

The City of Los Altos, California, 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 maintenance, 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 fiscal year end. The following entity is a reported component unit:

Blended Component Unit

Community Facility District (District)

The District through issuance of a 1981 Series A Water Bonds, the properties of the North Los Altos Water Company, acquired and sold the assets to California Water Service Company (Cal Water) to furnish service to customers in the North Los Altos service area. This District, originally created on November 9, 1976, was dissolved by Council action in fiscal year 2009-2010 with residual funds returned to the General Fund.

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 which includes 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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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.

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 for goods or services 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
- Internal service fund transactions

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 GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The City has elected not to follow subsequent private-sector guidance.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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.

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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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 for goods or services is incurred.

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 funds are comprised of agency funds used to account for the operating activities and for the special assessment collections pertaining to the North County Library Authority, Raymundo & Avalon curb and gutter districts, and Blue Oak Lane Sewer improvements. Agency funds are custodial in nature (assets equal liabilities), do not involve the measurement of results of operations, and are accounted for on the modified accrual basis of accounting as are governmental funds.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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.

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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. *Cash, Cash Equivalents, and Investments, Continued*

Beginning this fiscal year, the City placed liquid assets in a managed investment account with the goal of enhancing the diversity of its investment holdings. This managed portfolio complies with state code investment requirements in addition to more restrictive City adopted investment policies. Such funds are held independently in City established safekeeping accounts.

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 the time is earned by employees.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. *Compensated Absences, Continued*

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 (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.

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	30-50 years
Equipment	3-10 years
Infrastructure	30-100 years

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Capital Assets, Continued

In June 1999, the 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 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 valuation of the City's infrastructure assets are determined based on 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.

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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Long-Term Debt, Continued

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. Unearned 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.

M. Deferred Revenue

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Net Asset 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

In the fund financial statements, fund balances are classified in three separate categories as follows:

Reserved Fund Balance - This amount is legally segregated for a specific use or not appropriable for expenditures because the underlying asset is not a financial resource available for current appropriation or expenditure.

Unreserved / Designated Fund Balance - This amount indicates tentative management plans for the future use of financial resources.

Unreserved / Undesignated Fund Balance - The unreserved fund balances that remain after designations of fund balances.

O. Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

P. New Pronouncements

In 2010, the City adopted new accounting standards in order to conform to the following GASB Statements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* - This Statement established accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The adoption has no effect on the financial statements.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Cash Deposits

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 49,390,983
Cash and investments held by bond trustee	172,089
Fiducirary funds:	
Cash and Investments	<u>1,306,505</u>
Total cash and investments	<u><u>\$ 50,869,527</u></u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 1,700
Deposits with financial institutions	1,349,695
Investments	<u>49,518,132</u>
Total cash and investments	<u><u>\$ 50,869,527</u></u>

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 Maturity	Maximum % Portfolio	Maximum One Issuer
Local Agency Investment Fund	N/A	N/A	\$50 M
Money Market Mutual Funds	N/A	20%	10%
Certificates of Deposit	3 years	50%	10%
Banker's Acceptance	180 Days	20%	10%
Commercial Paper	180 Days	20%	10%
Repurchase Agreements	15 days	30%	N/A
U.S. Treasury Bills, Notes and Bonds	5 Years	N/A	N/A
U.S. Government-Sponsored Enterprise Agencies	5 Years	N/A	20%
Medium Term Corporate Notes	3 years	15%	5%

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. 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.

Investment held in City Treasury grouped by maturity date at June 30, 2010, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)		
		1 year or Less	2 years	3 years
Money Market	\$ 12,510	\$ 12,510	\$ -	\$ -
Securities of U.S. Government				
Treasury and Agencies:				
Federal Home Loan Bank Bonds (FHLB)	2,020,376	-	1,207,128	813,248
Federal Home Loan Mortg. Corp. Notes (FHLMC)	3,606,816	-	2,001,920	1,604,896
Federal National Mortg. Assn. Notes (FNMA)	3,601,892	-	3,601,892	-
US Securities	2,839,540	-	1,206,420	1,633,120
Local Agency Investment Funds	36,981,058	36,981,058	-	-
Trust Bond Funds	455,940	455,940	-	-
Total	\$ 49,518,132	\$ 37,449,508	\$ 8,017,360	\$ 4,051,264

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.

At June 30, 2010, the City's deposit and investments were rated as follows:

	Credit Quality Ratings		Amount
	Moody's	S&P	
Money Market	Aa3-	A+	12,510
Securities of U.S. Government Agencies:			
Federal Home Loan Bank Bonds (FHLB)	Aaa	AAA	2,020,376
Federal Home Loan Mortg. Corp. Notes (FHLMC)	Aaa	AAA	3,606,816
Federal National Mortg. Assn. Notes (FNMA)	Aaa	AAA	3,601,892
US Securities	Aaa	AAA	2,839,540
Local Agency Investment Funds	Not Rated		36,981,058
Trust Bond Funds	Aaa	AAA	455,940
			<u>49,518,132</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

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, 2010, the City's bank balance was \$1,383,618 and the corresponding carrying balance was \$1,349,695. The difference between the bank balance and the book balance represents outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by federal depository insurance and \$1,133,618 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.

Investment in State Investment Pool: The City is a voluntary participant in 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 City'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, 2010, the City held \$36,981,058 in LAIF, which had invested 5.42% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 14.71% in the previous year. The LAIF fair value factor of 1.001643776 was used to calculate the fair value of the investments in LAIF.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. INTERFUND TRANSACTIONS

Fund Financial Statements

A. Transfers

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

		Transfers In					
		General Fund	Capital Projects	Non-Major Governmental Funds	Enterprise Sewer Fund	Enterprise Storm Drain Fund	Total
Transfers Out	General Fund	\$ -	\$ 930,000	\$ 198,060	\$ 147,282	\$ 91,956	\$ 1,367,298
	Capital project	610,000	-	12,785	-	-	622,785
	Non-major						
	Governmental Funds	646,527	383,603	-	-	-	1,030,130
	Total	<u>\$ 1,256,527</u>	<u>\$ 1,313,603</u>	<u>\$ 210,845</u>	<u>\$ 147,282</u>	<u>\$ 91,956</u>	<u>\$ 3,020,213</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 principal and interest payments become due and to fund assigned and approved capital projects

In this reporting year several closed out assessment and debt service fund balances were dissolved with residual balances transferred into the General and Sewer Fund.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2010, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Construction in progress	\$ 4,064,587	\$ 1,638,957	\$ 5,703,544
Land	11,404,867	-	11,404,867
Total non-depreciable assets	<u>15,469,454</u>	<u>1,638,957</u>	<u>17,108,411</u>
Depreciable assets:			
Buildings	21,685,942	10,151,094	31,837,036
Improvements	2,598,858	1,969,221	4,568,079
Machinery and equipment	3,688,793	535,409	4,224,202
Infrastructure	17,425,553	-	17,425,553
Total depreciable assets	45,399,146	12,655,724	58,054,870
Less accumulated depreciation	<u>(16,242,559)</u>	<u>(10,742,979)</u>	<u>(26,985,538)</u>
Total depreciable assets, net	<u>29,156,587</u>	<u>1,912,745</u>	<u>31,069,332</u>
Total capital assets	<u><u>\$ 44,626,041</u></u>	<u><u>\$ 3,551,702</u></u>	<u><u>\$ 48,177,743</u></u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. 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, 2010:

	Balance July 1, 2009	Additions	Deletions	Transfer	Balance June 30, 2010
Non-depreciable assets:					
Construction in progress	\$ 2,010,160	\$ 2,784,189	\$ -	\$ (729,762)	\$ 4,064,587
Land	11,404,867	-	-	-	11,404,867
Total non-depreciable assets	<u>13,415,027</u>	<u>2,784,189</u>	<u>-</u>	<u>(729,762)</u>	<u>15,469,454</u>
Depreciable assets:					
Buildings	21,668,810	17,132	-	-	21,685,942
Improvements	2,333,630	-	-	265,228	2,598,858
Machinery and equipment	3,771,115	168,781	(251,103)	-	3,688,793
Infrastructure	16,961,019	-	-	464,534	17,425,553
Total depreciable assets	<u>44,734,574</u>	<u>185,913</u>	<u>(251,103)</u>	<u>729,762</u>	<u>45,399,146</u>
Accumulated depreciation:					
Buildings	(6,508,702)	(451,405)	-	-	(6,960,107)
Improvements	(1,040,385)	(100,733)	-	-	(1,141,118)
Machinery and equipment	(2,273,638)	(353,878)	250,406	-	(2,377,110)
Infrastructure	(5,237,617)	(526,607)	-	-	(5,764,224)
Total accumulated depreciation	<u>(15,060,342)</u>	<u>(1,432,623)</u>	<u>250,406</u>	<u>-</u>	<u>(16,242,559)</u>
Total depreciable assets, net	<u>29,674,232</u>	<u>(1,246,710)</u>	<u>(697)</u>	<u>729,762</u>	<u>29,156,587</u>
Total governmental activities capital assets, net	<u>\$ 43,089,259</u>	<u>\$ 1,537,479</u>	<u>\$ (697)</u>	<u>\$ -</u>	<u>\$ 44,626,041</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2010 are as follows:

Public Safety	\$ 219,941
Public Works	628,858
Recreation	440,594
Community Development	41,471
Admin / Community Services	101,759
Total depreciation expense	\$ 1,432,623

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

	Balance <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2010</u>
Non Depreciable assets:				
Construction in progress	\$ 1,273,583	\$ 365,374	\$ -	\$ 1,638,957
Total non-depreciable assets	<u>1,273,583</u>	<u>365,374</u>	<u>-</u>	<u>1,638,957</u>
Depreciable assets:				
Buildings	\$ 10,151,094	\$ -	\$ -	\$ 10,151,094
Infrastructure	1,969,221	-	-	1,969,221
Machinery and equipment	529,138	6,271	-	535,409
Total depreciable assets	<u>12,649,453</u>	<u>6,271</u>	<u>-</u>	<u>12,655,724</u>
Accumulated depreciation:				
Buildings	(8,190,664)	(100,311)	-	(8,290,975)
Infrastructure	(1,969,099)	(50)	-	(1,969,149)
Machinery and equipment	(446,898)	(35,957)	-	(482,855)
Total accumulated depreciation	<u>(10,606,661)</u>	<u>(136,318)</u>	<u>-</u>	<u>(10,742,979)</u>
Total depreciable assets, net	<u>2,042,792</u>	<u>(130,047)</u>	<u>-</u>	<u>1,912,745</u>
Total business-type activities capital assets, net	<u>\$ 3,316,375</u>	<u>\$ 235,327</u>	<u>\$ -</u>	<u>\$ 3,551,702</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense for business-type activities for the year ended June 30, 2010 is as follows:

Sewer	\$	136,268
Storm drain		<u>50</u>
Total	\$	<u><u>136,318</u></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.

5. NET PENSION ASSET

In fiscal year 2010, the City prepaid the City's unfunded PERS side fund in the amount of \$3,005,795. This prepayment has been recorded on the Statement of Net Assets as a Net Pension Asset.

In accordance with GASB Statement No. 27, the net pension asset will be amortized using the same amortization methodology utilized by PERS to calculate the Annual Required Contribution (ARC) each year. A summary of the methodology used is as follows:

Amortization Method	Level Percent of Payroll
Average Remaining Period (as of 6/30/2010)	16 years
Investment Rate of Return	7.75% (net of administrative expenses)
Payroll Growth	3.25%

Interest on the Net Pension Asset (NPA) is calculated as a percentage of the NPA's balance at the beginning of each year based on the investment rate of return stated above and is added to the balance of the NPA for that year.

A summary of the changes to the NPA for the year ended June 30, 2010 is as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Governmental Activities	<u>\$ -</u>	<u>\$ 3,005,795</u>	<u>\$ -</u>	<u>\$ 3,005,795</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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, 2010 is as follows:

	Balance <u>July 1, 2009</u>	Debt <u>Issued</u>	Debt <u>Retired</u>	Balance <u>June 30, 2010</u>	Due in <u>One Year</u>	Due in More <u>Than One Year</u>
Certificate of participation	\$ 2,115,000	\$ -	\$ (85,000)	\$ 2,030,000	\$ 85,000	\$ 1,945,000
Total	<u>\$ 2,115,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 2,030,000</u>	<u>\$ 85,000</u>	<u>\$ 1,945,000</u>

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 future debt service payments.

At June 30, 2010, future debt service requirements for the 2004 Refunding were as follows:

For the Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	100,000	66,918	166,918
2016-2020	560,000	278,600	838,600
2021-2025	685,000	157,575	842,575
2026-2027	320,000	20,613	340,613
Total	<u>\$ 2,030,000</u>	<u>\$ 819,120</u>	<u>\$ 2,849,120</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

6. LONG-TERM DEBT, Continued

B. Non-City Obligation

The following bond issue is not reported in the City's financial statements, because it is considered special obligations payable solely from and secured by specific revenue sources described in the resolutions and official statements of the respective issues. Neither the faith and credit nor the taxing power of the City is pledged for payment of these bonds.

	Balance July 1, 2009	Debt Issued	Debt Retired	Balance June 30, 2010	Due in One Year	Due in More Than One Year
Raymundo & Avalon	290,000	-	(22,000)	268,000	23,000	245,000
Blue Oak Lane	-	662,880	-	662,880	-	662,880
Total	<u>\$ 290,000</u>	<u>\$ 662,880</u>	<u>\$ (22,000)</u>	<u>\$ 930,880</u>	<u>\$ 23,000</u>	<u>\$ 907,880</u>

Raymundo & Avalon Special Assessment Districts

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. Avalon Drive improvement bonds were issued for a similar purpose in 2000. The bonds are payable from a special property tax levied to those residents living within the District.

Blue Oak Lane Special Assessment District

On November 5, 2009, Limited Obligation Improvement Bonds were issued for a newly formed Blue Oak Lane Sewer Assessment District (series 2009) to finance the acquisition and construction, by the City, of sanitary sewer improvements serving property within the subject assessment district. These bonds are issued upon and secured by individual parcel levied assessments to be included in the annual property tax billings annually. The Bonds mature in 2039, were issued in a principal amount of \$662,880 and are subject to semiannual debt service payments administered by the City.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. COMPENSATED ABSENCES

The City's compensated absences at June 30, 2010, were as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Balance Due Within One Year	Balance Due in More Than One Year
Governmental	\$ 1,388,222	\$ 1,082,351	\$ (917,231)	\$ 1,553,342	\$ 338,336	\$ 1,215,006
Business-type activities	55,873	31,172	(37,975)	49,070	12,267	36,803
Total	<u>\$ 1,444,095</u>	<u>\$ 1,113,523</u>	<u>\$ (955,206)</u>	<u>\$ 1,602,412</u>	<u>\$ 350,603</u>	<u>\$ 1,251,809</u>

8. 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 Plan (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 upper limit. During the year ended June 30, 2010, the City contributed \$219,503 for current year coverage.

ABAG is governed by a board of directors (BOD) consisting of representatives from member municipalities. The BOD controls the operations of ABAG, including selection of management and approval of operating budgets.

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.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

8. RISK MANAGEMENT, Continued

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, 2010. During the year ended June 30, 2010, the City contributed \$106,644 for current year coverage. Effective July 1, 2010, this deductible level was lowered to \$250,000.

As of June 30, 2010, \$50,000 of revolving funds was held in trust on behalf of the City by the workers’ compensation third party claims administrator (TPA). The City will receive the funds upon termination of services with the TPA.

Liability for Uninsured Claims

The 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,		
	2010	2009	2008
Unpaid claims, beginning of year	\$ 1,205,455	\$ 1,159,345	\$ 834,764
Incurred claims and changes in estimates	1,363,751	691,915	993,859
Claim payments	(461,305)	(645,805)	(669,278)
Unpaid claims, end of year	\$ 2,107,901	\$ 1,205,455	\$ 1,159,345

In conformance with Statement GASB 10, the City obtained an independent actuarial valuation of all outstanding Workers Compensation and Liability claims. The report presented a valuation as of June 30, 2009 and projected values through 2014. The 2010 estimated presented above reflect the estimated present value of open claims as developed in this actuarial report. The estimated amount of claims and judgments due within one year is \$316,185.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

9. SELF-FUNDED REIMBURSEMENT DENTAL PLAN

The City provides a self-funded reimbursement based dental plan. The City’s contribution for this plan is accounted for in the Dental Reimbursement Fund. In fiscal years 2008, 2009 and 2010, 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 first submit the dental claims to the insurance carrier or other plan. There are no administrative charges for this plan. The dental fund maintains a positive fund balance with contributions and reimbursements for the past three fiscal years as follows:

Fiscal Year Ended	Contribution Amount	Reimbursement Amount
2007-2008	96,480	99,866
2008-2009	96,480	112,690
2009-2010	92,213	111,342

For dental years 2007 and 2008 the plan began on November 1 and ended on October 31. In FY 2008-2009, City Council modified the dental year to commence January 1st of each calendar year with the exception of the first new dental year which began on November 1, 2008 and ends on December 31, 2009. Benefits were also modified increasing the annual maximum dental reimbursement to \$1,500 for each employee and \$1,000 for each dependent. Any remaining balance in the fund for each dental year is carried forward to the following year. 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%.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

10. 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 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 \$946,944 for the year ended June 30, 2010. The City was required to contribute at an actuarial determined rate of 19.992% for the period from July 1, 2009 through June 30, 2010 of annual covered payroll for safety employees and 14.686% 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. In this fiscal year of reporting the City paid down the safety Side Fund liability using planned designated reserves in the amount of \$3 million. Consequently, as of June 30, 2010, the estimated balance of the Side Fund for the public safety plan was reduced to approximately \$500,000. The estimated balance of the Side Fund for the miscellaneous plan is approximately \$1.7 million.

Annual Pension Cost – For FY 2009-2010, the City's annual pension cost of \$1,842,949 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions utilized by PERS include (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, 2010

10. PENSION PLANS, Continued

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)		Percentage of APC Contributed	Net Pension Obligation
	Miscellaneous	Safety		
06/30/2008	\$ 988,777	\$ 866,271	100%	\$ -
06/30/2009	1,103,628	917,412	100%	-
06/30/2010	1,172,340	670,609	262%	-

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 employee plans is no longer available or disclosed.

11. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City 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 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 2010, 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 continues to pay for retiree healthcare benefits on a pay-as-you go basis. This reporting year the City contributed \$19,505 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

In FY 2009-2010, the City initiated the funding of an internal reserve for outstanding OPEB obligations. As of June 30, 2010, \$100,000 has been designated as a General Fund reserve with future budgets projected to make increased annual contributions thereafter.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

11. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued

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.

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	\$ 227,000
Interest on net OPEB obligation	8,000
Amortization of net OPEB obligation	<u>(14,000)</u>
Annual OPEB cost (expense)	221,000
Payments made	<u>(19,505)</u>
Increase in net OPEB obligation	201,495
Net OPEB obligation - beginning of year	<u>190,000</u>
Net OPEB obligation - end of year	<u>391,495</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2009-2010 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Cumulative OPEB Obligation
6/30/08	N/A	N/A	N/A	
6/30/09	207,000	8.0%	190,000	190,000
6/30/10	221,000	9.0%	201,495	391,495

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

11. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued

Funded Status and Funding Progress. The funded status of the Plan as of January 1, 2010, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 1,662,000
Actuarial value of Plan assets	0
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.

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, 2010 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 payrolls over 30 years on a closed basis commencing in 2009.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

12. 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

13. 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.

Joint Sewer System Authority (JSSA)

The 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, 2010

13. OTHER INFORMATION, Continued

North County Library Authority (NCLA)

The 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, 2010, the Special Tax Bonds outstanding debt amounted to \$640,000. This past year, NCLA successfully passed an updated twenty year parcel tax extending the assessment term 2030. No new debt was issued in association with this election. The audited financial statements can be obtained by contacting the NCLA at One North San Antonio Road, Los Altos, CA 94022.

Community Health Awareness Council (CHAC)

The 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.

14. 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. The City received the first of three installment payments at the close of escrow in January 2008 less title and escrow fees and estimated preliminary development costs of \$400,000. Any unused portion of this \$400,000 will be refunded to the City by the end of the fifth year. In 2009-2010, the City received the third and final regular installment of \$2,166,667 leaving the balance of development costs to be collected by 2012.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

15. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period.

The amount of this borrowing pertaining to the City was \$ 1.08 million

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

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

16. RESTATEMENT OF OPENING NET ASSETS AND FUND BALANCE

Net assets and fund balances at July 1, 2009 were restated to correct and eliminate reporting of city administered special assessment limited liability obligation debt. Accordingly, the government-wide Statement of Net Assets no longer includes liabilities for the existing Raymundo & Avalon curb and gutter, all of which are fully collateralized by identified homeowner real-property assessments. The debts are disclosed as part of the non-city obligation in Note 6. Governmental funds were also restated to eliminate this activity and reclassify the Avalon Drive and Raymundo Drive Curb and Gutter Debt Service funds as Agency funds.

The effects of the restatements were as follow:

A. Government-Wide Financial Statements:

	Net Assets, as Previously Reported	Fund Reclassification		Long-term Debt	Net Assets, as Restated
		Avalon Drive Curb and Gutter Debt Service Fund	Raymundo Curb and Gutter Debt Service Fund		
Governmental Activities	\$ 80,345,257	\$ (44,201)	\$ (35,736)	\$ 290,000	\$ 80,555,320

B. Fund Financial Statements:

	Fund Balances as Previously Reported	Fund Reclassification		Fund Balances as Restated
		Avalon Drive Curb and Gutter Debt Service Fund	Raymundo Curb and Gutter Debt Service Fund	
Governmental Funds	\$ 37,087,159	\$ (44,201)	\$ (35,736)	\$ 37,007,222

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

17. SUBSEQUENT EVENT NOTE DISCLOSURE

Developer Agreement

On September 14, 2010 the City approved a development agreement between the City and the David and Lucile Packard Foundation for the Downtown Headquarters Project located at 343 Second Street. The underlying project is a private development with no partnership, joint venture or other association of any kind between City and the Owner.

Under the terms of the agreement the Owner shall pay to the City the sum of \$3,400,000. On the Occupancy Date, Owner shall either make a single payment of full amount concurrently with and as a condition to the issuance of the occupancy approvals or, in the alternative, the Owner may elect to make three equal installment payments commencing on the Occupancy Date itself. Remaining payments are to be made on the next following two anniversaries thereof with any unpaid principal balance shall bear interest at an interest rate equal to the City's average earnings rate.

Land Sale/Purchase Agreement

On September 14, 2010 the City approved an Option to Purchase Agreement for the City owned property located at 230 First Street and 400 Main Street for price of \$3,100,000 and a minimum project scope of a two-story building with 31,000 square feet as represented in the attached Preliminary Development Concept Plan. The agreement is contingent upon a series of milestones and feasibility phases defined within the agreement.

Financial Policies

Subsequent to June 30, 2010, the City adopted an updated financial policy raising the asset capitalization levels to \$5,000 for equipment, buildings & improvements \$25,000, and infrastructure \$100,000.



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REQUIRED SUPPLEMENTARY INFORMATION



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City of Los Altos
Required Supplementary Information
For the year ended June 30, 2010

1. BUDGETS AND BUDGETARY ACCOUNTING

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	\$ 16,434,170	\$ 16,434,170	\$ 17,545,329	\$ 1,111,159
Licenses, permits and park in-lieu	2,545,540	2,545,540	3,024,499	478,959
Intergovernmental	2,890,090	2,890,090	2,729,592	(160,498)
Grants and donations	-	100,000	103,456	3,456
Charges for services	3,335,195	3,335,195	3,494,047	158,852
Fines and forfeitures	246,250	246,250	208,245	(38,005)
Interest and rentals	1,026,500	1,026,500	343,923	(682,577)
Other	169,020	169,020	338,825	169,805
Total revenues	26,646,765	26,746,765	27,787,916	1,041,151
EXPENDITURES:				
Current:				
Public safety	13,456,595	13,720,194	12,993,671	726,523
Public works	3,855,295	3,870,758	3,833,794	36,964
Recreation	2,089,439	2,102,719	1,894,999	207,720
Community development	3,434,930	3,208,653	3,160,444	48,209
Admin / Community services	3,727,760	3,864,222	3,426,713	437,509
Total expenditures	26,564,019	26,766,546	25,309,621	1,456,925
REVENUES OVER (UNDER) EXPENDITURES	82,746	(19,781)	2,478,295	2,498,076
OTHER FINANCING SOURCES (USES):				
Transfers in	1,094,712	1,241,999	1,256,527	14,528
Transfers (out)	(336,955)	(1,341,822)	(1,367,298)	(25,476)
Total other financing sources (uses)	757,757	(99,823)	(110,771)	(10,948)
SPECIAL ITEM:				
PERS Side Fund Pay Down	(3,005,795)	(3,005,795)	(3,005,795)	-
Total special item	(3,005,795)	(3,005,795)	(3,005,795)	-
NET CHANGE IN FUND BALANCE	\$ (2,165,292)	\$ (3,125,399)	(638,271)	\$ 2,487,128
FUND BALANCES:				
Beginning of year			7,688,830	
End of year			\$ 7,050,559	

City of Los Altos
Required Supplementary Information, Continued
For the year ended June 30, 2010

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%

City of Los Altos
Notes to Required Supplementary Information
For the year ended June 30, 2010

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.



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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.

TDA Fund

Used to account for State Transportation Development Act, Article 3 funds for bike route and pedestrian facilities improvements.

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.

* *These funds were expired and formally dissolved in FY2009-2010*

City of Los Altos
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010

	Special Revenue					
	Vehicle Impound	Supplemental Law Enforcement	Gas Taxes	Proposition 1B	Storm Drain Deposits	Community Development Block Grants
ASSETS						
Cash and investments	\$ 476	\$ -	\$ 181,479	\$ 451,367	\$ 56,086	\$ 15,692
Restricted cash and investments	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles):						
Accounts	-	25,000	-	-	-	7,123
Total assets	<u>\$ 476</u>	<u>\$ 25,000</u>	<u>\$ 181,479</u>	<u>\$ 451,367</u>	<u>\$ 56,086</u>	<u>\$ 22,815</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 476	\$ -	\$ -	\$ -	\$ -	\$ 7,455
Total liabilities	<u>476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,455</u>
Fund Balances:						
Reserved:						
Special programs and projects	-	25,000	181,479	451,367	56,086	15,360
Debt service	-	-	-	-	-	-
Unreserved, undesignated	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>25,000</u>	<u>181,479</u>	<u>451,367</u>	<u>56,086</u>	<u>15,360</u>
Total liabilities and fund balances	<u>\$ 476</u>	<u>\$ 25,000</u>	<u>\$ 181,479</u>	<u>\$ 451,367</u>	<u>\$ 56,086</u>	<u>\$ 22,815</u>

Special Revenue					Debt Service					
Downtown Parking	In Lieu Park Land	Traffic Impact Fee	Estate Donation	TDA	North Los Altos Water District	General	Grant Fremont Sewer	Oak Truman Sewer	Morton Alford Sewer	Elmhurst Curb and Gutter
\$ 149,778	\$ 1,284,991	\$ 574,858	\$ 12,324	\$ -	\$ -	\$ 196,552	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	172,039	-	-	-	-
-	-	-	-	14,197	-	-	-	-	-	-
<u>\$ 149,778</u>	<u>\$ 1,284,991</u>	<u>\$ 574,858</u>	<u>\$ 12,324</u>	<u>\$ 14,197</u>	<u>\$ -</u>	<u>\$ 368,591</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 245	\$ -	\$ -	\$ -	\$ 971	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
245	-	-	-	971	-	-	-	-	-	-
149,533	1,284,991	574,858	12,324	13,226	-	-	-	-	-	-
-	-	-	-	-	-	368,591	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
<u>149,533</u>	<u>1,284,991</u>	<u>574,858</u>	<u>12,324</u>	<u>13,226</u>	<u>-</u>	<u>368,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 149,778</u>	<u>\$ 1,284,991</u>	<u>\$ 574,858</u>	<u>\$ 12,324</u>	<u>\$ 14,197</u>	<u>\$ -</u>	<u>\$ 368,591</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

City of Los Altos
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2010

	Debt Service		Total
	Edith Avenue Foothill Noise Wall	El Monte Foothill Noise Wall	Non-Major Governmental Funds
ASSETS			
Cash and investments	\$ -	\$ -	\$ 2,923,603
Restricted cash and investments	-	-	172,039
Receivables (net of allowance for uncollectibles):			
Accounts	-	-	46,320
Total assets	\$ -	\$ -	\$ 3,141,962
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 9,147
Total liabilities	-	-	9,147
Fund Balances:			
Reserved:			
Special programs and projects	-	-	2,764,224
Debt service	-	-	368,591
Unreserved, undesignated	-	-	-
Total fund balances	-	-	3,132,815
Total liabilities and fund balances	\$ -	\$ -	\$ 3,141,962

(Concluded)



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City of Los Altos
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2010

	Special Revenue					
	Vehicle	Supplemental	Gas	Proposition	Storm Drain	Community
	Impound	Law Enforcement	Taxes	1B	Deposits	Development Block Grants
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	100,000	467,014	-	-	-
Grants and donations	-	-	-	-	-	56,023
Fines and forfeitures	37,760	-	-	-	-	-
Interest and rentals	-	-	1,100	3,344	-	-
Other	-	-	-	-	-	-
Total revenues	37,760	100,000	468,114	3,344	-	56,023
EXPENDITURES:						
Current:						
Community development	-	-	-	-	-	-
Admin/community services	-	-	-	-	-	56,355
Capital improvements	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	56,355
REVENUES OVER (UNDER) EXPENDITURES	37,760	100,000	468,114	3,344	-	(332)
OTHER FINANCING SOURCES (USES):						
Transfers in	476	25,000	-	-	-	-
Transfers out	(38,236)	(144,783)	(302,374)	-	-	-
Total other financing sources (uses)	(37,760)	(119,783)	(302,374)	-	-	-
NET CHANGE						
IN FUND BALANCES	-	(19,783)	165,740	3,344	-	(332)
FUND BALANCES:						
Beginning of year, as restated	-	44,783	15,739	448,023	56,086	15,692
End of year	\$ -	\$ 25,000	\$ 181,479	\$ 451,367	\$ 56,086	\$ 15,360

Special Revenue					Debt Service					
Downtown Parking	In Lieu Park Land	Traffic Impact Fee	Estate Donation	TDA	North Los Altos Water District	General	Grant Fremont Sewer	Oak Truman Sewer	Morton Alford Sewer	Elmhurst Curb and Gutter
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	127,683	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
9,454	7,869	3,372	92	-	-	28	-	-	-	-
28,200	468,000	154,644	-	-	-	-	-	-	-	-
37,654	475,869	158,016	92	127,683	-	28	-	-	-	-
34,788	-	-	-	-	-	-	-	-	-	-
-	-	-	-	13,756	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	85,000	-	-	-	-
-	-	-	-	-	-	81,181	-	-	-	-
34,788	-	-	-	13,756	-	166,181	-	-	-	-
2,866	475,869	158,016	92	113,927	-	(166,153)	-	-	-	-
-	-	-	-	12,784	-	165,000	-	-	-	-
-	(154,258)	-	-	(113,485)	(104,308)	-	(38,968)	(57,246)	(51,068)	(603)
-	(154,258)	-	-	(100,701)	(104,308)	165,000	(38,968)	(57,246)	(51,068)	(603)
2,866	321,611	158,016	92	13,226	(104,308)	(1,153)	(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
\$ 149,533	\$ 1,284,991	\$ 574,858	\$ 12,324	\$ 13,226	\$ -	\$ 368,591	\$ -	\$ -	\$ -	\$ -

(Continued)

City of Los Altos
Combining Statement of Revenues, Expenditures and Changes in Fund B
Non-Major Governmental Funds, Continued
For the year ended June 30, 2010

	Debt Service		Total
	Edith Avenue	El Monte	Non-Major
	Foothill Noise	Foothill	Governmental
	Wall	Noise Wall	Funds
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	-	567,014
Grants	-	-	183,706
Fines and forfeitures	-	-	37,760
Interest and rentals	-	-	25,259
Other	-	-	650,844
Total revenues	-	-	1,464,583
EXPENDITURES:			
Current:			
Community development	-	-	34,788
Admin/community services	-	-	70,111
Capital improvements	-	-	-
Debt service:			
Principal	-	-	85,000
Interest and fiscal charges	-	-	81,181
Total expenditures	-	-	271,080
REVENUES OVER (UNDER) EXPENDITURES	-	-	1,193,503
OTHER FINANCING SOURCES (USES):			
Transfers in	7,585	-	210,845
Transfers out	-	(24,801)	(1,030,130)
Total other financing sources (uses)	7,585	(24,801)	(819,285)
NET CHANGE			
IN FUND BALANCES	7,585	(24,801)	374,218
FUND BALANCES:			
Beginning of year, as restated	(7,585)	24,801	2,758,597
End of year	\$ -	\$ -	\$ 3,132,815

(Concluded)

Fiduciary Funds

Agency Funds

North County Library Authority – This fund accounts for the operating activities and the special assessment collection pertaining to the North County Library Authority.

Avalon Drive Curb and Gutter – This fund accounts 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 and Gutter – This fund accounts 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.

Blue Oak Lane Sewer – This fund accounts for the accumulation of resources for payment of the debt service, construction and installation of sanitary sewer systems on Blue Oak Lane funded via November 2009 limited obligation assessment district bonds. The revenue is derived from the special assessment levied to property owners within that improvement district.

City of Los Altos
Combining Statement of Changes in Fiduciary Net Assets and Liabilities
All Agency Funds
For the year ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
North County Library Authority				
Assets:				
Cash and investments	\$ 1,073,478	\$ 718,559	\$ (860,134)	\$ 931,903
Accounts receivable	5,182	-	(3,972)	1,210
Total assets	\$ 1,078,660	\$ 718,559	\$ (864,106)	\$ 933,113
Liabilities:				
Accounts payable	\$ 159,570	\$ 169,983	\$ (159,570)	\$ 169,983
Due to others	919,090	-	(155,960)	763,130
Total liabilities	\$ 1,078,660	\$ 169,983	\$ (315,530)	\$ 933,113
Avalon Drive Curb and Gutter				
Assets:				
Cash and investments	\$ 43,639	\$ 13,465	\$ (12,873)	\$ 44,231
Accounts receivable	562	47	-	609
Total assets	\$ 44,201	\$ 13,512	\$ (12,873)	\$ 44,840
Liabilities:				
Due to others	44,201	639	-	44,840
Total liabilities	\$ 44,201	\$ 639	\$ -	\$ 44,840
Raymundo Curb and Gutter				
Assets:				
Cash and investments	\$ 49,456	\$ 27,382	\$ (28,360)	\$ 48,478
Accounts receivable	-	742	-	742
Total assets	\$ 49,456	\$ 28,124	\$ (28,360)	\$ 49,220
Liabilities:				
Accounts payable	\$ 13,720	\$ -	\$ -	\$ 13,720
Due to others	35,736	-	(236)	35,500
Total liabilities	\$ 49,456	\$ -	\$ (236)	\$ 49,220
Blue Oak Lane Sewer				
Assets:				
Cash and investments	\$ -	\$ 835,763	\$ (553,870)	\$ 281,893
Total assets	\$ -	\$ 835,763	\$ (553,870)	\$ 281,893
Liabilities:				
Due to others	\$ -	\$ 835,763	\$ (553,870)	\$ 281,893
Total liabilities	\$ -	\$ 835,763	\$ (553,870)	\$ 281,893

City of Los Altos

Combining Statement of Changes in Fiduciary Net Assets and Liabilities, Continued

All Agency Funds

For the year ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<hr/> Total Agency Funds <hr/>				
Assets:				
Cash and investments	\$ 1,166,573	\$ 1,595,169	\$ (1,455,237)	\$ 1,306,505
Accounts receivable	5,744	789	(3,972)	2,561
Total assets	\$ 1,172,317	\$ 1,595,958	\$ (1,459,209)	\$ 1,309,066
Liabilities:				
Accounts payable	\$ 173,290	\$ 169,983	\$ (159,570)	\$ 183,703
Due to others	999,027	836,402	(710,066)	1,125,363
Total liabilities	\$ 1,172,317	\$ 1,006,385	\$ (869,636)	\$ 1,309,066

City of Los Altos
Budgetary Comparison Schedule
Gas Taxes
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 499,500	\$ 499,500	\$ 467,014	\$ (32,486)
Interest and rentals	-	-	1,100	1,100
Total revenues	<u>499,500</u>	<u>499,500</u>	<u>468,114</u>	<u>(31,386)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>499,500</u>	<u>499,500</u>	<u>468,114</u>	<u>(31,386)</u>
OTHER FINANCING SOURCES (USES):				
Transfers (out)	(490,500)	(490,500)	(302,374)	188,126
Total other financing sources (uses)	<u>(490,500)</u>	<u>(490,500)</u>	<u>(302,374)</u>	<u>188,126</u>
Net change in fund balances	<u>\$ 9,000</u>	<u>\$ 9,000</u>	165,740	<u>\$ 156,740</u>
FUND BALANCES:				
Beginning of year			<u>15,739</u>	
End of year			<u>\$ 181,479</u>	

City of Los Altos
Budgetary Comparison Schedule
Community Development Block Grant Fund
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Grants and donations	\$ 129,000	\$ 129,000	\$ 56,023	\$ (72,977)
Total revenues	<u>129,000</u>	<u>129,000</u>	<u>56,023</u>	<u>(72,977)</u>
EXPENDITURES:				
Current:				
Admin / community services	42,100	42,100	56,355	(14,255)
Total expenditures	<u>42,100</u>	<u>42,100</u>	<u>56,355</u>	<u>(14,255)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>86,900</u>	<u>86,900</u>	<u>(332)</u>	<u>(87,232)</u>
OTHER FINANCING SOURCES (USES):				
Transfers (out)	(85,000)	(85,000)	-	85,000
Total other financing sources (uses)	<u>(85,000)</u>	<u>(85,000)</u>	<u>-</u>	<u>85,000</u>
Net change in fund balances	<u>\$ 1,900</u>	<u>\$ 1,900</u>	(332)	<u>\$ (2,232)</u>
FUND BALANCES:				
Beginning of year			<u>15,692</u>	
End of year			<u>\$ 15,360</u>	

City of Los Altos
Budgetary Comparison Schedule
Downtown Parking Fund
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Interest and rentals	\$ 11,000	\$ 11,000	\$ 9,454	\$ (1,546)
Other	30,000	30,000	28,200	(1,800)
Total revenues	<u>41,000</u>	<u>41,000</u>	<u>37,654</u>	<u>(3,346)</u>
EXPENDITURES:				
Current:				
Community development	25,000	25,000	34,788	(9,788)
Total expenditures	<u>25,000</u>	<u>25,000</u>	<u>34,788</u>	<u>(9,788)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>16,000</u>	<u>16,000</u>	<u>2,866</u>	<u>(13,134)</u>
FUND BALANCES:				
Beginning of year			<u>146,667</u>	
End of year			<u>\$ 149,533</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.



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City of Los Altos
Combining Statement of Net Assets
Internal Service Funds
June 30, 2010

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
ASSETS					
Current assets:					
Cash and investments	\$ 167,058	\$ 18,418	\$ 1,914,086	\$ 960,059	\$ 3,059,621
Accounts receivable	-	-	656	10,719	11,375
Total assets	167,058	18,418	1,914,742	970,778	3,070,996
LIABILITIES					
Current liabilities:					
Accounts payable	6,276	-	14,561	11,020	31,857
Claims and judgments - current portion	-	-	265,565	50,620	316,185
Noncurrent liabilities:					
Claims and judgments - noncurrent portion	-	-	1,504,869	286,847	1,791,716
Total liabilities	6,276	-	1,784,995	348,487	2,139,758
NET ASSETS					
Unrestricted	160,782	18,418	129,747	622,291	931,238
Total net assets	\$ 160,782	\$ 18,418	\$ 129,747	\$ 622,291	\$ 931,238

City of Los Altos
Combining Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Funds
For the year ended June 30, 2010

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
OPERATING REVENUES:					
Charges for services	\$ 92,213	\$ 78,015	\$ 609,000	\$ 419,145	\$ 1,198,373
Other	1,775	-	-	15,977	17,752
Total operating revenues	93,988	78,015	609,000	435,122	1,216,125
OPERATING EXPENSES:					
Outside services	-	-	7,796	96,031	103,827
Claims reimbursement	111,342	33,104	976,836	242,469	1,363,751
Insurance	-	-	55,846	219,503	275,349
Administration	-	-	50,798	-	50,798
Total operating expenses	111,342	33,104	1,091,276	558,003	1,793,725
OPERATING INCOME (LOSS)	(17,354)	44,911	(482,276)	(122,881)	(577,600)
NET ASSETS:					
Beginning of the year	178,136	(26,493)	612,023	745,172	1,508,838
End of the year	\$ 160,782	\$ 18,418	\$ 129,747	\$ 622,291	\$ 931,238

City of Los Altos
Combining Statement of Cash Flows
Internal Service Funds
For the year ended June 30, 2010

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
CASH FLOWS FROM					
OPERATING ACTIVITIES:					
Cash received from other funds	\$ 93,988	\$ 51,522	\$ 637,940	\$ 435,122	\$ 1,218,572
Cash payments to claimants	(111,342)	(33,104)	(219,896)	(96,963)	(461,305)
Insurance premiums and administration	(964)	-	(110,529)	(306,323)	(417,816)
Net cash provided (used) by operating activities	(18,318)	18,418	307,515	31,836	339,451
CASH AND INVESTMENTS:					
Beginning of year	185,376	-	1,606,571	928,223	2,720,170
End of year	\$ 167,058	\$ 18,418	\$ 1,914,086	\$ 960,059	\$ 3,059,621
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (17,354)	\$ 44,911	\$ (482,276)	\$ (122,881)	\$ (577,600)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Changes in assets and liabilities:					
Accounts receivable	-	-	28,940	-	28,940
Accounts payable	(964)	-	3,911	9,211	12,158
Due to other funds	-	(26,493)	-	-	(26,493)
Claims and judgments payable	-	-	756,940	145,506	902,446
Net cash provided (used) by operating activities	\$ (18,318)	\$ 18,418	\$ 307,515	\$ 31,836	\$ 339,451



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STATISTICAL SECTION (Unaudited)



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Statistical Section **June 30, 2010**

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

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.



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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	2009-10
<i>Governmental activities</i>								
Invested in capital assets, net of related debt	\$ 38,536	\$ 38,589	\$ 39,023	\$ 37,877	\$ 38,186	\$ 40,251	\$ 40,684	\$ 42,596
Restricted	2,007	2,081	3,792	2,403	2,709	3,366	3,477	3,411
Unrestricted	14,699	16,114	16,178	23,343	27,386	37,038	36,184	35,476
<i>Total governmental activities net assets</i>	<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>	<u>81,483</u>
<i>Business-type activities</i>								
Invested in capital assets, net of related debt	\$ 2,760	\$ 2,646	\$ 2,510	\$ 2,527	\$ 2,388	\$ 2,219	\$ 3,316	\$ 3,552
Restricted	-	-	-	-	-	-	-	-
Unrestricted	2,751	2,736	4,228	5,511	6,977	7,922	8,102	8,766
<i>Total business-type activities net assets</i>	<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>	<u>12,318</u>
<i>Primary government</i>								
Invested in capital assets, net of related debt	\$ 41,296	\$ 41,235	\$ 41,533	\$ 40,404	\$ 40,574	\$ 42,470	\$ 44,000	\$ 46,148
Restricted	2,007	2,081	3,792	2,403	2,709	3,366	3,477	3,411
Unrestricted	17,450	18,850	20,406	28,854	34,363	44,960	44,286	44,242
<i>Total primary government net assets</i>	<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>	<u>\$ 93,801</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	2009-10
Expenses								
Governmental activities:								
Public safety	\$ 8,878	\$ 8,853	\$ 9,856	\$ 9,913	\$ 11,033	\$ 12,415	\$ 13,563	\$ 13,812
Public works	3,396	3,594	4,498	4,224	4,799	4,886	5,318	5,170
Recreation	1,898	2,129	2,212	2,405	2,460	2,650	2,889	2,460
Community development	2,065	2,042	2,383	2,604	2,875	3,448	3,913	3,962
Admin/Community services	2,309	2,262	2,313	2,502	2,655	3,317	3,765	3,794
Interest on long-term activities	263	365	149	151	146	138	32	83
Total governmental activities expenses	18,809	19,245	21,411	21,799	23,968	26,854	29,480	29,281
Business-type activities:								
Sewer	3,085	3,711	3,167	3,324	3,712	3,886	4,810	4,438
Solid waste	1,833	1,071	1,125	1,264	1,575	1,609	1,574	1,826
Storm drain	- *	- *	118	183	181	213	188	199
Total Business-type activities expenses	4,918	4,782	4,410	4,771	5,468	5,708	6,572	6,463
Total primary government expenses	\$ 23,727	\$ 24,027	\$ 25,821	\$ 26,570	\$ 29,436	\$ 32,562	\$ 36,052	\$ 35,744
Program Revenues								
Governmental activities:								
Charges for services:								
Public safety	\$ 448	\$ 517	\$ 508	\$ 377	\$ 499	\$ 527	\$ 585	\$ 466
Public works	178	250	231	156	228	204	180	152
Recreation	1,363	1,569	1,604	1,545	1,665	1,654	1,472	1,498
Community development	1,374	1,754	1,854	2,644	2,501	3,372	1,867	2,954
Admin/Community services	589	540	543	580	1,166	967	969	1,097
Operating grants and contributions:								
Public safety	151	131	123	136	112	118	108	102
Public works	537	545	549	535	541	511	479	462
Recreation	-	5	11	42	9	27	4	-
Community development	262	212	76	126	141	285	48	56
Admin/Community services	10	6	6	6	6	6	6	131
Capital grants and contributions								
Public safety	-	-	-	-	121	4	-	-
Public works	86	5	588	498	322	923	978	985
Recreation	-	139	-	-	1	492	10	-
Community development	-	-	-	-	-	-	24	7
Admin/Community services	-	-	-	-	-	-	89	200
Total governmental activities program revenue	4,998	5,673	6,093	6,645	7,312	9,090	6,819	8,110
Business-type activities:								
Charges for services:								
Sewer	\$ 2,653	\$ 3,534	\$ 4,273	\$ 4,264	\$ 4,833	\$ 4,467	\$ 5,804	\$ 5,413
Solid waste	1,013	1,155	1,309	1,455	1,471	1,540	1,685	1,657
Storm drain	- *	- *	-	-	-	-	-	-
Total business-type activities program revenue	3,666	4,689	5,582	5,719	6,304	6,007	7,489	7,070
Total primary government program revenues	\$ 8,664	\$ 10,362	\$ 11,675	\$ 12,364	\$ 13,616	\$ 15,097	\$ 14,308	\$ 15,180
Net (expense)/revenue:								
Governmental activities	(13,811)	(13,572)	(15,318)	(15,154)	(16,656)	(17,764)	(22,661)	(21,171)
Business-type activities	(1,252)	(93)	1,172	948	836	299	917	607
Total primary government net (expense)/revenue	\$ (15,063)	\$ (13,665)	\$ (14,146)	\$ (14,206)	\$ (15,820)	\$ (17,465)	\$ (21,744)	\$ (20,564)

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	2009-10
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	\$ 13,051
Sales taxes	2,464	2,331	2,553	2,662	2,750	2,872	2,697	2,255
Utility users taxes	1,825	1,886	1,970	2,101	2,274	2,483	2,530	2,515
Other taxes	3,156	3,181	231	235	2,682	2,703	2,147	2,453
Franchise fees	951	1,012	1,048	1,110	1,164	2,029	1,458	1,437
Sale of Capital Assets-net	-	-	-	-	-	6,499	-	-
Interest income	454	307	495	1,048	1,414	1,353	760	341
Miscellaneous	349	331	2,831	3,050	323	517	201	286
Transfers	91	35	(183)	(187)	(197)	(193)	(200)	(239)
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>	<u>22,099</u>
Business-type activities								
Interest income	-	-	-	-	296	284	160	53
Transfers	(91)	(35)	183	187	197	193	200	239
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>	<u>292</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>	<u>\$ 22,391</u>
Change in Net Assets								
Governmental activities	1,858	2,218	2,207	4,632	4,657	12,374	(309)	928
Business-type activities	(1,343)	(128)	1,355	1,135	1,329	776	1,277	899
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>	<u>\$ 1,827</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									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
General fund										
Reserved	\$ 87	\$ 31	\$ 4,510	\$ 5,225	\$ 5,412	\$ 5,872	\$ 131	\$ 228	\$ 39	\$ 143
Unreserved	3,248	3,718	300	420	305	206	6,157	6,492	7,650	6,908
<i>Total general fund</i>	<u>\$ 3,335</u>	<u>\$ 3,749</u>	<u>\$ 4,810</u>	<u>\$ 5,645</u>	<u>\$ 5,717</u>	<u>\$ 6,078</u>	<u>\$ 6,288</u>	<u>\$ 6,720</u>	<u>\$ 7,689</u>	<u>\$ 7,051</u>
All other governmental funds										
Reserved	\$ 894	\$ 805	\$ 11,520	\$ 12,642	\$ 15,492	\$ 20,591	\$ 4,604	\$ 5,484	\$ 3,472	\$ 3,399
Unreserved, reported in:										
Special revenue funds	-	-	564	725	-	-	(21)	1,798	4,120	6,422
Capital projects funds	12,470	12,162	-	(780)	(775)	(770)	18,876	21,360	21,814	19,540
Debt service funds	955	621	-	-	(8)	(8)	(8)	(8)	(8)	
<i>Total all other governmental funds</i>	<u>\$ 14,319</u>	<u>\$ 13,588</u>	<u>\$ 12,084</u>	<u>\$ 12,587</u>	<u>\$ 14,709</u>	<u>\$ 19,813</u>	<u>\$ 23,451</u>	<u>\$ 28,634</u>	<u>\$ 29,398</u>	<u>\$ 29,361</u>
<i>Total all governmental funds</i>	<u>\$ 17,654</u>	<u>\$ 17,337</u>	<u>\$ 16,894</u>	<u>\$ 18,232</u>	<u>\$ 20,426</u>	<u>\$ 25,891</u>	<u>\$ 29,739</u>	<u>\$ 35,354</u>	<u>\$ 37,087</u>	<u>\$ 36,412</u>

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									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenues										
Taxes	\$ 7,792	\$ 8,755	\$ 9,393	\$ 10,117	\$ 12,263	\$ 13,781	\$ 15,205	\$ 16,566	\$ 17,115	\$ 17,545
License, permits and park-in-lieu	1,970	1,846	1,810	2,170	2,198	2,568	2,522	3,493	2,532	3,025
Intergovernmental	6,379	5,227	5,233	4,790	4,048	4,515	4,323	4,470	4,365	3,680
Grants and donations	1,321	1,274	301	392	701	549	359	1,294	305	559
Charges for services	2,813	3,003	2,657	2,885	2,997	3,272	3,701	3,673	3,422	3,494
Fines and forfeitures	156	216	254	284	268	201	264	286	329	246
Interest and rentals	1,682	1,143	731	609	906	1,338	1,692	1,857	945	504
Other	102	285	201	211	419	395	777	1,284	359	1,394
Total revenues	<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>	<u>30,447</u>
Expenditures										
General government										
Public safety	7,392	8,142	8,424	8,813	9,428	10,067	11,084	12,217	13,183	13,230
Public works	2,220	2,362	2,805	3,236	3,961	3,775	4,321	4,286	5,038	4,420
Recreation	1,786	1,737	1,685	1,801	1,820	1,952	2,103	2,257	2,443	1,994
Community development	1,817	1,849	2,012	2,040	2,293	2,606	2,922	3,384	3,826	3,770
Administration/Community services	1,776	2,009	2,208	2,206	2,215	2,414	2,658	3,222	3,623	3,600
Capital improvements	2,605	4,760	3,052	1,637	1,348	72	1,374	2,719	1,288	2,784
Debt service										
Principal	639	683	342	145	199	193	193	657	101	85
Interest and fiscal charges	319	260	221	145	158	146	143	138	103	81
Total expenditures	<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>	<u>29,964</u>
Excess (deficiency) of revenues over (under) expenditures	<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>	<u>483</u>
Other financing sources (uses)										
Debt issuance	101	-	-	2,372	-	257	-	-	-	-
Payment to refunded bonded escrow agent	-	-	-	(2,506)	-	-	-	-	-	-
Transfers in	5,465	4,847	4,531	3,938	5,652	6,639	6,153	5,388	2,396	2,781
Transfers out	(5,896)	(5,107)	(4,804)	(3,902)	(5,834)	(6,827)	(6,350)	(5,581)	(2,596)	(3,020)
Total Other financing sources (uses)	<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>	<u>(239)</u>
Special items										
CALPers Side Fund Pay Down	-	-	-	-	-	-	-	-	-	(3,005)
Sale of capital assets-net	-	-	-	-	-	-	-	1,798	2,167	2,167
Total special items	<u>-</u>	<u>1,798</u>	<u>2,167</u>	<u>(838)</u>						
Net change in fund balances	<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>	<u>\$ (594)</u>
Debt service as a percentage of non-capital expenditures	6.0%	5.5%	3.2%	1.6%	1.8%	1.6%	1.4%	3.0%	0.7%	0.6%

Source: City of Los Altos Finance Department

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

Fiscal Year	Property	Business Licenses	Utility Users	Transient Occupancy	Building Development	Special Assessments	Total
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
2009-10	13,051,308	413,054	2,514,880	1,345,855	220,232	-	17,545,329

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)	% Change
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%	11%
2001-02	4,626,324,290	367,458,673	100,863,680	89,404,527	5,184,051,170	1%	16%
2002-03	4,857,875,155	403,640,089	89,722,887	94,541,745	5,445,779,876	1%	5%
2003-04	5,323,684,512	434,476,752	82,641,608	83,406,442	5,924,209,314	1%	9%
2004-05	5,793,122,535	420,622,052	81,325,037	78,123,781	6,373,193,405	1%	8%
2005-06	6,426,969,808	457,811,338	81,562,137	79,379,615	7,045,722,898	1%	11%
2006-07	7,015,252,860	495,435,150	83,502,556	82,870,129	7,677,060,695	1%	9%
2007-08	7,682,199,728	533,699,456	84,676,730	91,811,067	8,392,386,981	1%	9%
2008-09	8,305,988,140	560,724,394	92,700,494	104,778,047	9,064,191,075	1%	8%
2009-10	8,664,368,487	601,026,893	71,365,214	114,641,890	9,451,402,484	1%	4%

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)

Fiscal Year	Overlapping Rates (1)											
	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
2009-10	1.0000	0.0388	0.0024	0.0539	0.0288	0.0312	-	0.0322	0.0147	0.0306	0.0074	0.0322

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	2009-10			2000-01		
	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	\$ 40,315,500	1	0.43%			
Springwood Apartments LLC	26,935,746	2	0.28%			
Los Altos West LP	25,760,780	3	0.27%			
Los Altos Gardens LP	22,465,206	4	0.24%			
Compass Grand Los Altos LLC	21,301,952	5	0.23%			
KRC Los Altos Limited Partnership	19,718,607	6	0.21%			
David & Lucile Packard Foundation	18,460,398	7	0.20%	\$ 9,993,182	4	0.22%
4 Seasons Associates LLC	18,363,826	8	0.19%			
Palo Alto Medical Foundation	18,000,000	9	0.19%			
Los Altos Hotel Associates LLC	17,435,810	10	0.18%			
Kenneth T. Namimatsu, Et Al				21,545,551	1	0.48%
Transamerica Senior Props Inc				15,832,825	2	0.35%
Los Altos El Camino Associates				11,400,000	3	0.25%
Village Court Partners				9,540,068	5	0.21%
Steve J. Vidovich, Et. Al.				9,476,448	6	0.21%
Cornerstone Properties II				8,128,158	7	0.18%
Tan Los Altos Gateway LLC				6,940,893	8	0.15%
Altos Properties				6,752,701	9	0.15%
Upside Unlimited LLC				6,685,000	10	0.15%
Total	<u>\$ 228,757,825</u>		<u>2.42%</u>	<u>\$ 106,294,826</u>		<u>2.35%</u>

Source:
HdL Coren & Cone

City of Los Altos
Principal Employers
Current Year

Employer	2009-10		
	Employees(1)	Rank	% of Total City Employment
Los Altos School District	568 * (2)	1	4.54%
Whole Food Market	198	2	1.58%
Coldwell Banker	190	3	1.52%
Covenant Care Sub Acute Rehab	163	4	1.30%
Alain Pinel Realtors	150	5	1.20%
Los Altos High School	217 (3)	6	1.74%
City of Los Altos	130	7	1.04%
Adobe Animal Hospital	125	8	1.00%
Pilgrim Haven Skilled Nursing	120	9	0.96%
The David and Lucile Packard Foundation	100	10	0.80%
Guardsman Inc	100	11	0.80%
US Post Office	100	12	0.80%
Palo Alto Medical Foundation	85	13	0.68%
Rambus			
Total	<u>2,246</u>		<u>17.97%</u>
Total Employed In Los Altos	<u>12,500</u>	(4)	

Sources:

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

* - This number includes 119 substitute teachers.

Note: The Principal Employers information data has been newly updated for 2009 and one year is presented to initiate a comparative base

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
2009-10	3,670,443,736	282,872,902	273,655,824	3.26

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
Schedule of Direct and Overlapping Bonded Debt
June 30, 2010

<u>OVERLAPPING TAX AND ASSESSMENT DEBT :</u>	<u>Total Debt 6/30/2010</u>	<u>% Applicable (1)</u>	<u>Property Tax Payors's Share of Debt 6/30/10</u>
Santa Clara County	\$ 350,000,000	3.501	\$ 12,253,500
Santa Clara Valley Water District, Zone W-1	910,000	4.297	39,103
Foothill-De Anza Community College District	479,279,288	10.083	48,325,731
Fremont Union High School District	202,415,000	4.226	8,554,058
Mountain View-Los Altos Union High School District	32,648,569	29.405	9,600,312
Cupertino Union School District	127,264,911	7.083	9,014,174
Los Altos School District	90,819,000	53.659	48,732,567
El Camino Hospital District	144,975,000	19.773	28,665,907
North County Library Authority	640,000	65.893	421,715
Santa Clara Valley Water District Benefit Assessment District	152,440,000	3.501	5,336,924
City of Los Altos 1915 Act Bonds (Assessment District Bonds)	930,880	100.000	930,880
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 171,874,870</u>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT :</u>			
Santa Clara County General Fund Obligations	\$ 825,070,000	3.501	\$ 28,885,701
Santa Clara County Pension Obligations	388,044,822	3.501	13,585,449
Santa Clara County Board of Education Certificates of Participation	13,580,000	3.501	475,436
Foothill-De Anza Community College District Certificates of Participation	23,450,000	10.083	2,364,464
Mountain View-Los Altos Union High School District Certificates of Participation	6,505,000	29.405	1,912,795
City of Los Altos Certificates of Participation	2,030,000	100.000	2,030,000
Midpeninsula Regional Park District General Fund Obligations	113,788,031	5.893	6,705,529
Santa Clara County Vector Control District Certificates of Participation	3,965,000	3.501	138,815
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>\$ 56,098,189</u>
COMBINED TOTAL DEBT			<u>\$ 227,973,058 (2)</u>

(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 (\$2,030,000)	0.02%
Total Overlapping Tax and Assessment Debt	1.82%
Combined Total Debt	2.42%

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

Source:

California Municipal Statistics, Inc.

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

Fiscal Year	Governmental Activities			Total	Per Capita	Per Capita Personal Income (3)
	General Obligation Bond	Certificates of Participation	Capital Lease			
2000-01	216,000	3,715,000	347,229	4,278,229	153	66,376
2001-02	-	3,325,000	304,823	3,629,823	130	67,760
2002-03	-	3,040,000	282,802	3,322,802	120	68,159
2003-04	-	3,115,000	213,299	3,328,299	121	70,827
2004-05	-	3,010,000	163,948	3,173,948	115	76,384
2005-06	-	2,895,000	112,038	3,007,038	109	81,743
2006-07	-	2,775,000	57,436	2,832,436	101	89,706
2007-08	-	2,195,000	-	2,195,000	78	94,999
2008-09	-	2,115,000	-	2,115,000	74	96,222
2009-10	-	2,030,000	-	2,030,000	70	92,389

Note: Special Assessment Debt is no longer presented as they involve limited obligation bonds that are secured by ad valorem assessments and carry no city obligation.

Source:

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

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
2009-10	9,451,402,484	1,417,710,373	-	1,417,710,373

Source:

* HdL Coren & Cone

City of Los Altos
 Demographic Statistics
 Last Ten Fiscal Years

Fiscal Year	City Population (1)	Percentage Change	School Enrollment (2)	Percentage Change	Unemployment Rate (4)	Per Capita Personal Income (4)	Median Age	% of H School Degree	% of C School Degree			
2000-01	27,902	-2.44%	6,871	1.51%	2.5%	66,376	44.3	97.30%	71.70%			
2001-02	27,825	-0.28%	7,009	2.01%	4.2%	67,760						
2002-03	27,722	-0.37%	7,295	4.08%	4.2%	68,159						
2003-04	27,512	-0.76%	7,491	2.69%	3.2%	70,827						
2004-05	27,614	0.37%	7,530	0.52%	2.7%	76,384						
2005-06	27,608	-0.02%	7,719	2.51%	2.3%	81,743						
2006-07	28,104	1.80%	7,778	0.76%	2.3%	89,706						
2007-08	28,291	0.67%	7,890	1.44%	3.0%	94,999						
2008-09	28,458	0.59%	7,908	0.23%	5.6%	96,222						
2009-10	28,863	1.42%	7,966	0.73%	5.5%	92,389				46.9	98.10%	76.10%

Sources:

- (1) State of California Department of Finance
- (2) State of California Department of Education
- (3) State of California Employment Development Department
- (4) HDL Statistics
- (*) Estimate as annual data not available

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

Function/Program	Fiscal Year									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<i>Public Safety *</i>										
Police Operations	37.25	35.50	35.50	35.50	35.50	35.50	36.50	36.50	36.50	32.00
Police Traffic Safety	3.00	2.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	5.00
Communications	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	11.00
Fire (Contract Basis)	-	-	-	-	-	-	-	-	-	-
<i>Maintenance Services</i>	25.00	27.00	25.00	27.00	26.50	28.00	29.50	30.00	29.00	29.50
<i>Recreation</i>	14.25	14.25	14.25	8.25	8.25	8.25	6.75	7.00	7.00	7.00
<i>Community Development</i>										
Planning & Building	12.00	12.00	12.00	12.00	12.00	12.00	12.50	13.00	13.00	13.00
Engineering	6.25	7.25	6.25	7.25	8.00	9.00	9.00	9.00	9.00	8.00
Economic Development	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00
<i>Administration</i>										
City Management	3.25	3.55	3.55	3.60	3.50	3.50	4.25	4.10	6.25	5.75
Administration & Finance	9.00	9.00	9.00	9.00	9.00	9.00	9.00	11.00	10.00	10.00
<i>Sewer</i>	7.75	7.75	7.75	6.75	5.75	5.75	6.75	6.75	6.75	6.25
<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	1
Total	<u>127.00</u>	<u>127.55</u>	<u>125.80</u>	<u>120.85</u>	<u>120.25</u>	<u>122.75</u>	<u>126.50</u>	<u>129.60</u>	<u>129.75</u>	<u>129.75</u>

Source:
 City of Los Altos Finance Department

Notes: In FY09-10 Staffing assignments were recategorized in the revision of the budget process to align with functional areas.

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

Function/Program	Fiscal Year									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<i>Public Safety</i>										
Police Station	1	1	1	1	1	1	1	1	1	1
Fire Stations	2	2	2	2	2	2	2	2	2	2
<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>Maintenance Services</i>										
Miles of Streets	125	125	125	125	125	125	127	127	127	127
Number of Traffic Signals	14	14	14	14	14	14	13	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

City of Los Altos
 Trust and Agency Debt Administration
 Last Ten Fiscal Years

Fiscal Year	Special Assessment Collected	(2)	Non City Obligation Debt		Coverage
			Special Assessment Debt Service		
			Principal	Interest	
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	(1)	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
2009-10	41,106		22,000	19,233	1.00

Source:
 City of Los Altos Finance Department

Note : This chart presents Limited Obligation Debt that the City Administers on a trust and Agency Basis

- (1) includes assessment payments in advance for Raymundo Curb & Gutter Special Assessment.
- (2) Excludes Blue Oak Lne Sewer Debt that is schedule to commence assessment and debt service in 10-11

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

Function/Program	Fiscal Year									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 *	2008-09 *	2009-10 *
<i>Police:</i>										
Arrests	467	653	628	532	528	383	453	449	630	634
Moving citations issued	2,981	3,819	4,375	4,236	3,193	3,306	3,197	2,435	2,926	1,879
Parking citations issued	**	**	1,114	828	1,197	1,040	2,295	2,455	2,015	1,531
Municipal code violations issued	**	**	350	499	249	376	522	552	458	580
<i>Public Works:</i>										
Crack sealing in lineal feet	**	**	188,500	18,400	41,500	241,000	55,028	52,000	105,600	53,326
Street sign installed and replaced	**	**	713	3,094	517	578	434	245	206	1,042
<i>Recreation:</i>										
Classes/programs	**	**	1,880	2,078	1,981	2,384	1,890	1,781	1,332	1,604
Facility rentals	**	**	397	500	440	419	589	583	3,154	4,010 ***
Field/gymnasium permits	**	**	12	20	49	74	77	127	3,529	2,774 ***
<i>Planning:</i>										
Plan applications submitted	362	235	321	303	259	290	340	331	376	318
<i>Building:</i>										
Permits issued	3,705	2,660	1,540	1,651	1,735	1,871	1,733	1,759	1,602	1,711
Plan checks submitted	**	**	234	322	284	461	335	485	522	455
Inspections	**	**	6,705	6,447	5,593	7,742	7,307	7,236	6,204	578
<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	434,250
<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	2,823

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.



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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the City of Los Altos, California (City), as of and for the year ended June 30, 2010, and have issued our report thereon dated January 20, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses, as item FS 2010-01 that we consider to be significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Honorable Mayor and Members of City Council
of the City of Los Altos
Los Altos, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Capricci & Larson, Inc.

San Francisco, California
January 20, 2011

City of Los Altos

Schedule of Findings and Responses

For the year ended June 30, 2010

2010-01 Restatement of Previously Issued Financials (Significant Deficiency)

Criteria: The City is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition: The City has restated its previously issued financial statements to correct and eliminate reporting of city administer special assessment limited liability obligation debt. The effects of the restatements were \$210,063 increase to the net asset in the Government-Wide Financial Statements.

Cause: The City's internal controls over financial reporting did not identify the misstatements in a timely manner resulting in the restatements.

Effect: The previous financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all nonroutine and nonsystematic transactions were accounted for, the appropriate accounting standards were applied, and transactions were accounted for in the proper period.

View of Responsible Officials and Planned Corrective Action:

City staff acknowledges the appropriate nature of the reclassification made this year in taking the lead in identifying, communicating and initiating a discussion of the matter during the audit process. The past treatment of both the Raymundo & Avalon Assessment Districts Bonds, as City debt classified within the debt service funds group, is a presentation that has persisted for many years and undergone several independent audit reviews. That being said, City staff questioned that status quo and researched the originating documents in arriving at the proper conclusion that the subject debt instruments carry no direct city obligation and are most properly categorized as Trust & Agency funds. Accordingly City staff proposed the above mentioned correction resulting in the positive equity change noted in this CAFR. As such staff concurs with the recommendation above and agrees that such transactions require annual scrutiny and review.