

# City of Los Altos



## Comprehensive Annual Financial Report June 30, 2011



**City of Los Altos  
CALIFORNIA**

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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**

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***Prepared by the Finance Department***

**City of Los Altos**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2011**

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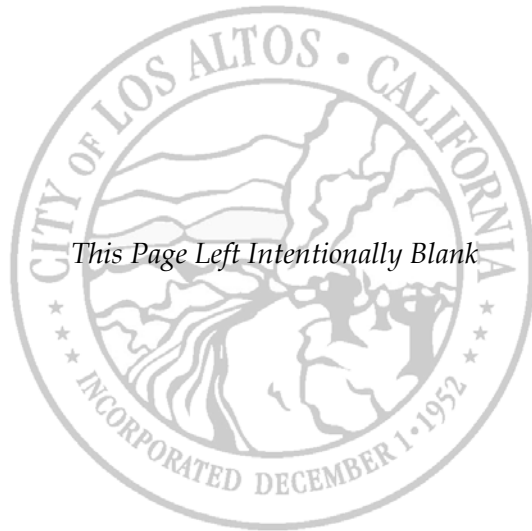
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FINANCE  
ONE NORTH SAN ANTONIO ROAD  
LOS ALTOS, CALIFORNIA 94022-3087

February 2, 2012

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Los Altos, California (the City) for the fiscal year ended June 30, 2011 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 FY2010-2011, 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 fiscal safety reserves were strengthened as planned. All major funds performed as expected in line with cost mitigation efforts put in place in these times of economic recovery.

### Major Initiatives

**Capital Improvements:** FY2010-2011 has marked another year of significant investments made in infrastructure improvements. Some key capital expenditures of note include the following:

\$ 1,865,000	Rosita Park & Right of Way
\$ 1,197,000	First Street Streetscape-Intersection Improvements
\$ 494,000	Annual Street Resurfacing
\$ 230,000	San Antonio Club Rehabilitation
\$ 219,000	Traffic Signal Controller & Cabinet Replacements
\$ 196,000	Municipal Service Center Fuel Station
\$ 177,000	Demolition of 400 Main Street
\$ 173,000	Blue Oak Lane Sewer
\$ 152,000	First Street Streetscape Design
\$ 132,000	Audible Pedestrian Signals
\$ 132,000	Fremont Avenue Bridge Design
\$ 126,000	Parkland Acquisition – Shoup & Redwood Grove Pathway
\$ 112,000	Annual Special Projects and Studies
\$ 98,000	Collector Traffic Calming Master Plan
\$ 82,000	San Antonio Road Streetscape Design
\$ 82,000	Annual Concrete Repairs
\$ 70,000	Parks Master Plan
\$ 67,000	Bicycle Transportation Plan Update

**Downtown Revitalization:** The City continued its focus on a series of capital projects intended to revitalize the core downtown district of Los Altos. These initiatives include San Antonio Road rehabilitation, the completion of undergrounding of utilities along First Street in the downtown area, the demolition of the 400 Main Street site, downtown intersection improvements and initiating the construction of transformative First Street improvements. Calendar year 2011 also conveyed significant progress made by the Packard Foundation nearing the completion of its state-of-the-art organizational headquarters and great progress made in solidifying an agreement with Safeway for the complete redesign and expansion of its downtown Los Altos store site. These endeavors continue to underscore the strategic posture the City has taken in addressing key foundational economic development matters.

**Enhanced Open-Space:** Nearly \$2 million in tax and development dollars were reinvested back into the community with the ground up redesign and reconstruction of Rosita Park and the adjacent community streetscape improvements. Rosita Park held its grand opening soon after FY2010-2011 in an improvement that has received acclaim from a cultural, environmental and neighborhood perspective. Completed on time and within budget this project further exemplifies the superior recreational park standards that establish Los Altos as a wonderful place to live and play.



The City also added to its open-space inventory this year with the purchase of land creating a natural bridge-way and connection point between Shoup Park and Redwood Grove. This land purchase marks the realization of a long time dream to link these two beautiful open spaces for the enjoyment of all. On a similar note, the City continues to partner with the community and environmental groups in restoring the natural habitat of Redwood Grove.

**Nurturing of Roadways and Pedestrian Walkways:** Significant dollars were put forth to further a variety of roadway, pedestrian and bikeway initiatives and improvements. Over \$1 million was expended on bridge improvements, street resurfacing and streetscape design projects, signal improvements and a bicycle transportation update. These efforts continue to maintain the City's high roadway condition index and developing alternative methods of transport.

**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 is moving towards the completion of an updated city-wide survey to be completed in early 2012 as a basis for evaluating the feasibility of a city-wide bond election later in that year.

## **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 the Local Agency Investment Fund (LAIF) earnings rates below one half of 1%. This condition is expected to persist in the near term. Council and staff acted on their plan to engage investment advisory services and have started the process of diversifying its investment portfolio as a basis for mitigating the impact of interest rate swings. As always the emphasis remains on preserving 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 No.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, 2011, the City's net OPEB obligation was valued at \$604,000, an amount reflected in the government-wide statements. Long-term unfunded liabilities equal \$1.7 million. Over the past three budget cycles the City has earmarked and set aside \$300,000 in reserves to begin addressing this liability funding. 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.

**GASB 54 Compliance:** This report marks the first and timely year of compliance with the provisions of Government Accounting Standard Board Statement No.54 (GASB 54). Council adopted an updated financial policy earlier this year reflective of this change, a significant one for the readers and users of our financial statements. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

## **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 \$2.3 million. We attribute this performance to our commitment to prudent financial planning, conservative budgeting and faithful departmental stewardship. At year end, the total General Fund balance equaled \$8 million with an unassigned fund balance of \$2.7 million after commitments and restriction of \$5.2 million. As planned for in budget process, some of this surplus has been allocated to increasing existing economic reserves and further funding OPEB with any additional remainder 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 18% with the close of FY2010-2011.

Considering the transfer and use of reserve activity listed below, most notably the use of \$1.5 million to fund future Capital Improvement Plan commitments, the final General Fund balance increased by \$830,000. This non-operating and transfer activity is as follows:

- \$1.5 million transfer out of operating surplus reserves to Capital Projects Fund
- \$165,000 transfer out for general debt service payments
- \$210,000 transfer in from the Gas Tax Fund for supporting engineering operations
- \$75,000 transfer in from public safety grant funds
- \$65,000 transfer out to subsidize storm drain operations
- \$22,000 transfer in from safety vehicle impound fees

The General Fund revenue stream appears to be slowly recovering from the recent recessionary economic trends, a condition that was much discussed and planned for in the recent and current budget cycle.

<i>Revenue (millions)</i>	<i>2011 Actual</i>	<i>2010 Actual</i>	<i>Variance \$</i>	<i>Variance %</i>
<i>Property Tax</i>	\$12.79	\$13.05	(\$0.26)	-2%
<i>Sales Tax</i>	2.59	2.26	0.33	15%
<i>Hotel Tax</i>	1.52	1.35	0.17	13%
<i>Utility Users Tax</i>	2.54	2.51	0.03	1%
<i>Other Taxes</i>	0.93	0.89	0.05	5%
<i>Franchise Fees</i>	1.81	1.44	0.38	26%
<i>Interest</i>	0.23	0.20	0.02	11%
<i>Recreation</i>	1.76	1.50	0.26	18%
<i>License and Permits</i>	2.56	2.53	0.03	1%
<i>Other</i>	1.92	2.04	(0.12)	-6%
<b>Total</b>	<b>\$28.66</b>	<b>\$27.77</b>	<b>\$0.90</b>	<b>3%</b>

General Fund revenues increased by 3% overall in contrast to a 2% increase in the prior year. Revenues came in at 103% of our annual budget estimates with Sales Tax, hotel tax, Franchise Fees and recreation services being the front runners. Property tax came in slightly lower for the first time in many years as the County projected an historic zero growth rate regionally. We are pleased to report relative stability, meeting budget projections, in this primary area of revenue generation that has experienced widespread assessment reductions in the greater region. Sales tax displayed a nice recovery coming off of the prior year double digit drop yet we remain in a retail climate that remains challenging and subject to a slow turnaround. Tourism has seen another uptick as indicated by the hotel tax increase of nearly 13% in contrast to a 5% gain last year. Interest income has stabilized although we should not expect strength in this area given the continued federal easing policies in place. Yield rates continue to fall to short term ranges well below 1%. Utility users tax and real estate transfer tax remained relatively stable while franchise fees performed well with the introduction of the newly crafted waste contract. License and permit fees were stable, a good sign given last year's strong performance. Recreation programs performed in an outstanding manner coming in 18% 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 increased by \$1 million or 4% mostly driven by honoring previously approved labor agreements, employee benefits, utilities, maintenance, equipment and professional service costs. We continue to recognize that the City's revenue base remains delicate in this cycle of recovery and that rising costs in the areas of future pension rates, insurance and deferred maintenance costs remain a challenge. As such, we maintain our stance of maintaining prudent, proactive and conservative fiscal planning. These favorable results allow the City to move forward on its projected plans to further pay-down pension liabilities.

## **Other Funds**

**Capital Project Funds:** The Capital Projects Fund was very active, with expenditure levels reaching \$6.1 million, ending the year with a total fund balance of \$9.2 million. As of June 30, 2011, \$2.2 million of this fund balance remains uncommitted 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 Fund, a fund designed to support city-wide facility improvements, had a fund balance of \$3.7 million at year end. Additionally, the Real Property Proceeds Fund ended the year with a fund balance of \$6.8 million having received an initial deposit on the conditional sale of property at 400 Main Street. Lastly, the Equipment Replacement Fund finished the year with a fund balance of \$3.9 million reflecting a use of funds this year.

**Special Revenue, Internal and Enterprise Funds:** All other Governmental and Business Type funds performed as expected. Non-major governmental funds ended the year with a combined balance of \$2.8 million while Enterprise funds ended the year with a combined balance of \$12.8 million.

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

## **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 FY2011-2012 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.

In 2011 the Government Accounting Standards Board (GASB) issued an exposure draft on pension accounting and financial reporting. Although not yet codified, the substance of this draft is expected to be adopted within the next two years. Its impact will be significant as it calls for government agencies to report and record the net pension liability in its financial statements above and beyond the current disclosure requirements. Wherein multi-employer pool based reporting was acceptable in the past, this new standard will require Los Altos to obtain an actuarial evaluation specific to its population characteristic as a basis to identify the City's specific pension benefit liability. In so far as the CALPERS pooled plan currently reflects an unfunded liability, we can assume to absorb our proportionate share of that amount.

## 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, 2010. This was the sixth 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.

## ACKNOWLEDGMENTS

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 efforts 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,

A handwritten signature in dark ink, appearing to read 'R. Morreale', with a long, sweeping horizontal line extending to the right.

Russell J. Morreale  
Finance Director



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Los Altos  
California

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

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.



*Linda C. Sandison*

President

*Jeffrey R. Emer*

Executive Director

**City of Los Altos**  
**List of Principal Officials**  
**As of June 30, 2011**

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**ELECTED OFFICIALS**

Mayor .....	Ron Packard
Mayor Pro Term .....	Valorie Cook Carpenter
City Council .....	David Casas
City Council .....	Jarrett Fishpaw
City Council .....	Megan Satterlee

**APPOINTED OFFICIALS**

City Manager .....	Douglas J. Schmitz
City Attorney .....	Jolie Houston

**DEPARTMENTS**

Assistant City Manager/Community Development ..	James Walgren
Assistant City Manager/Human Resources .....	J. Logan
City Clerk .....	Lee Price
Police Chief .....	Tuck Younis
Director of Finance & Technology .....	Russell Morreale
Recreation Director .....	Beverly Tucker
Special Project Manager .....	Dave Brees
Engineering Services Manager .....	Jim Gustafson
Maintenance Services Manager .....	Brian McCarthy

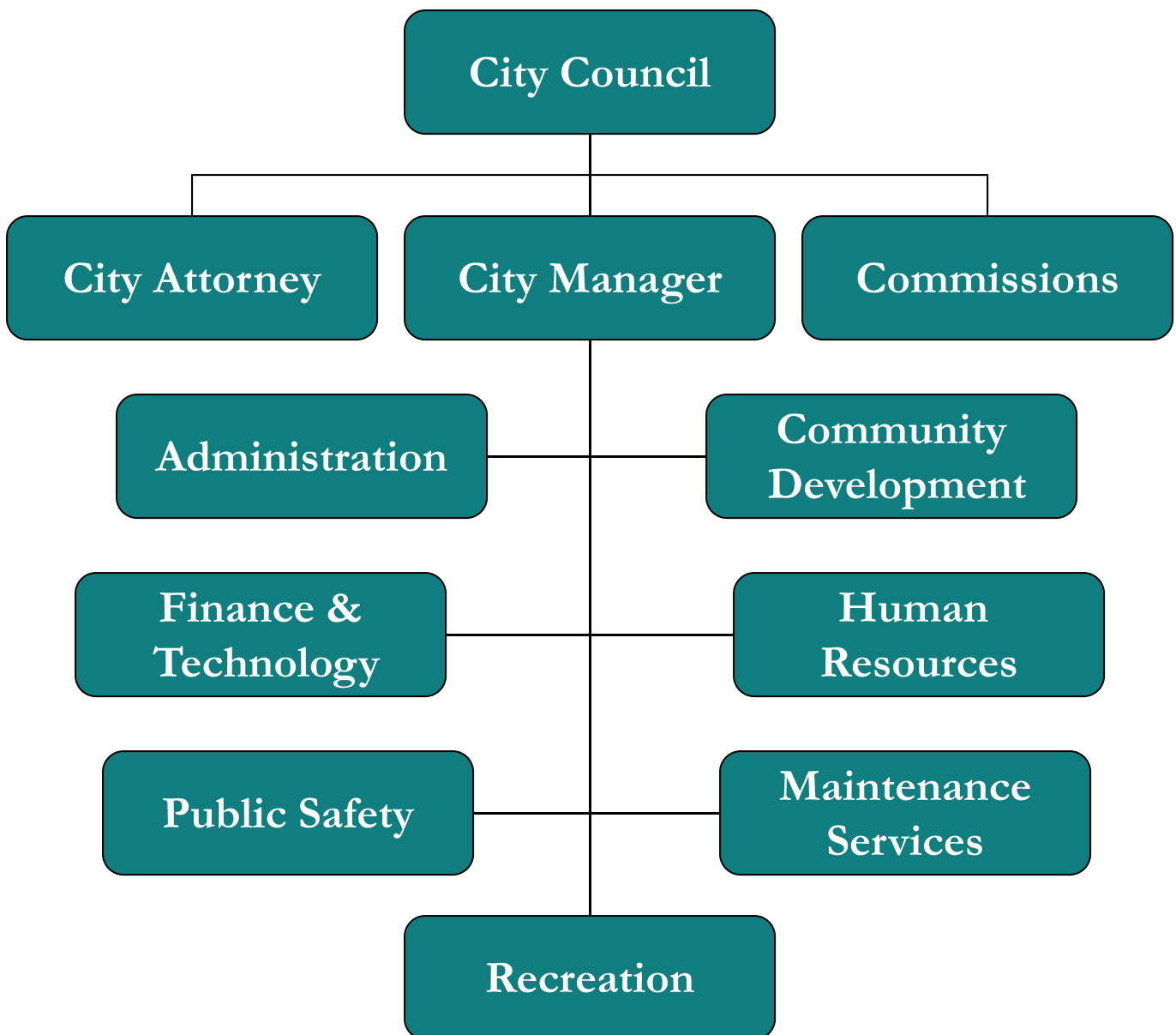


# City of Los Altos

## Organizational Chart

### June 30, 2011

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*A Great Place to Live & Raise a Family*



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Los Altos, California (City), as of and for the year ended June 30, 2011, 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, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

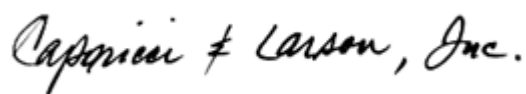
As described in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and Governmental Accounting Standards Board (GASB) Statement No. 59, Financial Instruments Omnibus, as of July 1, 2010.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 19 and 79 through 81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
February 2, 2012

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**City of Los Altos**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2011**

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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, 2011. 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 million, a 1% decrease from the prior year, and expenses of \$35.6 million, a decrease of 0.3%. Operations resulted in an overall increase in net assets from both government and business operations and included substantial infrastructure maintenance costs. Favorable fiscal results allowed the City to strengthen general reserves in line with budget projections and sustain capital project plans. A review of governmental fund balances will reveal their reclassification in accordance with the newly established Government Accounting Standards Board (GASB) 54 requirements.

Revenue gains were mostly noted in community development fees, sales tax, franchise fees, hotel occupancy tax and motor vehicle licensing fees. Sales tax has moderately regained some of the prior year losses and exceeded budget expectations. Partially offsetting declines were notably experienced in property tax and interest earnings. Business revenues were down mostly attributable to the change in the solid waste vendor-direct disposal cost model and the impact of increased water conservation on sewer charges collected.

Government-wide expenses decreased by 0.3% overall with a moderate 3% increase in governmental expenditures offset by decreased costs in business operations. Expenditure budget estimates were favorably realized with continued attention to cost control. The City has mitigated cost pressures through a variety of methods including a decrease in public safety pension rates as a result of recent side-fund pay-downs, strategically managed staffing vacancies, effective project management and strict observance of budget target levels. Expenditures again reflect a concentrated emphasis on public safety, infrastructure maintenance and planning activity. Investments made in roadways, grounds and facilities approximated \$1.1 million with another \$3.7 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. Extraordinary progress has again been made on completing or furthering several significant capital projects, including street maintenance and resurfacing, concrete repairs, downtown intersection improvements, the acquisition of parkland bridging Shoup Park and Redwood Grove, pedestrian and traffic safety devices, safe routes to school initiatives, completion of a citywide fueling station, comprehensive renovation of Rosita Park, San Antonio Streetscape design, Fremont bridge improvements, 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 improvements to Pine Lane pump systems and furthering of the citywide sewer master plan for completion in FY2011-2012.

The City finished the year with a General Fund surplus of \$2.3 million before transfers, certainly a testament to its conservative budgeting approach and cost conscious stewardship. This surplus remained relatively level with the prior year although the margin of surplus remains under pre-recession peak period levels. We continue to scrutinize revenue and expense streams closely, contain costs and proactively manage reserves as we develop future fiscal plans.

### **Government-Wide View**

- Total net assets (excess of assets over liabilities) equaled \$95 million, an increase of \$1.5 million or 1.6% 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 \$41.1 million at year end, a decrease from last year's total by \$3.2 million. Governmental unrestricted assets dropped by \$2 million or 6% while business-type activities decreased by \$1.1 million or 13%. These trends are directly related to the utilization of working capital for citywide infrastructure maintenance and improvements. 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 fund restrictions, project assignments and/or policy reserves as classified within the fund section of the report.
- Governmental activities reported ending net assets of \$82.5 million, an increase of \$1 million or 1.3% above the prior year. The increase in government net assets is mostly attributed to positive operating results, stable revenues and cost containment, partially offset by the substantial use of resources, nearly \$1.5 million, for infrastructure maintenance.
- Business-type activities reported ending net assets of \$12.8 million, an increase of \$500,000 or 4% growth compared to last year given positive operating results in the Sewer and Solid Waste Funds partially offset by the use of resources in Storm Drain activities.
- On a combined basis, restricted net assets remained relatively stable at \$3.1 million.

### **Fund Level View**

- The General Fund realized an operating surplus of \$2.3 million.
- General Fund revenues, excluding transfers, increased by \$873,000 or 3% to \$28.7 million. Related expenditures increased from the previous year by \$1.1 million to \$26.4 million or 4% culminating in the surplus noted above.
- Total governmental fund balances were \$34.3 million at fiscal year-end, a decrease of \$2.1 million or 6%. This change is mainly explained by the use of resources in the major capital improvement funds, including the Capital Projects and Equipment Replacement funds, with a partial offset by General Fund surpluses.
- General government capital projects spending approximated \$6.3 million, an increase of \$1.9 million or 43% with a continued focus on the maintenance of streets, facilities, traffic calming efforts and parkland. Consequently, the Capital Projects Fund balance decreased by \$2.5 million net of supporting grant and special purpose revenues.

- The Real Property Proceeds Fund balance increased by \$346,000 including the receipt of an initial deposit on the sale of property at 400 Main Street. The final installment of the sewer plant proceeds, excluding a refund of estimated development costs of \$400,000 is due in 2012, was received in the prior year increasing this fund's balance to \$6.8 million.
- The Community Facilities Renewal Fund balance remained level at \$3.7 million.
- The Equipment Replacement Fund balance decreased to \$4 million with the use of funds for capital replacement purchases and deferred funding.
- Several stale-dated and expired assessment district funds, presented in the non-major governmental funds group in the prior year statements, were formally dissolved with transfers of residual balances made to the appropriate destination funds.
- Sewer operations ended the year favorably with an increase in net assets of \$350,000. Sewer revenues of \$4.8 million were \$750,000, or 13%, lower than in the prior year given water usage trends. This marks the second year of this consumption trend. Expenses came in relatively level with last year at \$4.5 million. Expenses again reflect continued attention to maintenance and consistent core upkeep.
- As reported in the operating budget, the Storm Drain Fund has exhausted its operating resources in the absence of a fee-based revenue model. At year end, this fund holds a balance just above \$2,000 marking the projected full General Fund support starting in FY2011-2012.
- The Internal Service Funds performed as expected with the important observation that workers' compensation claims have increased in the light of current exposure trends and tighter legislative reporting requirements as reflected in the latest actuarial valuation. The Workers' Compensation Fund ended the year with an unrestricted fund balance of \$170,000.
- Other Non-Major Governmental Funds performed within budget expectations ending the year with a total combined fund balance of \$2.8 million, a decrease of \$350,000 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 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 27 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 reports commence on page 29.

**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 insurance, Workers' Compensation and Liability Insurance costs. Because these services predominantly benefit the governmental function, they have been included in the government-wide financial statements and related intra-fund 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 83 to 101 of this report.

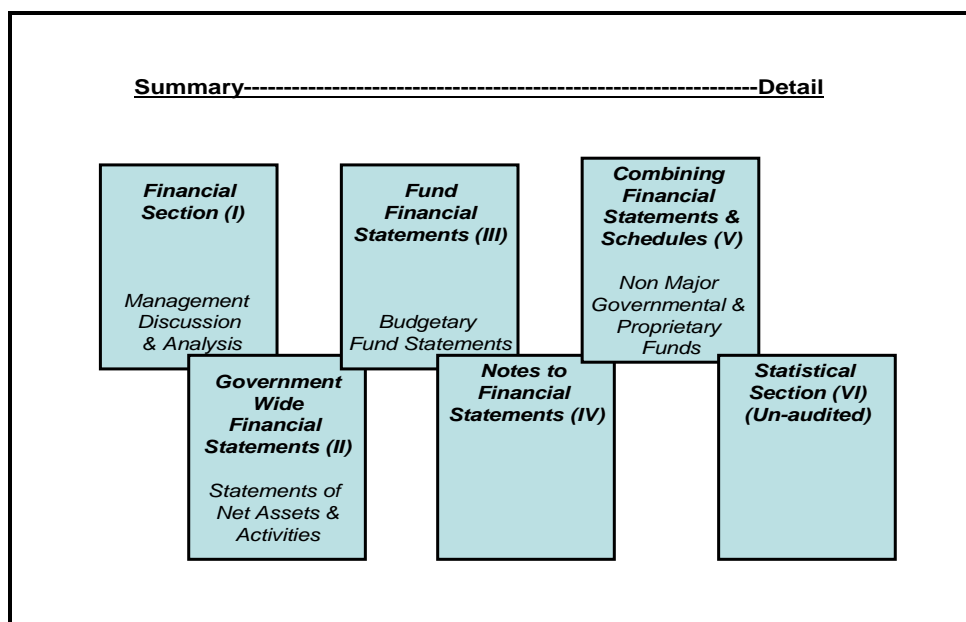
**Notes to the Basic Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These can be found on pages 45 to 76 of this report.

**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, 2011. 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	
	2011	2010	2011	2010
Cash and Investments	39,392,632	40,741,188	8,077,753	8,821,835
Other Assets	5,071,863	4,581,632	384,145	360,355
Capital Assets	47,955,812	44,626,040	5,197,408	3,551,702
<b>Total Assets</b>	<b>92,420,307</b>	<b>89,948,860</b>	<b>13,659,306</b>	<b>12,733,892</b>
Bond Debt	1,945,000	2,030,000	-	-
Other Liabilities	7,959,017	6,436,012	837,295	415,676
<b>Total Liabilities</b>	<b>9,904,017</b>	<b>8,466,012</b>	<b>837,295</b>	<b>415,676</b>
Net Assets				
Investments in Capital - Net of Related Debt	46,010,812	42,596,040	5,197,408	3,551,702
Restricted	3,057,557	3,410,778	-	-
Unrestricted	33,447,921	35,476,030	7,624,603	8,766,514
<b>Total Net Assets</b>	<b>\$ 82,516,290</b>	<b>\$ 81,482,848</b>	<b>\$ 12,822,011</b>	<b>\$ 12,318,216</b>

The largest portion of the City's net assets (54%) 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 (3%) represents resources subject to external restrictions in their application. The remaining balance of unrestricted net assets (43%) 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 decreased by 3%. This outcome is attributed to several factors: a General Fund surplus of \$2.3 million, the collection of a \$300,000 installment from the sale of the property at 400 Main Street, favorable enterprise business activity gains of nearly \$500,000, a positive operating increase of \$1.1 million in special revenue dollars, offset by over \$6 million in internally-funded capital projects.
- Government-wide net assets equaled \$95.3 million, an increase of \$1.5 million or 2%, mostly due to the resource flow activity noted above and the capitalization of completed projects.
- Substantial capital maintenance costs, approximating \$5 million including depreciation, were incurred. Areas of improvement include street repairs, striping, concrete maintenance, facility maintenance and major development planning/design studies.
- Business-type activities reported combined ending net assets of \$12.8 million at year end, \$500,000 or 4% 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, 2011, the Storm Drain Fund has nearly depleted its reserves. This operation will be General Fund dependent until a successful storm water fee assessment is approved by the voters or an alternate funding source is developed. Solid Waste revenues exceeded expenses in contrast to the prior year use of resources associated with one-time contract renewal costs.

### **Governmental Activities**

Governmental programs include core general public services as noted above. Total governmental revenues increased by \$860,000 or 3% while total expenditures increased by \$930,000 or 3%. Including all sources and uses, governmental net assets increased by \$1 million or 1%, ending the year with a total fund balance of \$82.5 million.

- Property tax continues to be the City's single largest source of revenue representing about 41% of ongoing general government-wide revenues. In an uncommon trend compared to recent years, property tax revenue remained decreased slightly by \$300,000 or 2% reflective of a county-wide slowdown in real estate turnover and growth.

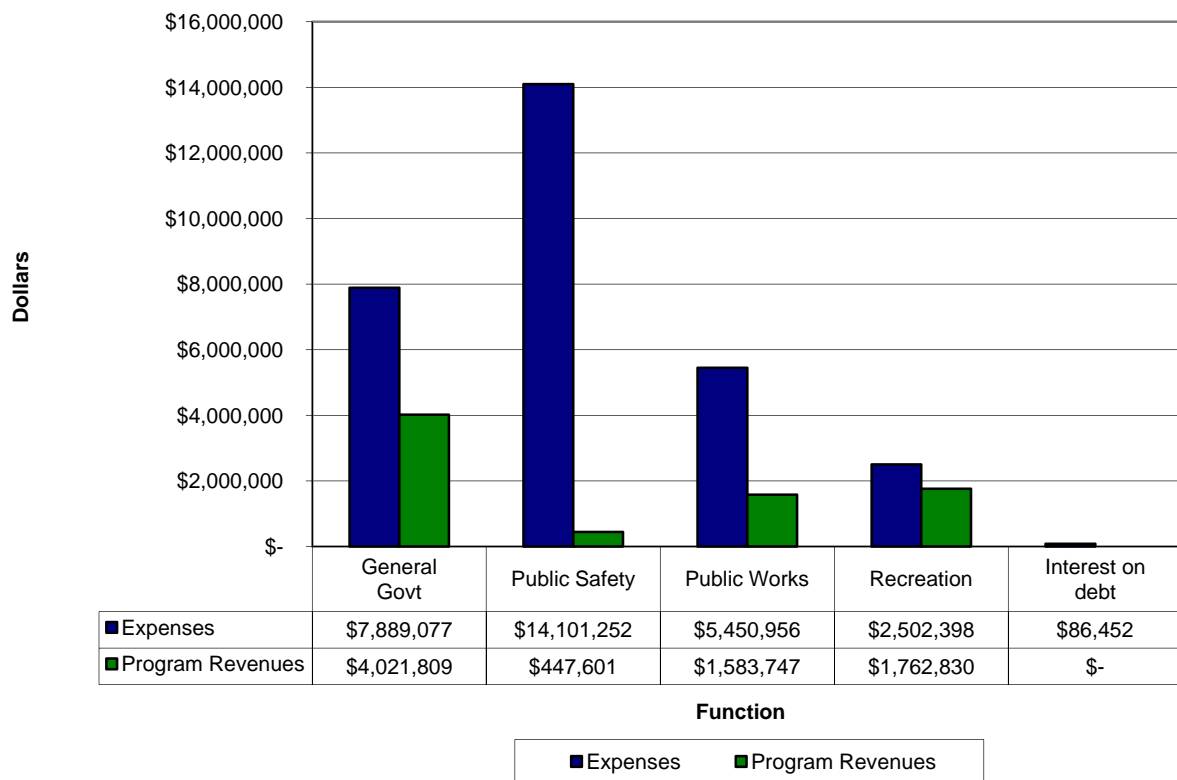
- Charges for services, which make up about 20% of ongoing government revenues, fell modestly by \$160,000 or 3% coming off of banner city-wide planning and building activity in the prior year. These revenue reductions were mostly offset by gains in recreation program revenue bolstered by new program development and effective marketing of services. 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 increased significantly by \$800,000 or 11% with a 15% increase in sales tax, a 13% increase in hotel occupancy tax and the doubling of building development tax and motor vehicle license fee revenues.
- Interest revenues again dropped by \$65,000 with continued declines in interest rates. This past year the City initiated a diversified investment model beyond its exclusive use of the Local Agency Investment Fund (LAIF) state pool. This strategy will take time to germinate as yields remain at historic low rates and the Federal Reserve maintains a low interest rate environment. This rate environment is expected to persist in the near term.
- Government expenses, including allocated capital expense costs, increased by \$930,000 or 3% overall. This change was mostly caused by a 2% increase in public safety expenditures, driven by contractual salary increases set in prior years, and a 9% rise in Public Works expenditures primarily in the capital maintenance area.
- 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 \$1.5 million, or a 2% increase in net assets.

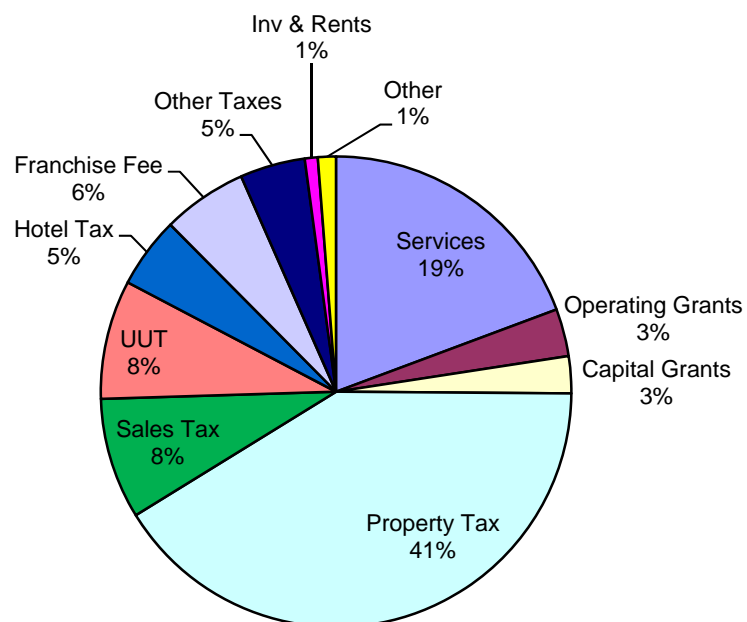
**City of Los Altos Changes in Net Assets**  
**Fiscal Year Ending June 30, 2011**

	<b>Government Activities</b>	<b>Government Activities</b>	<b>Business Activities</b>	<b>Business Activities</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>				
<b>Program Revenue</b>				
Charges for Services	\$ 6,012,185	\$ 6,167,571	\$ 5,804,834	\$ 7,069,798
Operating Grants and Contributions	1,014,816	750,352	-	-
Capital Grants and Contributions	788,986	1,190,697	-	-
<b>General Revenue</b>				
Property Tax	12,793,603	13,051,308	-	-
Sales Tax	2,587,889	2,255,527	-	-
Utility User Tax	2,543,287	2,514,880	-	-
Other Taxes	2,910,678	2,453,206	-	-
Franchise Fees	1,814,265	1,436,928	-	-
Interest Income	275,152	340,893	70,879	53,483
Sale of Capital Assets	-	-	-	-
Miscellaneous	387,716	286,027	-	-
<b>Total Revenues</b>	<b>31,128,577</b>	<b>30,447,389</b>	<b>5,875,713</b>	<b>7,123,281</b>
<b>Expenses</b>				
Public Safety	14,101,252	13,812,001	-	-
Public Works	5,450,956	5,169,674	-	-
Recreation	2,502,398	2,460,049	-	-
Community Development	4,051,892	3,961,602	-	-
Admin/Community Services	3,837,185	3,794,139	-	-
Interest on Long-Term Debt	86,452	83,158	-	-
Sewer	-	-	4,520,465	4,438,067
Solid Waste	-	-	716,599	1,825,616
Storm Drain	-	-	199,854	199,189
<b>Total Expenses</b>	<b>30,030,135</b>	<b>29,280,623</b>	<b>5,436,918</b>	<b>6,462,872</b>
<b>Excess (Deficiency) before transfers</b>	<b>1,098,442</b>	<b>1,166,766</b>	<b>438,795</b>	<b>660,409</b>
<b>Transfers</b>	<b>(65,000)</b>	<b>(239,238)</b>	<b>65,000</b>	<b>239,238</b>
<b>Change in Net Assets</b>	<b>1,033,442</b>	<b>927,528</b>	<b>503,795</b>	<b>899,647</b>
<b>Net Assets - Beginning of Year</b>	<b>8,148,284</b>	<b>80,345,257</b>	<b>12,318,216</b>	<b>11,418,569</b>
Restatement	-	210,063	-	-
<b>Net Assets - End of Year</b>	<b>\$ 8,251,629</b>	<b>\$ 81,482,848</b>	<b>\$ 12,822,011</b>	<b>\$ 12,318,216</b>

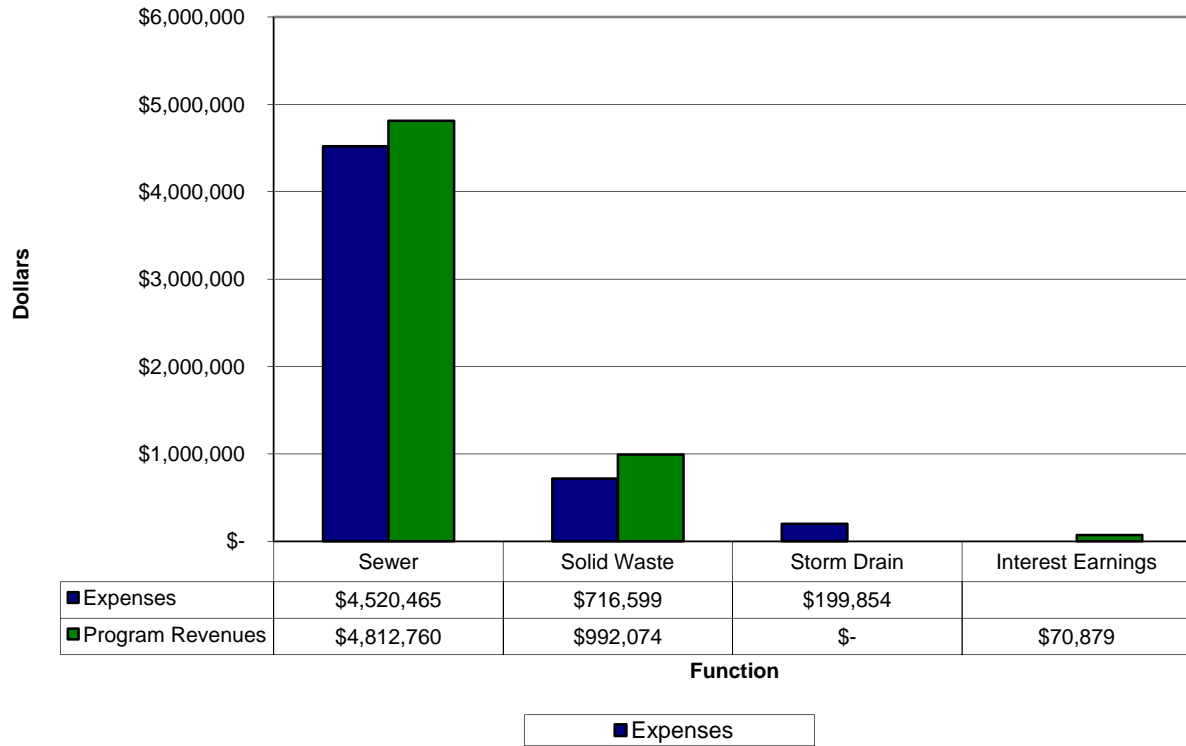
## Program Expenses and Revenues - Governmental Activities



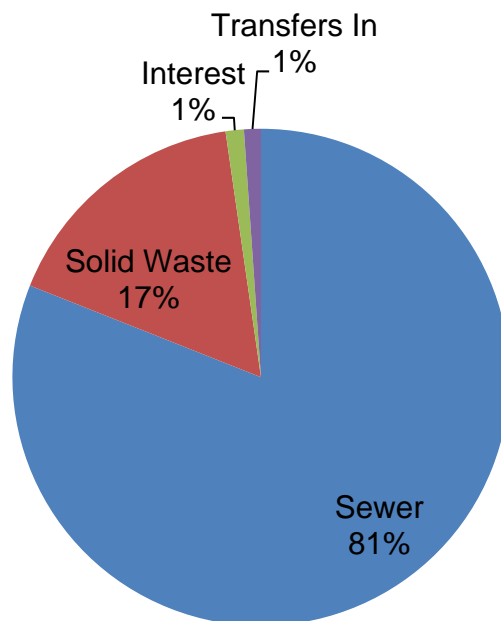
## Government Revenues - All Sources



## 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 \$500,000 or 4%, 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 \$600,000 or 11% as result of conservation utility usage trends, a pattern experienced and noted in last year's report.
- Sewer expenditures remained relatively flat decreasing only 2% or \$100,000. With the revenue patterns noted above, net assets increased by \$350,000 for these operations in line with the recent rate projections ending the year with total Net Assets of \$11.8 million.
- Service fee revenue for solid waste collection decreased by \$660,000 or 40% as result of a change in the revenue flow model introduced with a new waste contract in 2010 while expenditures decreased commensurately by \$1.1 million or 61% for the same reason. Net assets for the fund increased by \$285,000 leaving a total fund balance of \$990,000.
- The General Fund contributed to the Storm Drain Fund to augment annual expenses. For FY2010-2011 the transfer equaled \$65,000 resulting in a year-end fund balance of just over \$2,000, a decrease from the previous year of \$140,000. As projected in budgetary estimates and the prior year financial reports, this fund has exhausted its reserves. 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, unassigned or committed fund balances may serve as a useful measure of a government's net resources available for use at the end of the fiscal year. In this year of implementation, fund balances have been re-categorized and presented in compliance with GASB54.



The City's governmental funds reported a combined ending fund balance of \$34.3 million, a decrease of \$2.1 million over the prior year. Of the total of all governmental fund balances, only 8% remains as unassigned and without commitment 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. Significant capital and maintenance transfers are evident this year as the City has placed a deliberate focus on improving City infrastructure in several key areas. The City also continued 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 unassigned General Fund balance noted above, the City has taken the prudent path of establishing key fund balance reserves – what some might call “rainy day funds.” These key reserves are as defined as follows:

<i><b>General Fund Contingency Reserves</b></i>	<i><b>June 30, 2011</b></i>
<i>Emergency Operating</i>	\$3,936,228
<i>State Budget Stabilization</i>	1,025,000
<i>Unassigned Fund Balance</i>	2,675,226
<i><b>Total General Fund Available Funds</b></i>	<i><b>\$7,636,454</b></i>

The City has also set aside \$200,000 for Other Post Employee Benefits (OPEB) to initiate funding of minimum post-retirement health liabilities as prescribed by CALPERS health plans. The OPEB reserve was initiated in the prior year in response to GASB 45.

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.

Overall favorable operating results have led to a total fund balance of \$7.9 million and an unassigned fund balance of \$2.7 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. GASB 54 also requires formal council action to enact fund balance commitments beyond externally influenced and contractual commitments.

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><b>Other Key Fund Balances</b></i>	<i><b>June 30, 2011</b></i>
<i>Ongoing Capital Projects</i>	\$7,070,125
<i>Capital Project Unreserved</i>	2,178,100
<i>Equipment Replacement</i>	3,954,042
<i>Real Property Proceeds</i>	6,767,777
<i>Community Facility Renewal</i>	3,665,592
<i><b>Total</b></i>	<i><b>\$23,635,636</b></i>

The Capital Projects Fund balance can vary materially as progress occurs on approved projects and external funding becomes available. For FY2010-2011, general government capital project spending approximated \$6.3 million or \$2 million more than the prior year. Significant project progress occurred in the following maintenance and renovation projects as presented in rounded dollar amounts:

<i><b>FY2010-2011 Capital Projects</b></i>	<i><b>Amount Expended</b></i>
Rosita Park & Right of Way	1,865,000
First Street Streetscape - Intersection Improvements	1,197,000
Annual Street Resurfacing	494,000
San Antonio Club Rehabilitation	230,000
Traffic Signal Controller & Cabinet Replacement	219,000
Municipal Service Center Fuel Station	196,000
Demolition of 400 Main Street	177,000
Blue Oak Lane Sewer	173,000
First Street Streetscape Design	152,000
Audible Pedestrian Signals	132,000
Fremont Avenue Bridge Design	132,000
Parkland Acquisition – Shoup & Redwood Grove Pathway	126,000
Annual Special Projects and Studies	112,000
Collector Traffic Calming Master Plan	98,000
San Antonio Road Streetscape Design	82,000
Annual Concrete Repair	82,000
Parks Master Plan	70,000
Bicycle Transportation Plan Update	67,000
Collector Street Traffic Calming	48,000
Storm Drain System Master Plan	47,000
Downtown First Street Utility Undergrounding	46,000
Annual Safe Routes to School	46,000
Homestead Road Safety Improvements	44,000
Pedestrian Safety Improvements & Safe Routes - S. Grant	44,000
Loyola Corners Streetscape Design	43,000
Financial System Upgrade	39,000
Rehabilitate Portland Ave. Bridge	39,000
Safety Modular Building and Equipment	35,000
Traffic Sign Replacement	34,000

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 decreased to \$7 million, the Storm Drain Fund was just above \$2,000 and the Solid Waste Fund \$990,000. Factors concerning the changes in fund balance in these funds have already been addressed in the discussion of the City's business-type activities.

Both the Sewer and Solid Waste funds receive revenues from the City as a customer for routine service operations. In FY10-11 the City paid approximately \$14,000 in sewer fees and \$300,000 in waste hauling and disposal services. These amounts are recorded within the "Charges for Services" revenue line item in the proprietary financial statements.

## 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 \$53 million (net of accumulated depreciation).

This investment in capital assets includes land, buildings, improvements, machinery, equipment and streets. Net capital assets of the governmental activities totaled \$48 million and the net capital assets of the business-type activities totaled \$5 million. Assets increased by \$5 million overall on a combined basis given the completion of several significant projects. 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 4 of these financial statements.

### Capital Assets as of June 30, 2011

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2011 Total</i>	<i>2010 Total</i>	<i>2009 Total</i>
<i>Land</i>	\$11,539,449	0	\$11,539,449	\$11,404,867	\$11,404,867
<i>Work in Progress</i>	5,078,113	1,732,025	6,810,138	5,703,544	3,283,743
<i>Buildings</i>	15,027,131	3,173,683	18,198,995	16,585,954	17,120,538
<i>Improvements</i>	1,470,424	22	1,472,263	1,457,740	1,293,245
<i>Machinery &amp; Equip</i>	1,494,597	291,678	1,786,278	1,364,237	1,579,717
<i>Infrastructure</i>	13,346,097	0	13,346,097	11,661,401	11,723,524
<i>Total Assets</i>	<b>\$47,955,812</b>	<b>\$5,197,408</b>	<b>\$53,153,220</b>	<b>\$48,177,743</b>	<b>\$46,405,634</b>

**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, 2011

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2011 Total</i>	<i>2010 Total</i>
<i>Certificate of Participation</i>	\$1,945,000	0	\$1,945,000	\$2,030,000
<i>Compensated Absences</i>	1,586,290	37,031	1,623,321	1,602,412
<i>Total</i>	\$3,531,290	\$37,031	\$3,568,321	\$3,632,412

### GENERAL FUND BUDGETARY HIGHLIGHTS

The adopted FY2010-2011 General Fund budget equaled \$27.5 million and changed modestly by \$300,000 to \$27.7 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 3% and expenditures coming in at 95% of established limits.

### ECONOMIC FACTORS AND FY2011-2012 BUDGET AND RATES

General Fund revenue is forecast to increase by 3% as reflected in the FY2011-2012 budget while expenditures are being held to a 4% increase. No significant changes were made from recent years as the budget presents a continuity of a balanced equation. Several personnel positions remain frozen, although not always the same positions as in the recent past. 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. The FY2011-2012 budget was crafted as a two-year plan and includes a five-year strategic forecast. Key upcoming budget highlights are noted below:

- Revenues show a small upward tick and we continue building towards our operational goal of a 20% reserve endorsed three years ago by Council. OPEB reserves as required were added to and transfers proposed from the General Fund to fund the Capital Projects Fund and the Equipment Replacement Fund.
- The budget projects an increase of 4% 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 46% of all governmental funds revenue.
- Other key taxes are estimated to experience increases. Sales tax revenue is up 4% as opposed to a prior year drop. Hotel occupancy is well into recovery with a 12% increase. Other taxes including real estate transfers, motor vehicle license fees and business license all display modest growth.
- 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 16% projected increase in this revenue base as opposed to budget declines in the prior year.
- Franchise fees are projected to remain relatively flat now that the newly-established waste hauling contract has covered its first full fiscal year of implementation.

- No new positions were added with the number of authorized positions remaining unchanged at 130.
- General operational costs were held to a 4% increase including recently negotiated labor contracts. Materials and service expense cuts and deferrals continue and this budget also maintained eight 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 increased but were mitigated by the prior year pay-down of the City's side-fund liability. Rates for public safety employees increased 5% while those for miscellaneous employees increased by 2%. Health insurance was assumed to increase by 7.5% based upon the coverage identified in the labor agreements.
- As part of contract negotiations, the City successfully implemented a second-tier pension model that lowers the level of benefit for new hires beginning July 1, 2011. This change is anticipated to render material savings as the years evolve.
- 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 \$1,025,000 exists in 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 FY2011-2012 with the possibility of a vote in upcoming months. 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 OPEB through the establishment of an internal set-aside reserve of \$300,000.

For a more current discussion of the state of the economy beyond those assumptions made in the FY2011-2013, two-year budget process, the reader should also refer to the transmittal letter included in this document.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, One North San Antonio Road, Los Altos, CA 94022.



## **BASIC FINANCIAL STATEMENTS**





## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**



**City of Los Altos**  
**Statement of Net Assets**  
**June 30, 2011**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 39,220,615	\$ 8,077,753	\$ 47,298,368
Accounts receivable, net	1,916,472	384,145	2,300,617
Interest receivable	93,287	-	93,287
Prepaid items and inventory	35,618	-	35,618
Total current assets	41,265,992	8,461,898	49,727,890
Noncurrent assets:			
Restricted cash and investments	172,017	-	172,017
Deferred charges	73,657	-	73,657
Net pension asset	2,952,829	-	2,952,829
Capital assets:			
Nondepreciable assets	16,617,562	1,732,025	18,349,587
Depreciable assets, net	48,906,541	14,358,968	63,265,509
Total capital assets	65,524,103	16,090,993	81,615,096
Less accumulated depreciation	(17,568,291)	(10,893,585)	(28,461,876)
Capital assets, net	47,955,812	5,197,408	53,153,220
Total noncurrent assets	51,154,315	5,197,408	56,351,723
<b>Total assets</b>	92,420,307	13,659,306	106,079,613
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	2,547,668	746,916	3,294,584
Interest payable	12,547	-	12,547
Accrued liabilities	703,783	29,659	733,442
Other payable	120,867	-	120,867
Compensated absences payable - due within one year	396,573	228	396,801
Claims and judgments payable-due within one year	529,066	-	529,066
Long-term debt - due within one year	90,000	-	90,000
Total current liabilities	4,400,504	776,803	5,177,307
Noncurrent liabilities:			
Compensated absences payable	1,189,717	36,803	1,226,520
OPEB liability	580,343	23,689	604,032
Claims and judgments payable	1,878,453	-	1,878,453
Long-term debt - due in more than a year	1,855,000	-	1,855,000
Total noncurrent liabilities	5,503,513	60,492	5,564,005
<b>Total liabilities</b>	9,904,017	837,295	10,741,312
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	46,010,812	5,197,408	51,208,220
Restricted for:			
Debt service	368,167	-	368,167
Special projects and programs	2,677,390	-	2,677,390
Other purpose	12,000	-	12,000
Total restricted	3,057,557	-	3,057,557
Unrestricted	33,447,921	7,624,603	41,072,524
<b>Total net assets</b>	\$ 82,516,290	\$ 12,822,011	\$ 95,338,301

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, 2011**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Public safety	\$ 14,101,252	\$ 347,601	\$ 100,000	\$ -	\$ 447,601
Public works	5,450,956	190,632	681,985	711,130	1,583,747
Recreation	2,502,398	1,762,830	-	-	1,762,830
Community development	4,051,892	2,649,876	168,447	-	2,818,323
Admin / community services	3,837,185	1,061,246	64,384	77,856	1,203,486
Interest on long-term debt	86,452	-	-	-	-
Total governmental activities	30,030,135	6,012,185	1,014,816	788,986	7,815,987
Business-type activities:					
Sewer	4,520,465	4,812,760	-	-	4,812,760
Solid waste	716,599	992,074	-	-	992,074
Storm Drain	199,854	-	-	-	-
Total business-type activities	5,436,918	5,804,834	-	-	5,804,834
Total primary government	\$ 35,467,053	\$ 11,817,019	\$ 1,014,816	\$ 788,986	\$ 13,620,821

**General revenues and transfers:**

Taxes:

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

Interest income

Miscellaneous

Transfers

**Total general revenues and transfers**

**Change in net assets**

**Net assets - beginning of year**

**Net assets - end of year**

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (13,653,651)	\$ -	\$ (13,653,651)
(3,867,209)	-	(3,867,209)
(739,568)	-	(739,568)
(1,233,569)	-	(1,233,569)
(2,633,699)	-	(2,633,699)
(86,452)	-	(86,452)
(22,214,148)	-	(22,214,148)
-	292,295	292,295
-	275,475	275,475
-	(199,854)	(199,854)
-	367,916	367,916
(22,214,148)	367,916	(21,846,232)
12,793,603	-	12,793,603
2,587,889	-	2,587,889
2,543,287	-	2,543,287
2,910,678	-	2,910,678
1,814,265	-	1,814,265
22,649,722	-	22,649,722
275,152	70,879	346,031
387,716	-	387,716
(65,000)	65,000	-
23,247,590	135,879	23,383,469
1,033,442	503,795	1,537,237
81,482,848	12,318,216	93,801,064
\$ 82,516,290	\$ 12,822,011	\$ 95,338,301



## **FUND FINANCIAL STATEMENTS**

**Governmental Fund Financial Statements**

**Proprietary Fund Financial Statements**

**Fiduciary Fund Financial Statements**





## GOVERNMENTAL FUND FINANCIAL STATEMENTS

### MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be major funds by the City in the fiscal year 2010-11. 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 Fund*

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 Fund*

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

#### *Community Facilities Renewal 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, 2011**

	Major Funds				
	General	Real Property Proceeds	Capital Projects	Equipment Replacement Fund	Community Facilities Renewal Fund
<b>ASSETS</b>					
Cash and investments	8,491,094	6,767,777	10,403,226	3,954,042	3,665,592
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	1,053,987	-	388,602	-	-
Interest	93,287	-	-	-	-
Prepays	19,164	-	-	-	-
Inventory	16,454	-	-	-	-
<b>Total assets</b>	<b>9,673,986</b>	<b>6,767,777</b>	<b>10,791,828</b>	<b>3,954,042</b>	<b>3,665,592</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	965,264	-	1,543,603	-	-
Accrued liabilities	703,783	-	-	-	-
Other payable	120,867	-	-	-	-
<b>Total liabilities</b>	<b>1,789,914</b>	<b>-</b>	<b>1,543,603</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>					
Nonspendable:					
Inventory and prepaids	35,618	-	-	-	-
Veteran Memorial	12,000	-	-	-	-
Total nonspendable	47,618	-	-	-	-
Restricted:					
Special programs and projects	-	-	-	-	-
Debt service	-	-	-	-	-
Continuing CIP	-	-	-	-	-
Total restricted	-	-	-	-	-
Committed:					
State Budget Stabilization	1,025,000	-	-	-	-
Continuing CIP	-	-	7,070,125	732,726	-
Total committed	1,025,000	-	7,070,125	732,726	-
Assigned:					
Emergency & operating	3,936,228	-	-	-	-
OPEB	200,000	-	-	-	-
Capital projects	-	6,767,777	2,178,100	3,221,316	3,665,592
Total assigned	4,136,228	6,767,777	2,178,100	3,221,316	3,665,592
Unassigned	2,675,226	-	-	-	-
<b>Total fund balances</b>	<b>7,884,072</b>	<b>6,767,777</b>	<b>9,248,225</b>	<b>3,954,042</b>	<b>3,665,592</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,673,986</b>	<b>\$ 6,767,777</b>	<b>\$ 10,791,828</b>	<b>\$ 3,954,042</b>	<b>\$ 3,665,592</b>

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental Funds		Total
2,553,541		35,835,272
172,017		172,017
72,635		1,515,224
-		93,287
-		19,164
-		16,454
2,798,193		37,651,418
18,599		2,527,466
-		703,783
-		120,867
18,599		3,352,116
-		35,618
-		12,000
-		47,618
1,589,674		1,589,674
368,167		368,167
821,753		821,753
2,779,594		2,779,594
-		1,025,000
-		7,802,851
-		8,827,851
-		3,936,228
-		200,000
-		15,832,785
-		19,969,013
-		2,675,226
2,779,594		34,299,302
\$ 2,798,193	\$	37,651,418



**City of Los Altos**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2011**

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<b>Total Fund Balances - Total Governmental Funds</b>	<b>\$ 34,299,302</b>
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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	47,955,812
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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
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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.	(12,547)
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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.	958,870
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The cost associated with the issuance of debt, net of amortization, is a use of current resources in the fund statement. Therefore, it was not reported as an asset in the Governmental Funds Balance Sheet.	73,657
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Net pension asset was not current financial resources. Therefore, it was not reported in the governmental funds.	2,952,829
--	-----------

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	(90,000)
Long-term liabilities - non-current portion	(1,855,000)
OPEB liability	(580,343)
Compensated Absences - current portion	(396,573)
Compensated Absences - non-current portion	(1,189,717)
Total long-term liabilities	<u>(4,111,633)</u>

<b>Net Assets of Governmental Activities</b>	<b>\$ 82,516,290</b>
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# City of Los Altos

## Statement of Revenues, Expenditures and Changes in Fund Balances

### Governmental Funds

For the year ended June 30, 2011

	Major Funds				
	General	Real Property Proceeds	Capital Projects	Equipment Replacement Fund	Community Facilities Renewal Fund
<b>REVENUES:</b>					
Taxes	\$ 17,713,864	\$ -	\$ -	\$ -	\$ -
Licenses and permits and park-in-lieu	3,187,014	-	-	-	-
Intergovernmental	3,121,592	-	82,117	-	-
Grants and donations	57,875	-	488,215	-	-
Charges for services	4,019,778	-	-	-	-
Fines and forfeitures	126,300	-	-	-	-
Interest and rentals	255,497	45,771	-	-	-
Other	179,174	-	-	-	-
<b>Total revenues</b>	<b>28,661,094</b>	<b>45,771</b>	<b>570,332</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURES:</b>					
General government:					
Public safety	13,544,119	-	155,611	175,036	-
Public works	4,131,365	-	662,007	-	-
Recreation	1,906,658	-	115,511	39,547	-
Community development	3,305,550	-	648,391	-	-
Admin / Community services	3,516,497	-	56,003	15,803	-
Capital improvements	-	-	4,474,634	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<b>26,404,189</b>	<b>-</b>	<b>6,112,157</b>	<b>230,386</b>	<b>-</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,256,905</b>	<b>45,771</b>	<b>(5,541,825)</b>	<b>(230,386)</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	306,608	-	3,037,305	-	-
Transfers out	(1,730,000)	-	-	(204,155)	-
<b>Total other financing sources (uses)</b>	<b>(1,423,392)</b>	<b>-</b>	<b>3,037,305</b>	<b>(204,155)</b>	<b>-</b>
<b>SPECIAL ITEM:</b>					
Proceeds from sale of capital assets	-	300,010	-	-	-
<b>Total special item</b>	<b>-</b>	<b>300,010</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>833,513</b>	<b>345,781</b>	<b>(2,504,520)</b>	<b>(434,541)</b>	<b>-</b>
<b>FUND BALANCES:</b>					
Beginning of year	7,050,559	6,421,996	11,752,745	4,388,583	3,665,592
End of year	<u>\$ 7,884,072</u>	<u>\$ 6,767,777</u>	<u>\$ 9,248,225</u>	<u>\$ 3,954,042</u>	<u>\$ 3,665,592</u>

See accompanying Notes to Basic Financial Statements.

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Non-Major Governmental			
Funds		Total	
\$	-	\$	17,713,864
	-		3,187,014
	784,336		3,988,045
	383,236		929,326
	-		4,019,778
	21,608		147,908
	31,320		332,588
	341,915		521,089
	<u>1,562,415</u>		<u>30,839,612</u>
	-		13,874,766
	-		4,793,372
	-		2,061,716
	19,000		3,972,941
	256,447		3,844,750
	-		4,474,634
	85,000		85,000
	80,431		80,431
	<u>440,878</u>		<u>33,187,610</u>
	<u>1,121,537</u>		<u>(2,347,998)</u>
	165,000		3,508,913
	<u>(1,639,758)</u>		<u>(3,573,913)</u>
	<u>(1,474,758)</u>		<u>(65,000)</u>
	-		300,010
	-		300,010
	<u>(353,221)</u>		<u>(2,112,988)</u>
	<u>3,132,815</u>		<u>36,412,290</u>
\$	<u>2,779,594</u>	\$	<u>34,299,302</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, 2011

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Net Change in Fund Balances - Total Governmental Funds	\$ (2,112,988)
--	----------------

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.	4,839,316
--	-----------

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.	(1,498,545)
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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.	(11,000)
--	----------

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.	(32,948)
--	----------

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.	(204,038)
---	-----------

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 expenditure is capitalized and allocated over the remaining amortization period.	(52,966)
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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.	666
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	27,632
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,033,442</b>
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See accompanying Notes to Basic Financial Statements.



## PROPRIETARY FUND FINANCIAL STATEMENTS

### ENTERPRISE FUNDS

#### *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, 2011**

	Major Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer	Solid Waste	Storm Drain	Total	
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 7,069,909	\$ 998,509	\$ 9,335	\$ 8,077,753	\$ 3,385,343
Receivables:					
Accounts	378,145	6,000	-	384,145	1,248
Total current assets	7,448,054	1,004,509	9,335	8,461,898	3,386,591
Noncurrent assets:					
Capital assets:					
Nondepreciable	1,732,025	-	-	1,732,025	-
Depreciable	12,389,747	-	1,969,221	14,358,968	-
Less accumulated depreciation	(8,924,387)	-	(1,969,198)	(10,893,585)	-
Total capital assets, net	5,197,385	-	23	5,197,408	-
Total noncurrent assets	5,197,385	-	23	5,197,408	-
<b>Total assets</b>	<b>12,645,439</b>	<b>1,004,509</b>	<b>9,358</b>	<b>13,659,306</b>	<b>3,386,591</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	736,747	10,169	-	746,916	20,202
Accrued liabilities	23,219	1,832	4,608	29,659	-
Compensated absences - current portion	228	-	-	228	-
Claims and judgments - current portion	-	-	-	-	529,066
Total current liabilities	760,194	12,001	4,608	776,803	549,268
Noncurrent liabilities:					
Compensated absences - noncurrent portion	36,803	-	-	36,803	-
OPEB liabilities	19,420	1,594	2,675	23,689	-
Claims and judgments - noncurrent portion	-	-	-	-	1,878,453
Total noncurrent liabilities	56,223	1,594	2,675	60,492	1,878,453
<b>Total liabilities</b>	<b>816,417</b>	<b>13,595</b>	<b>7,283</b>	<b>837,295</b>	<b>2,427,721</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	5,197,385	-	23	5,197,408	-
Unrestricted	6,631,637	990,914	2,052	7,624,603	958,870
<b>Total net assets</b>	<b>\$ 11,829,022</b>	<b>\$ 990,914</b>	<b>\$ 2,075</b>	<b>\$ 12,822,011</b>	<b>\$ 958,870</b>

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, 2011**

	Major Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer	Solid Waste	Storm Drain	Total	
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 4,812,760	\$ 992,074	\$ -	\$ 5,804,834	\$ 1,082,985
Other	-	-	-	-	367
<b>Total operating revenues</b>	<b>4,812,760</b>	<b>992,074</b>	<b>-</b>	<b>5,804,834</b>	<b>1,083,352</b>
<b>OPERATING EXPENSES:</b>					
Outside services	2,278,242	665,743	68,702	3,012,687	55,852
Employee services	670,060	49,144	131,102	850,306	-
Repairs and maintenance	1,421,606	1,712	-	1,423,318	-
Claims reimbursement	-	-	-	-	586,481
Insurance	-	-	-	-	354,021
Administration	-	-	-	-	59,366
Depreciation	150,557	-	50	150,607	-
<b>Total operating expenses</b>	<b>4,520,465</b>	<b>716,599</b>	<b>199,854</b>	<b>5,436,918</b>	<b>1,055,720</b>
<b>OPERATING INCOME (LOSS)</b>	<b>292,295</b>	<b>275,475</b>	<b>(199,854)</b>	<b>367,916</b>	<b>27,632</b>
<b>NONOPERATING REVENUE:</b>					
Interest	62,237	8,642	-	70,879	-
<b>Total nonoperating revenues</b>	<b>62,237</b>	<b>8,642</b>	<b>-</b>	<b>70,879</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>354,532</b>	<b>284,117</b>	<b>(199,854)</b>	<b>438,795</b>	<b>27,632</b>
<b>TRANSFERS:</b>					
Transfers in	-	-	65,000	65,000	-
<b>Total transfers</b>	<b>-</b>	<b>-</b>	<b>65,000</b>	<b>65,000</b>	<b>-</b>
<b>Change in net assets</b>	<b>354,532</b>	<b>284,117</b>	<b>(134,854)</b>	<b>503,795</b>	<b>27,632</b>
<b>NET ASSETS:</b>					
Beginning of the year	11,474,490	706,797	136,929	12,318,216	931,238
End of the year	\$ 11,829,022	\$ 990,914	\$ 2,075	\$ 12,822,011	\$ 958,870

See accompanying Notes to Basic Financial Statements.

**City of Los Altos**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended June 30, 2011**

	Major Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer	Solid Waste	Storm Drain	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 4,580,184	\$ 1,200,860	\$ -	\$ 5,781,044	\$ -
Cash received from other funds	-	-	-	-	1,093,479
Cash payments to suppliers for goods and services	(3,104,351)	(838,128)	(68,368)	(4,010,847)	-
Cash payments to employees for services	(675,130)	(48,572)	(130,145)	(853,847)	-
Cash payments to claimants	-	-	-	-	(286,863)
Insurance premiums and settlements	-	-	-	-	(480,894)
<b>Net cash provided (used) by operating activities</b>	<b>800,703</b>	<b>314,160</b>	<b>(198,513)</b>	<b>916,350</b>	<b>325,722</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers in	-	-	65,000	65,000	-
<b>Net cash provided by noncapital financing activities</b>	<b>-</b>	<b>-</b>	<b>65,000</b>	<b>65,000</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Capital asset additions	(1,796,311)	-	-	(1,796,311)	-
<b>Net cash used by capital and related financing activities</b>	<b>(1,796,311)</b>	<b>-</b>	<b>-</b>	<b>(1,796,311)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest	62,237	8,642	-	70,879	-
<b>Net cash provided by investing activities</b>	<b>62,237</b>	<b>8,642</b>	<b>-</b>	<b>70,879</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(933,371)</b>	<b>322,802</b>	<b>(133,513)</b>	<b>(744,082)</b>	<b>325,722</b>
<b>CASH AND CASH EQUIVALENTS:</b>					
Beginning of year	8,003,280	675,707	142,848	8,821,835	3,059,621
End of year	\$ 7,069,909	\$ 998,509	\$ 9,335	\$ 8,077,753	\$ 3,385,343
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 292,295	\$ 275,475	\$ (199,854)	\$ 367,916	\$ 27,632
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	150,557	-	50	150,607	-
Changes in assets and liabilities:					
Accounts receivable	(232,576)	208,786	-	(23,790)	10,127
Accounts payable	595,796	(170,723)	-	425,073	(11,655)
Accrued liabilities	(299)	50	334	85	-
Due to other funds	-	-	-	-	-
Compensated absences	(12,039)	-	-	(12,039)	-
OPEB liabilities	6,969	572	957	8,498	-
Claims and judgments	-	-	-	-	299,618
Total adjustments	508,408	38,685	1,341	548,434	298,090
<b>Net cash provided (used) by operating activities</b>	<b>\$ 800,703</b>	<b>\$ 314,160</b>	<b>\$ (198,513)</b>	<b>\$ 916,350</b>	<b>\$ 325,722</b>

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 the 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, 2011**

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	Agency Funds
<b>ASSETS</b>	
Cash and investments	\$ 1,350,855
Account receivable	1,392
<b>Total assets</b>	<b>\$ 1,352,247</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 240,390
Due to others	1,111,857
<b>Total liabilities</b>	<b>\$ 1,352,247</b>

See accompanying Notes to Basic Financial Statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**City of Los Altos**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2011**

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**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 Board (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 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. The City has no component units.

***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.

*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 and Changes in Net Assets 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.



**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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 inter-fund 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 and Changes in Net Assets internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following inter-fund 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 by the proprietary funds 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.

*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.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

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

*Proprietary Fund Financial Statements*

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

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

Proprietary Funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Change in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability for goods or services is incurred.

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 Fiduciary 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 accrual basis of accounting.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

*Internal Service Funds*

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.

*Major Funds*

The City reports the following major governmental funds:

*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 Fund* - accounts for the proceeds from the sale of the property.

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

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

*Community Facilities Renewal Fund* - accounts for the revenues and expenditures related to the community facilities renewal efforts.

The City reports the following major proprietary funds:

*Sewer Fund* - accounts 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 Fund* - accounts for the collection and disposal of solid waste, a self supporting activity that provides service on a user charge basis.

*Storm Drain Fund* -accounts for the operation of the City's urban runoff and storm drain activities.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***C. Recognition of Interest Liability***

In the Governmental Fund Financial Statements, interest expenditures on long-term debt are recognized when payment is made. 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 Equivalent 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 known as the 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, 2011**

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**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 investment custodial 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 Cash***

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.

*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.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***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. Santa Clara County (County) assesses properties and it bills, collects and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 for the fiscal year.

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. Collection of delinquent accounts is the responsibility of the County, which retains all penalties. 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 \$5,000. 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, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***J. Capital Assets, Continued***

In accordance with GASB Statement No. 34, the City has included all infrastructures in its Statement of Net Assets.

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
- 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. 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, 2011**

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**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 inter-fund 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, 2011**

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**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:*

*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.”

*In the Fund Financial Statements, fund balances are classified in the following categories:*

Beginning in fiscal year 2010-2011, the City has reclassified fund balances into the following five Categories to comply with the Governmental Accounting Standards Board Statement (GASB) No. 54, Fund Balance and Governmental Fund Types. Fund balance is defined as the difference between assets and liabilities.

**Nonspendable** fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances include inventory and prepaid items.

**Restricted** fund balances will exist when constraints are placed on the use of those resources that are either externally imposed or imposed by law. In general most reserve funds will fall into this category.

**Committed** fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority (Governing Board or Council).

**Assigned** fund balances will be amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted, nor committed. The intent can be made by either the governing body itself or a body or official to which the governing body has delegated the authority to (purchasing agent and business official). Appropriated fund balance and the majority of encumbrances will be reclassified into the assigned category.

**Unassigned** fund balances will represent those funds that have not been assigned, committed, restricted or considered nonspendable. The general fund will be the only fund that will report unassigned fund balance, unless a deficit fund balance resulting from overspending in other funds exist. Fund balance in other funds will either be assigned, committed, restricted or nonspendable unless the fund reports a deficit.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***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 2011, the City adopted new accounting standards in order to conform to the following GASB Statements:

**Governmental Accounting Standards Board Statement (GASB) No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions:** The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

**Governmental Accounting Standards Board Statement (GASB) No. 59 - Financial Instruments Omnibus:** This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. There was no impact on the City's net assets as a result of this implementation during the fiscal year.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**A. Cash Deposits**

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 47,298,368
Cash and investments held by bond trustee	172,017
Fiduciary funds:	
Cash and Investments	1,350,855
<b>Total cash and investments</b>	<b>\$ 48,821,240</b>

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 1,900
Deposits with financial institutions	2,420,333
Investments:	
Bond trust investments	261,361
Liquid investments	30,311,406
Managed investments	15,826,240
<b>Total cash and investments</b>	<b>\$ 48,821,240</b>

**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, 2011**

**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, 2011, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)		
		1 year or Less	2 years	3 years
Money Market	\$ 94,676	\$ 94,676	\$ -	\$ -
Securities of U.S. Government				
Treasury and Agencies:				
Federal Home Loan Bank Bonds (FHLB)	2,018,551	1,204,920	813,631	-
Federal Home Loan Mortg. Corp. Notes (FHLMC)	2,274,533	-	2,274,533	-
Federal National Mortg. Assn. Notes (FNMA)	2,371,825	1,606,840	764,985	-
US Securities	5,842,694	1,205,808	2,633,211	2,003,675
US Corporate Notes	3,223,961	1,051,450	2,172,511	-
Local Agency Investment Funds (LAIF)	30,311,406	30,311,406	-	-
Trust Bond Funds	261,361	172,017	89,344	-
<b>Total</b>	<b>\$ 46,399,007</b>	<b>\$ 35,647,117</b>	<b>\$ 8,748,215</b>	<b>\$ 2,003,675</b>

*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, 2011, the City's deposit and investments were rated as follows:

	Credit Quality Ratings		Market Value	Par Value
	Moody's	S&P		
Money Market	Aaa	AAA	94,676	94,676
Securities of U.S. Government Agencies:				
Federal Home Loan Bank Bonds (FHLB)	Aaa	AAA	2,018,551	2,000,000
Federal Home Loan Mortg. Corp. Notes (FHLMC)	Aaa	AAA	2,274,533	2,250,000
Federal National Mortg. Assn. Notes (FNMA)	Aaa	AAA	2,371,825	2,350,000
US Securities	Aaa	AAA	5,842,694	5,800,000
Corporate Notes				
General Electric Corp	Aa2	AA+	1,736,699	1,650,000
Bank of New York Mellon	Aa2	AA-	690,619	650,000
WalMart Stores Inc.	Aa2	AA	796,642	750,000
Local Agency Investment Funds (LAIF)	Not Rated		30,311,406	30,311,406
Trust Bond Funds	Aaa	AAA	261,361	261,361
			<b>46,399,007</b>	<b>46,117,443</b>

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**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, 2011, the City's bank balance was \$2,247,443 and the corresponding carrying book balance was \$2,420,333. Of the bank balance, \$250,000 was covered by federal depository insurance and \$1,997,443 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, 2011, the City held \$30,311,406 in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 5.42% in the previous year. The LAIF fair value factor of 1.001576470 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, 2011**

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**3. INTERFUND TRANSACTIONS**

**Fund Financial Statements**

**A. Transfers**

Transfers for the year ended June 30, 2011 were as follows:

		Transfers In				
		General	Capital	Non-Major	Enterprise	
		Fund	Projects	Governmental	Storm Drain	Total
Transfers Out	General Fund	\$ -	\$ 1,500,000	\$ 165,000	\$ 65,000	\$ 1,730,000
	Capital project	-	-	-	-	-
	Equip Replacement	-	204,155	-	-	204,155
	Non-major					
	Governmental Funds	306,608	1,333,150	-	-	1,639,758
	Total	<u>\$ 306,608</u>	<u>\$ 3,037,305</u>	<u>\$ 165,000</u>	<u>\$ 65,000</u>	<u>\$ 3,573,913</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 a substantial volume of capital projects were expended and/or completed.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**4. CAPITAL ASSETS**

**A. Government-Wide Financial Statements**

At June 30, 2011, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Construction in progress	\$ 5,078,113	\$ 1,732,025	\$ 6,810,138
Land	11,539,449	-	11,539,449
Total non-depreciable assets	16,617,562	1,732,025	18,349,587
Depreciable assets:			
Buildings	22,448,417	11,582,865	34,031,282
Improvements	2,702,861	1,969,221	4,672,082
Machinery and equipment	4,091,939	806,882	4,898,821
Infrastructure	19,663,324	-	19,663,324
Total depreciable assets	48,906,541	14,358,968	63,265,509
Less accumulated depreciation	(17,568,291)	(10,893,585)	(28,461,876)
Total depreciable assets, net	31,338,250	3,465,383	34,803,633
<b>Total capital assets</b>	<b>\$ 47,955,812</b>	<b>\$ 5,197,408</b>	<b>\$ 53,153,220</b>

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**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, 2011:

	Balance June 30, 2010	Additions	Deletions	Transfer	Balance June 30, 2011
Non-depreciable assets:					
Construction in progress	\$ 4,064,587	\$ 3,614,555	\$ -	\$ (2,601,029)	\$ 5,078,113
Land	11,404,867	126,092	-	8,490	11,539,449
Total non-depreciable assets	15,469,454	3,740,647	-	(2,592,539)	16,617,562
Depreciable assets:					
Buildings	21,685,942	196,196	-	566,279	22,448,417
Improvements	2,598,858	-	-	104,003	2,702,861
Machinery and equipment	3,688,793	364,729	(183,813)	222,230	4,091,939
Infrastructure	17,425,553	537,744	-	1,700,027	19,663,324
Total depreciable assets	45,399,146	1,098,669	(183,813)	2,592,539	48,906,541
Accumulated depreciation:					
Buildings	(6,960,107)	(461,179)	-	-	(7,421,286)
Improvements	(1,141,118)	(91,319)	-	-	(1,232,437)
Machinery and equipment	(2,377,110)	(393,045)	172,813	-	(2,597,342)
Infrastructure	(5,764,224)	(553,002)	-	-	(6,317,226)
Total accumulated depreciation	(16,242,559)	(1,498,545)	172,813	-	(17,568,291)
Total depreciable assets, net	29,156,587	(399,876)	(11,000)	2,592,539	31,338,250
<b>Total governmental activities capital assets, net</b>	<b>\$ 44,626,041</b>	<b>\$ 3,340,771</b>	<b>\$ (11,000)</b>	<b>\$ -</b>	<b>\$ 47,955,812</b>



**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**4. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2011 are as follows:

Public Safety	\$	209,220
Public Works		680,855
Community/Cultural Services		434,981
Community Development		36,073
General Government		137,416
<b>Total depreciation expense</b>	<b>\$</b>	<b>1,498,545</b>

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

	Balance June 30, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Non Depreciable assets:					
Construction in progress	\$ 1,638,957	\$ 1,524,837		\$ (1,431,769)	\$ 1,732,025
Total non-depreciable assets	1,638,957	1,524,837	-	(1,431,769)	1,732,025
Depreciable assets:					
Buildings	\$ 10,151,096	\$ -	\$ -	\$ 1,431,769	\$ 11,582,865
Infrastructure	1,969,221	-	-	-	1,969,221
Machinery and equipment	535,409	271,473	-	-	806,882
Total depreciable assets	12,655,726	271,473	-	1,431,769	14,358,968
Accumulated depreciation:					
Buildings	(8,290,974)	(118,208)	-	-	(8,409,182)
Infrastructure	(1,969,149)	(50)	-	-	(1,969,199)
Machinery and equipment	(482,855)	(32,349)	-	-	(515,204)
Total accumulated depreciation	(10,742,978)	(150,607)	-	-	(10,893,585)
Total depreciable assets, net	1,912,748	120,866	-	1,431,769	3,465,383
<b>Total business-type activities capital assets, net</b>	<b>\$ 3,551,705</b>	<b>\$ 1,645,703</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,197,408</b>

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**4. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

Depreciation expense for business-type activities for the year ended June 30, 2011 is as follows:

Sewer	\$ 150,557
Storm drain	<u>50</u>
Total	<u>\$ 150,607</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 2009- 2010, the City prepaid a major portion of its unfunded PERS side fund in the amount of \$3,005,795. In 2003 CALPERS combined the retirement plans for all public agencies with “small” plans to reduce the volatility of employer contribution rates. CalPERS also created for each member agency a so-called Side Fund to amortize each agency’s June 30, 2003 unfunded liability over a fixed term at a fixed interest rate. The PERS side fund represents the City Specific liability was that assumed by the City at the time of this CALPERS pooling process. 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 6/30/2011)	15 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, 2011 is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Governmental Activities	<u>\$ 3,005,795</u>	<u>\$ -</u>	<u>\$ (52,966)</u>	<u>\$ 2,952,829</u>

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**5. NET PENSION ASSET, Continued**

In fiscal year 2011-2012, the City opted to prepay an additional \$850,000 of existing unfunded side fund liabilities reducing the remaining such approximate balances to \$860,000 and \$430,000 for miscellaneous and safety respectively.

**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, 2011 is as follows:

	Balance June 30, 2010	Debt Issued	Debt Retired	Balance June 30, 2011	Due in One Year	Due in More Than One Year
Certificate of participation	\$ 2,030,000	\$ -	\$ (85,000)	\$ 1,945,000	\$ 90,000	\$ 1,855,000
<b>Total</b>	<u>\$ 2,030,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 1,945,000</u>	<u>\$ 90,000</u>	<u>\$ 1,855,000</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, 2011, future debt service requirements for the 2004 Refunding were as follows:

For the Year Ending June 30, 2011	Principal	Interest	Total
2012	90,000	75,282	165,282
2013	95,000	72,808	167,808
2014	95,000	69,956	164,956
2015	100,000	66,918	166,918
2016	105,000	63,568	168,568
2017-2021	580,000	257,432	837,432
2022-2026	715,000	128,775	843,775
2027	165,000	7,012	172,012
<b>Total</b>	<u>\$ 1,945,000</u>	<u>\$ 741,751</u>	<u>\$ 2,686,751</u>

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

***B. Non-City Obligation***

The following bonds are not reported in the City's financial statements as they are special obligations payable solely from and secured by specific revenue sources as 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 obligations.

	Balance June 30, 2010	Debt Issued	Debt Retired	Balance June 30, 2011	Due in One Year	Due in More Than One Year
Raymundo Curb & Gutter	219,000	-	(16,000)	203,000	17,000	186,000
Avalon Curb & Gutter	49,000	-	(7,000)	42,000	8,000	34,000
Blue Oak Lane	662,880	-	-	662,880	-	662,880
<b>Total</b>	<b>\$ 930,880</b>	<b>\$ -</b>	<b>\$ (23,000)</b>	<b>\$ 907,880</b>	<b>\$ 25,000</b>	<b>\$ 882,880</b>

**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 properties 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 semi-annual debt service payments administered by the City.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**7. COMPENSATED ABSENCES**

The City's compensated absences at June 30, 2011, were as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Balance Due Within One Year	Balance Due in More Than One Year
Governmental	\$ 1,553,342	\$ 1,220,694	\$ (1,187,746)	\$ 1,586,290	\$ 396,573	\$ 1,189,717
Business-type activities	49,070	45,746	(57,785)	37,031	228	36,803
<b>Total</b>	<b>\$ 1,602,412</b>	<b>\$ 1,266,440</b>	<b>\$ (1,245,531)</b>	<b>\$ 1,623,321</b>	<b>\$ 396,801</b>	<b>\$ 1,226,520</b>

**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, 2011, the City contributed \$262,716 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, 2011**

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**8. RISK MANAGEMENT, Continued**

The City has an excess insurance policy for Workers' Compensation claims up to the statutory limits. The City has a \$250,000 deductible as of June 30, 2011. During the year the City contributed \$139,952 for current year coverage.

As of June 30, 2011, \$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 four years were as follows:

	June 30,			
	2011	2010	2009	2008
Unpaid claims, beginning of year	\$ 2,107,901	\$ 1,205,455	\$ 1,159,345	\$ 834,764
Incurred claims and changes in estimates	458,940	1,363,751	691,915	993,859
Claim payments	(159,322)	(461,305)	(645,805)	(669,278)
<b>Unpaid claims, end of year</b>	<b>\$ 2,407,519</b>	<b>\$ 2,107,901</b>	<b>\$ 1,205,455</b>	<b>\$ 1,159,345</b>

In conformance with GASB Statement No. 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, 2011 and projected values through 2013. The 2011 estimates 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 \$529,066.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**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. The City contributed \$60 per month for each full-time budgeted position. This amount was increased to \$75 beginning for the fiscal year 11-12 budget year. 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 Reimbursement Fund maintains a positive fund balance with contributions and reimbursements for the past four 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
2010-2011	90,506	106,000

The dental plan year commences January 1<sup>st</sup> of each calendar year. Benefits were recently increased to an annual maximum dental reimbursement of \$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, 2011**

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**10. PENSION PLANS**

**California Public Employees' Retirement System 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 \$937,879 for the year ended June 30, 2011. The City was required to contribute at an actuarial determined rate of 20.247% for the period from July 1, 2010 through June 30, 2011 of annual covered payroll for safety employees and 14.604% 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 the prior year the City paid down the safety Side Fund liability using planned designated reserves in the amount of \$3 million. Consequently, as of June 30, 2011, the estimated balance of the Side Fund for the public safety plan was reduced to approximately \$440,000. The estimated balance of the Side Fund for the miscellaneous plan is approximately \$1.8 million as of June 30, 2011 of which \$850,000 was paid off in the subsequent period.

Annual Pension Cost – For FY2010-2011, the City's annual pension cost of \$1,846,328 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008 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) and (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, 2011**

**10. PENSION PLANS, Continued**

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)		Percentage of APC Contributed	Net Pension Obligation
	Miscellaneous	Safety		
06/30/2009	1,103,628	917,412	100%	-
06/30/2010	1,172,340	670,609	262%	-
06/30/2011	1,131,312	715,110	100%	-

Funding Status as of the Most Recent Actuarial Date - The City retirement plans for miscellaneous and safety employees are part of the PERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City's miscellaneous and safety 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 PERS 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 (\$105 per month for 2010 and \$108 per month for 2011). In 2011, the City's contribution averaged \$50.36 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 \$24,460 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

As of June 30, 2011, \$200,000 has been set aside in the General Fund as a 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, 2011**

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**11. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued**

*Annual OPEB Cost and Net OPEB Obligation:* The City's annual other post-employment 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	\$ 250,000
Interest on net OPEB obligation	17,000
Amortization of net OPEB obligation	(30,000)
Annual OPEB cost (expense)	237,000
Payments made	(24,460)
Increase in net OPEB obligation	212,540
Net OPEB obligation - beginning of year	391,492
Net OPEB obligation - end of year	604,032

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2010-2011 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
6/30/09	207,000	8.0%	190,000	190,000
6/30/10	221,000	9.0%	201,495	391,495
6/30/11	237,000	10.0%	212,540	604,032

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

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

**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.

Payroll Increases were assumed to follow an aggregate growth of 3.25%. Merit increases were applied per the CalPERS 1997-2002 Experience Study as were population Mortality, Withdrawal and Disability factors.

**City of Los Altos**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**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, 2011**

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**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 (County) 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, 2011, the Special Tax Bonds outstanding debt amounted to \$330,000. In 2010, NCLA successfully passed an updated twenty year parcel tax extending the assessment term to 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 the prior year 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, 2011**

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**15. DEVELOPER AGREEMENTS**

**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 a sum of \$3.4 million as a condition of occupancy. 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 and any unpaid principal balance shall bear interest at an interest rate equal to the City's average earnings rate. The actual date of occupancy remains contingent upon the progress of construction.

**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 \$3.1 million and a minimum project scope of a two-story building with 31,000 square feet. The agreement is contingent upon a series of milestones and feasibility phases defined within the agreement. In the current year the City received \$300,010 in initial purchase option payments marking the end of an initial feasibility term. These dollars are recorded as revenue and held with the Real Property Proceeds funds, the balance of which is assigned for future projects.

**16. OTHER COMMITMENTS**

A summary of remaining authorized CIP project balances end of year balances for all City funds by service area follows:

	<u><b>Year End Balance</b></u>
Streets & Roadways	\$2,179,490
Pedestrian Safety	2,326,771
Infrastructure & Facilities	8,641,156
Parks	548,062
Sewer	4,131,892
Facilities & Technology	<u>1,580,323</u>
	\$19,407,695

## **REQUIRED SUPPLEMENTARY INFORMATION**





**City of Los Altos**  
**Required Supplementary Information**  
**For the year ended June 30, 2011**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

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

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 17,022,000	\$ 17,022,000	\$ 17,713,864	\$ 691,864
Licenses, permits and park in-lieu	3,064,940	3,094,940	3,187,014	92,074
Intergovernmental	2,861,210	2,861,210	3,121,592	260,382
Grants and donations	50,000	65,000	57,875	(7,125)
Charges for services	3,906,270	3,906,270	4,019,778	113,508
Fines and forfeitures	229,130	229,130	126,300	(102,830)
Interest and rentals	458,000	458,000	255,497	(202,503)
Other	154,420	154,420	179,174	24,754
<b>Total revenues</b>	<b>27,745,970</b>	<b>27,790,970</b>	<b>28,661,094</b>	<b>870,126</b>
<b>EXPENDITURES:</b>				
Current:				
Public safety	13,917,756	13,917,756	13,544,119	373,637
Public works	4,083,161	4,128,986	4,131,365	(2,379)
Recreation	2,000,657	2,015,877	1,906,658	109,219
Community development	3,541,751	3,579,576	3,305,550	274,026
Admin / Community services	3,909,596	4,076,599	3,516,497	560,102
<b>Total expenditures</b>	<b>27,452,921</b>	<b>27,718,794</b>	<b>26,404,189</b>	<b>1,314,604</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>293,049</b>	<b>72,176</b>	<b>2,256,905</b>	<b>2,184,729</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	355,000	355,000	306,608	(48,392)
Transfers (out)	(260,000)	(1,760,000)	(1,730,000)	30,000
<b>Total other financing sources (uses)</b>	<b>95,000</b>	<b>(1,405,000)</b>	<b>(1,423,392)</b>	<b>(18,392)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 388,049</b>	<b>\$ (1,332,824)</b>	<b>833,513</b>	<b>\$ 2,166,337</b>
<b>FUND BALANCES:</b>				
Beginning of year			7,050,559	
End of year			<u>\$ 7,884,072</u>	

**City of Los Altos**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2011**

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**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 EMPLOYMENT BENEFITS (OPEB)**

**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, 2011**

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**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.



## **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***

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 funds 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.

### **DEBT SERVICE FUNDS**

#### ***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.

**City of Los Altos**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2011**

	Special Revenue					
	Vehicle Impound	Supplemental Law Enforcement	Gas Tax	Proposition 1B	Storm Drain Deposits	Community Development Block Grant
<b>ASSETS</b>						
Cash and investments	\$ -	\$ 25,000	588,610	\$ 377,599	\$ 56,086	\$ 112,861
Restricted cash and investments	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles):						
Accounts	-	25,000	-	-	-	47,635
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 588,610</u>	<u>\$ 377,599</u>	<u>\$ 56,086</u>	<u>\$ 160,496</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,599
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,599</u>
<b>Fund Balances:</b>						
Restricted:						
Special programs and projects	-	50,000	460,786	37,432	56,086	141,897
Debt service	-	-	-	-	-	-
Continuing CIP	-	-	127,824	340,167	-	-
<b>Total Restricted</b>	<u>-</u>	<u>50,000</u>	<u>588,610</u>	<u>377,599</u>	<u>56,086</u>	<u>141,897</u>
<b>Total fund balances</b>	<u>-</u>	<u>50,000</u>	<u>588,610</u>	<u>377,599</u>	<u>56,086</u>	<u>141,897</u>
<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 588,610</u>	<u>\$ 377,599</u>	<u>\$ 56,086</u>	<u>\$ 160,496</u>



Special Revenue					Debt Service	Total Non-Major Governmental Funds
Downtown Parking	In Lieu Park Land	Traffic Impact Fee	Estate Donation	TDA	General	
\$ 164,105	\$ 287,908	\$ 718,795	\$ 12,949	\$ 13,478	\$ 196,150	\$ 2,553,541
-	-	-	-	-	172,017	172,017
-	-	-	-	-	-	72,635
\$ 164,105	\$ 287,908	\$ 718,795	\$ 12,949	\$ 13,478	\$ 368,167	\$ 2,798,193
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,599
-	-	-	-	-	-	18,599
164,105	286,353	366,588	12,949	13,478	-	1,589,674
-	-	-	-	-	368,167	368,167
-	1,555	352,207	-	-	-	821,753
164,105	287,908	718,795	12,949	13,478	368,167	2,779,594
164,105	287,908	718,795	12,949	13,478	368,167	2,779,594
\$ 164,105	\$ 287,908	\$ 718,795	\$ 12,949	\$ 13,478	\$ 368,167	\$ 2,798,193

# City of Los Altos

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

### Non-Major Governmental Funds

For the year ended June 30, 2011

	Special Revenue					
	Vehicle Impound	Supplemental Law Enforcement	Gas Tax	Proposition 1B	Storm Drain Deposits	Community Development Block Grants
<b>REVENUES:</b>						
Intergovernmental	\$ -	\$ 100,000	\$ 684,336	\$ -	\$ -	\$ -
Grants and donations	-	-	-	-	-	168,447
Fines and forfeitures	21,608	-	-	-	-	-
Interest and rentals	-	-	3,648	3,869	-	-
Other	-	-	-	-	-	-
<b>Total revenues</b>	<b>\$ 21,608</b>	<b>\$ 100,000</b>	<b>\$ 687,984</b>	<b>\$ 3,869</b>	<b>\$ -</b>	<b>\$ 168,447</b>
<b>EXPENDITURES:</b>						
Current:						
Community development	-	-	-	-	-	-
Admin/community services	-	-	-	-	-	41,910
Capital improvements	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,910</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>21,608</b>	<b>100,000</b>	<b>687,984</b>	<b>3,869</b>	<b>-</b>	<b>126,537</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	(21,608)	(75,000)	(280,853)	(77,637)	-	-
<b>Total other financing sources (uses)</b>	<b>(21,608)</b>	<b>(75,000)</b>	<b>(280,853)</b>	<b>(77,637)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE</b>						
<b>IN FUND BALANCES</b>	<b>-</b>	<b>25,000</b>	<b>407,131</b>	<b>(73,768)</b>	<b>-</b>	<b>126,537</b>
<b>FUND BALANCES:</b>						
Beginning of year,	-	25,000	181,479	451,367	56,086	15,360
End of year	\$ -	\$ 50,000	\$ 588,610	\$ 377,599	\$ 56,086	\$ 141,897

Special Revenue					Debt Service	Total Non-Major Governmental Funds
Downtown Parking	In Lieu Park Land	Traffic Impact Fee	Estate Donation	TDA	General	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 784,336
-	-	-	-	214,789	-	383,236
-	-	-	-	-	-	21,608
9,962	7,784	5,935	115	-	7	31,320
23,610	132,000	185,795	510	-	-	341,915
\$ 33,572	\$ 139,784	\$ 191,730	\$ 625	\$ 214,789	\$ 7	\$ 1,562,415
19,000	-	-	-	-	-	19,000
-	-	-	-	214,537	-	256,447
-	-	-	-	-	-	-
-	-	-	-	-	85,000	85,000
-	-	-	-	-	80,431	80,431
19,000	-	-	-	214,537	165,431	440,878
14,572	139,784	191,730	625	252	(165,424)	1,121,537
-	-	-	-	-	165,000	165,000
-	(1,136,867)	(47,793)	-	-	-	(1,639,758)
-	(1,136,867)	(47,793)	-	-	165,000	(1,474,758)
14,572	(997,083)	143,937	625	252	(424)	(353,221)
149,533	1,284,991	574,858	12,324	13,226	368,591	3,132,815
\$ 164,105	\$ 287,908	\$ 718,795	\$ 12,949	\$ 13,478	\$ 368,167	\$ 2,779,594

(Concluded)



## ***Fiduciary 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, 2011

	Balance July 01, 2010	Additions	Deletions	Balance June 30, 2011
<b>North County Library Authority</b>				
<b>Assets:</b>				
Cash and investments	\$ 931,903	\$ 1,707,718	\$ (1,501,594)	\$ 1,138,027
Accounts receivable	1,210	1,542	(1,360)	1,392
<b>Total assets</b>	<b>\$ 933,113</b>	<b>\$ 1,709,260</b>	<b>\$ (1,502,954)</b>	<b>\$ 1,139,419</b>
<b>Liabilities:</b>				
Accounts payable	\$ 169,983	\$ 902,746	\$ (833,557)	\$ 239,172
Due to others	763,130	1,039,863	(902,746)	900,247
<b>Total liabilities</b>	<b>\$ 933,113</b>	<b>\$ 1,942,609</b>	<b>\$ (1,736,303)</b>	<b>\$ 1,139,419</b>
<b>Avalon Drive Curb and Gutter</b>				
<b>Assets:</b>				
Cash and investments	\$ 44,231	\$ 15,102	\$ (11,636)	\$ 47,697
Accounts receivable	609	-	(609)	-
<b>Total assets</b>	<b>\$ 44,840</b>	<b>\$ 15,102</b>	<b>\$ (12,245)</b>	<b>\$ 47,697</b>
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 12,465	\$ (11,247)	\$ 1,218
Due to others	44,840	14,493	(12,854)	46,479
<b>Total liabilities</b>	<b>\$ 44,840</b>	<b>\$ 26,958</b>	<b>\$ (24,101)</b>	<b>\$ 47,697</b>
<b>Raymundo Curb and Gutter</b>				
<b>Assets:</b>				
Cash and investments	\$ 48,478	\$ 28,325	\$ (28,909)	\$ 47,894
Accounts receivable	742	-	(742)	-
<b>Total assets</b>	<b>\$ 49,220</b>	<b>\$ 28,325</b>	<b>\$ (29,651)</b>	<b>\$ 47,894</b>
<b>Liabilities:</b>				
Accounts payable	\$ 13,720	\$ 28,637	\$ (42,357)	\$ -
Due to others	35,500	41,340	(28,946)	47,894
<b>Total liabilities</b>	<b>\$ 49,220</b>	<b>\$ 69,977</b>	<b>\$ (71,303)</b>	<b>\$ 47,894</b>
<b>Blue Oak Lane Sewer</b>				
<b>Assets:</b>				
Cash and investments	\$ 281,893	\$ 53,396	\$ (218,052)	\$ 117,237
<b>Total assets</b>	<b>\$ 281,893</b>	<b>\$ 53,396</b>	<b>\$ (218,052)</b>	<b>\$ 117,237</b>
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 4,170	\$ (4,170)	\$ -
Due to others	281,893	91,168	(255,824)	117,237
<b>Total liabilities</b>	<b>\$ 281,893</b>	<b>\$ 95,338</b>	<b>\$ (259,994)</b>	<b>\$ 117,237</b>

# City of Los Altos

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

### All Agency Funds

For the year ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Total Agency Funds</b>				
<b>Assets:</b>				
Cash and investments	\$ 1,306,505	\$ 1,804,541	\$ (1,760,191)	\$ 1,350,855
Accounts receivable	2,561	1,542	(2,711)	1,392
<b>Total assets</b>	<u>\$ 1,309,066</u>	<u>\$ 1,806,083</u>	<u>\$ (1,762,902)</u>	<u>\$ 1,352,247</u>
<b>Liabilities:</b>				
Accounts payable	\$ 183,703	\$ 948,018	\$ (891,331)	\$ 240,390
Due to others	1,125,363	1,186,864	(1,200,370)	1,111,857
<b>Total liabilities</b>	<u>\$ 1,309,066</u>	<u>\$ 2,134,882</u>	<u>\$ (2,091,701)</u>	<u>\$ 1,352,247</u>

**City of Los Altos**  
**Budgetary Comparison Schedule**  
**Gas Taxes**  
**For the Fiscal Year Ended June 30, 2011**

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Intergovernmental	\$ 494,000	\$ 494,000	\$ 684,336	\$ 190,336
Interest and rentals	-	-	3,648	3,648
<b>Total revenues</b>	<u>494,000</u>	<u>494,000</u>	<u>687,984</u>	<u>193,984</u>
<b>EXPENDITURES:</b>				
Current:				
Capital improvements	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>
<b>Total expenditures</b>	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>194,000</u>	<u>194,000</u>	<u>687,984</u>	<u>493,984</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers (out)	<u>(490,500)</u>	<u>(490,500)</u>	<u>(280,853)</u>	<u>209,647</u>
<b>Total other financing sources (uses)</b>	<u>(490,500)</u>	<u>(490,500)</u>	<u>(280,853)</u>	<u>209,647</u>
<b>Net change in fund balances</b>	<u>\$ (296,500)</u>	<u>\$ (296,500)</u>	<u>407,131</u>	<u>\$ 703,631</u>
<b>FUND BALANCES:</b>				
Beginning of year			<u>181,479</u>	
End of year			<u>\$ 588,610</u>	



**City of Los Altos**  
**Budgetary Comparison Schedule**  
**Community Development Block Grant Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Grants and donations	\$ 129,000	\$ 129,000	\$ 168,447	\$ 39,447
<b>Total revenues</b>	<u>129,000</u>	<u>129,000</u>	<u>168,447</u>	<u>39,447</u>
<b>EXPENDITURES:</b>				
Current:				
Admin / community services	44,000	44,000	41,910	2,090
Capital improvements	85,000	102,066	-	102,066
<b>Total expenditures</b>	<u>129,000</u>	<u>146,066</u>	<u>41,910</u>	<u>104,156</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(17,066)</u>	<u>126,537</u>	<u>143,603</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ (17,066)</u>	<u>126,537</u>	<u>\$ 143,603</u>
<b>FUND BALANCES:</b>				
Beginning of year			<u>15,360</u>	
End of year			<u>\$ 141,897</u>	

**City of Los Altos**  
**Budgetary Comparison Schedule**  
**Downtown Parking Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Interest and rentals	\$ 38,800	\$ 38,800	\$ 9,962	\$ (28,838)
Other		-	23,610	23,610
<b>Total revenues</b>	<b>38,800</b>	<b>38,800</b>	<b>33,572</b>	<b>(5,228)</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	35,000	35,000	19,000	16,000
<b>Total expenditures</b>	<b>35,000</b>	<b>35,000</b>	<b>19,000</b>	<b>16,000</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>3,800</b>	<b>3,800</b>	<b>14,572</b>	<b>10,772</b>
<b>FUND BALANCES:</b>				
Beginning of year			149,533	
End of year			<u>\$ 164,105</u>	

## INTERNAL SERVICE FUNDS

### *Dental Reimbursement*

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

### *Unemployment Insurance*

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

### *Workers' Compensation Insurance*

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

### *Liability Insurance*

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



**City of Los Altos**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2011**

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<b>ASSETS</b>					
Current assets:					
Cash and investments	147,577	91,425	2,509,846	636,495	3,385,343
Accounts receivable	-	-	1,248		1,248
<b>Total assets</b>	<b>147,577</b>	<b>91,425</b>	<b>2,511,094</b>	<b>636,495</b>	<b>3,386,591</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	1,921	-	13,598	4,683	20,202
Claims and judgments - current portion	-	-	503,780	25,286	529,066
Noncurrent liabilities:					
Claims and judgments - noncurrent portion	-	-	1,825,670	52,783	1,878,453
<b>Total liabilities</b>	<b>1,921</b>	<b>-</b>	<b>2,343,048</b>	<b>82,752</b>	<b>2,427,721</b>
<b>NET ASSETS</b>					
Unrestricted	145,656	91,425	168,046	553,743	958,870
<b>Total net assets</b>	<b>145,656</b>	<b>91,425</b>	<b>168,046</b>	<b>553,743</b>	<b>958,870</b>

# City of Los Altos

## Combining Statement of Revenues, Expenses and Changes in Net Assets

### Internal Service Funds

For the year ended June 30, 2011

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 90,506	\$ 74,859	\$ 917,620	\$ -	\$ 1,082,985
Other	367	-	-	-	367
<b>Total operating revenues</b>	<b>90,873</b>	<b>74,859</b>	<b>917,620</b>	<b>-</b>	<b>1,083,352</b>
<b>OPERATING EXPENSES:</b>					
Outside services	-	-	11,186	44,666	55,852
Claims reimbursement	105,999	1,852	728,183	(249,553)	586,481
Insurance	-	-	91,305	262,716	354,021
Administration	-	-	48,647	10,719	59,366
<b>Total operating expenses</b>	<b>105,999</b>	<b>1,852</b>	<b>879,321</b>	<b>68,548</b>	<b>1,055,720</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(15,126)</b>	<b>73,007</b>	<b>38,299</b>	<b>(68,548)</b>	<b>27,632</b>
<b>NET ASSETS:</b>					
Beginning of the year	160,782	18,418	129,747	622,291	931,238
End of the year	\$ 145,656	\$ 91,425	\$ 168,046	\$ 553,743	\$ 958,870

**City of Los Altos**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the year ended June 30, 2011**

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<b>CASH FLOWS FROM</b>					
<b>OPERATING ACTIVITIES:</b>					
Cash received from other funds	\$ 90,873	\$ 74,859	\$ 917,028	\$ 10,719	\$ 1,093,479
Cash payments to claimants	(105,999)	(1,852)	(169,167)	(9,845)	(286,863)
Insurance premiums and administration	(4,355)	-	(152,101)	(324,438)	(480,894)
<b>Net cash provided (used) by operating activities</b>	<b>(19,481)</b>	<b>73,007</b>	<b>595,760</b>	<b>(323,564)</b>	<b>325,722</b>
<b>CASH AND INVESTMENTS:</b>					
Beginning of year	167,058	18,418	1,914,086	960,059	3,059,621
End of year	<u>\$ 147,577</u>	<u>\$ 91,425</u>	<u>\$ 2,509,846</u>	<u>\$ 636,495</u>	<u>\$ 3,385,343</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (15,126)	\$ 73,007	\$ 38,299	\$ (68,548)	\$ 27,632
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Changes in assets and liabilities:					
Accounts receivable	-	-	(592)	10,719	10,127
Accounts payable	(4,355)	-	(963)	(6,337)	(11,655)
Due to other funds	-	-	-	-	-
Claims and judgments payable	-	-	559,016	(259,398)	299,618
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ (19,481)</u></b>	<b><u>\$ 73,007</u></b>	<b><u>\$ 595,760</u></b>	<b><u>\$ (323,564)</u></b>	<b><u>\$ 325,722</u></b>





**STATISTICAL SECTION (Unaudited)**



## **Statistical Section**

**June 30, 2011**

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
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
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
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
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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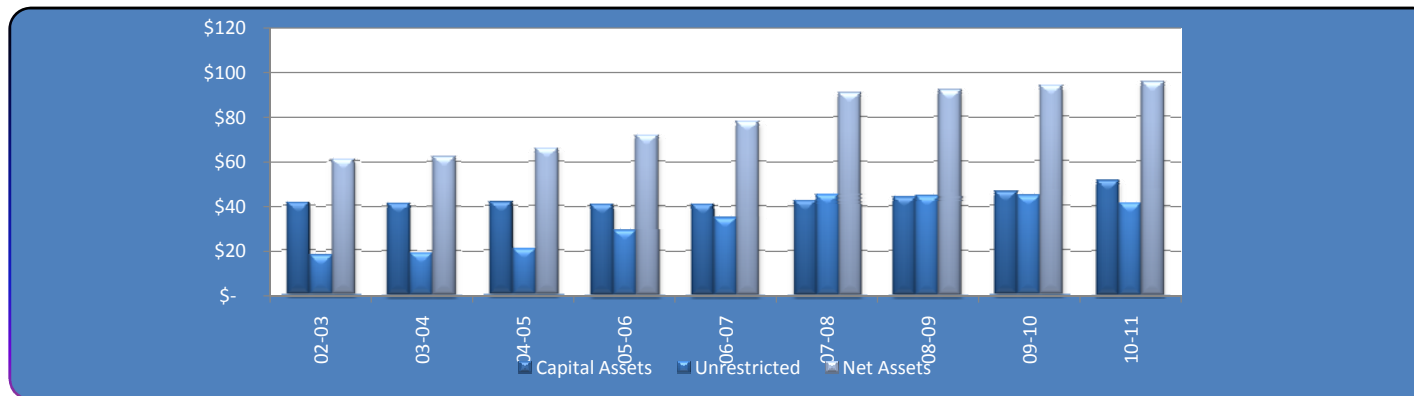
**City of Los Altos**

**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	2010-11
<b>Governmental activities</b>									
Invested in capital assets, net of related debt	\$ 38,536	\$ 38,589	\$ 39,023	\$ 37,877	\$ 38,186	\$ 40,251	\$ 40,684	\$ 42,596	\$ 46,011
Restricted	2,007	2,081	3,792	2,403	2,709	3,366	3,477	3,411	3,057
Unrestricted	14,699	16,114	16,178	23,343	27,386	37,038	36,184	35,476	33,448
<b>Total governmental activities net assets</b>	<b>55,242</b>	<b>56,784</b>	<b>58,993</b>	<b>63,623</b>	<b>68,281</b>	<b>80,655</b>	<b>80,345</b>	<b>81,483</b>	<b>82,516</b>
<b>Business-type activities</b>									
Invested in capital assets, net of related debt	\$ 2,760	\$ 2,646	\$ 2,510	\$ 2,527	\$ 2,388	\$ 2,219	\$ 3,316	\$ 3,552	\$ 5,197
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	2,751	2,736	4,228	5,511	6,977	7,922	8,102	8,766	7,625
<b>Total business-type activities net assets</b>	<b>5,511</b>	<b>5,382</b>	<b>6,738</b>	<b>8,038</b>	<b>9,365</b>	<b>10,141</b>	<b>11,418</b>	<b>12,318</b>	<b>12,822</b>
<b>Primary government</b>									
Invested in capital assets, net of related debt	\$ 41,296	\$ 41,235	\$ 41,533	\$ 40,404	\$ 40,574	\$ 42,470	\$ 44,000	\$ 46,148	\$ 51,208
Restricted	2,007	2,081	3,792	2,403	2,709	3,366	3,477	3,411	3,057
Unrestricted	17,450	18,850	20,406	28,854	34,363	44,960	44,286	44,242	41,073
<b>Total primary government net assets</b>	<b>\$ 60,753</b>	<b>\$ 62,166</b>	<b>\$ 65,731</b>	<b>\$ 71,661</b>	<b>\$ 77,646</b>	<b>\$ 90,796</b>	<b>\$ 91,763</b>	<b>\$ 93,801</b>	<b>\$ 95,338</b>



Source:

City of Los Altos Finance Department

Note:

The City implemented the new reporting model in the fiscal year 2002-03.

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	2010-11
<b>Expenses</b>									
Governmental activities:									
Public safety	\$ 8,878	\$ 8,853	\$ 9,856	\$ 9,913	\$ 11,033	\$ 12,415	\$ 13,563	\$ 13,812	\$ 14,101
Public works	3,396	3,594	4,498	4,224	4,799	4,886	5,318	5,170	5,451
Recreation	1,898	2,129	2,212	2,405	2,460	2,650	2,889	2,460	2,503
Community development	2,065	2,042	2,383	2,604	2,875	3,448	3,913	3,962	4,052
Admin/Community services	2,309	2,262	2,313	2,502	2,655	3,317	3,765	3,794	3,837
Interest on long-term activities	263	365	149	151	146	138	32	83	86
Total governmental activities expenses	18,809	19,245	21,411	21,799	23,968	26,854	29,480	29,281	30,030
Business-type activities:									
Sewer	3,085	3,711	3,167	3,324	3,712	3,886	4,810	4,438	4,520
Solid waste	1,833	1,071	1,125	1,264	1,575	1,609	1,574	1,826	717
Storm drain	-	-	118	183	181	213	188	199	200
Total Business-type activities expenses	4,918	4,782	4,410	4,771	5,468	5,708	6,572	6,463	5,437
<b>Total primary government expenses</b>	<b>\$ 23,727</b>	<b>\$ 24,027</b>	<b>\$ 25,821</b>	<b>\$ 26,570</b>	<b>\$ 29,436</b>	<b>\$ 32,562</b>	<b>\$ 36,052</b>	<b>\$ 35,744</b>	<b>\$ 35,467</b>
<b>Program Revenues</b>									
Governmental activities:									
Charges for services:									
Public safety	\$ 448	\$ 517	\$ 508	\$ 377	\$ 499	\$ 527	\$ 585	\$ 466	\$ 348
Public works	178	250	231	156	228	204	180	152	191
Recreation	1,363	1,569	1,604	1,545	1,665	1,654	1,472	1,498	1,763
Community development	1,374	1,754	1,854	2,644	2,501	3,372	1,867	2,954	2,650
Admin/Community services	589	540	543	580	1,166	967	969	1,097	1,061
Operating grants and contributions:									
Public safety	151	131	123	136	112	118	108	102	100
Public works	537	545	549	535	541	511	479	462	682
Recreation	-	5	11	42	9	27	4	-	-
Community development	262	212	76	126	141	285	48	56	168
Admin/Community services	10	6	6	6	6	6	6	131	64
Capital grants and contributions									
Public safety	-	-	-	-	121	4	-	-	-
Public works	86	5	588	498	322	923	978	985	711
Recreation	-	139	-	-	1	492	10	-	-
Community development	-	-	-	-	-	-	24	7	-
Admin/Community services	-	-	-	-	-	-	89	200	78
Total governmental activities program revenues	4,998	5,673	6,093	6,645	7,312	9,090	6,819	8,110	7,816

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	2010-11
Business-type activities:									
Charges for services:									
Sewer	\$ 2,653	\$ 3,534	\$ 4,273	\$ 4,264	\$ 4,833	\$ 4,467	\$ 5,804	\$ 5,413	\$ 4,813
Solid waste	1,013	1,155	1,309	1,455	1,471	1,540	1,685	1,657	992
Storm drain	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	3,666	4,689	5,582	5,719	6,304	6,007	7,489	7,070	5,805
<b>Total primary government program revenues</b>	<b>\$ 8,664</b>	<b>\$ 10,362</b>	<b>\$ 11,675</b>	<b>\$ 12,364</b>	<b>\$ 13,616</b>	<b>\$ 15,097</b>	<b>\$ 14,308</b>	<b>\$ 15,180</b>	<b>\$ 13,621</b>
Net (expense)/revenue:									
Governmental activities	(13,811)	(13,572)	(15,318)	(15,154)	(16,656)	(17,764)	(22,661)	(21,171)	(22,214)
Business-type activities	(1,252)	(93)	1,172	948	836	299	917	607	368
<b>Total primary government net (expense)/revenue</b>	<b>\$ (15,063)</b>	<b>\$ (13,665)</b>	<b>\$ (14,146)</b>	<b>\$ (14,206)</b>	<b>\$ (15,820)</b>	<b>\$ (17,465)</b>	<b>\$ (21,744)</b>	<b>\$ (20,564)</b>	<b>\$ (21,846)</b>
<b>General Revenues and Other Changes in Net Assets</b>									
Governmental activities									
Taxes:									
Property taxes	\$ 6,379	\$ 6,707	\$ 8,580	\$ 9,767	\$ 10,903	\$ 11,875	\$ 12,759	\$ 13,051	\$ 12,794
Sales taxes	2,464	2,331	2,553	2,662	2,750	2,872	2,697	2,255	2,588
Utility users taxes	1,825	1,886	1,970	2,101	2,274	2,483	2,530	2,515	2,543
Other taxes	3,156	3,181	231	235	2,682	2,703	2,147	2,453	2,910
Franchise fees	951	1,012	1,048	1,110	1,164	2,029	1,458	1,437	1,814
Sale of Capital Assets-net	-	-	-	-	-	6,499	-	-	-
Interest income	454	307	495	1,048	1,414	1,353	760	341	275
Miscellaneous	349	331	2,831	3,050	323	517	201	286	388
Transfers	91	35	(183)	(187)	(197)	(193)	(200)	(239)	(65)
Total governmental activities	15,669	15,790	17,525	19,786	21,313	30,138	22,352	22,099	23,247
Business-type activities									
Interest income	-	-	-	-	296	284	160	53	71
Transfers	(91)	(35)	183	187	197	193	200	239	65
Total business-type activities	(91)	(35)	183	187	493	477	360	292	136
<b>Total primary government</b>	<b>\$ 15,578</b>	<b>\$ 15,755</b>	<b>\$ 17,708</b>	<b>\$ 19,973</b>	<b>\$ 21,806</b>	<b>\$ 30,615</b>	<b>\$ 22,712</b>	<b>\$ 22,391</b>	<b>\$ 23,383</b>
<b>Change in Net Assets</b>									
Governmental activities	1,858	2,218	2,207	4,632	4,657	12,374	(309)	928	1,033
Business-type activities	(1,343)	(128)	1,355	1,135	1,329	776	1,277	899	504
<b>Total primary government</b>	<b>\$ 515</b>	<b>\$ 2,090</b>	<b>\$ 3,562</b>	<b>\$ 5,767</b>	<b>\$ 5,986</b>	<b>\$ 13,150</b>	<b>\$ 968</b>	<b>\$ 1,827</b>	<b>\$ 1,537</b>

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)

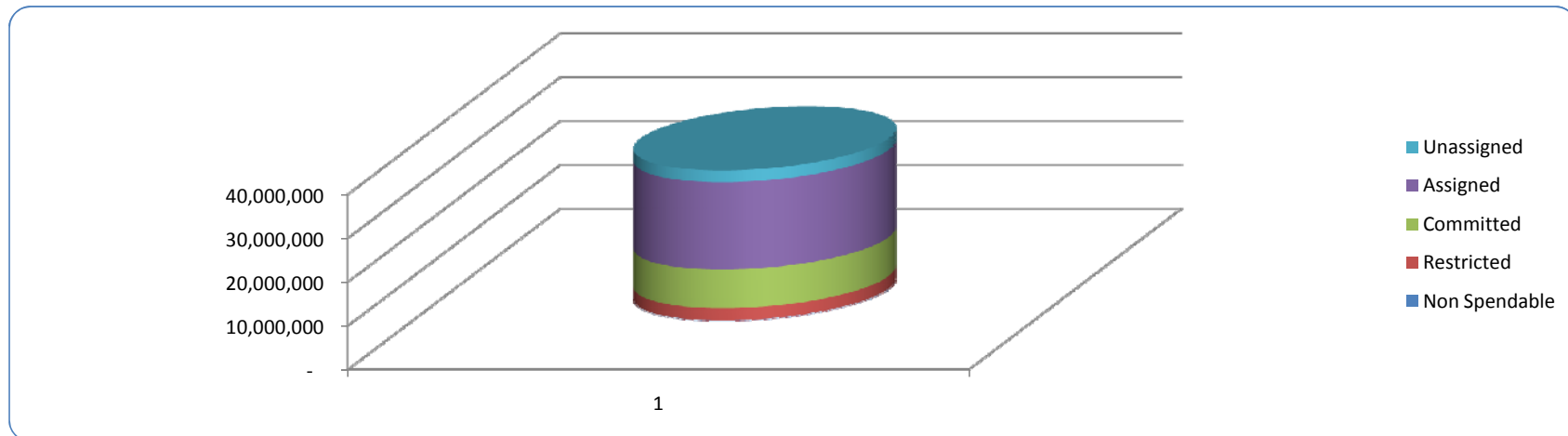
(Pre GASB 54 Presentation - For Years Before 2010-11)

	Fiscal Year									
(Pre GASB 54 Presentation)	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>General fund</b>										
Reserved	\$ 31	\$ 4,510	\$ 5,225	\$ 5,412	\$ 5,872	\$ 131	\$ 228	\$ 39	\$ 143	\$ 48
Unreserved/Unrestricted	3,718	300	420	305	206	6,157	6,492	7,650	6,908	7,836
<i>Total general fund</i>	<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>	<u>\$ 7,884</u>
<b>All other governmental funds</b>										
Reserved	\$ 805	\$ 11,520	\$ 12,642	\$ 15,492	\$ 20,591	\$ 4,604	\$ 5,484	\$ 3,472	\$ 3,399	\$ 2,780
Unreserved, reported in:										
Special revenue funds	-	564	725	-	-	(21)	1,798	4,120	6,422	6,768
Capital projects funds	12,162	-	(780)	(775)	(770)	18,876	21,360	21,814	19,540	16,868
Debt service funds	621	-	-	(8)	(8)	(8)	(8)	(8)		
<i>Total all other governmental funds</i>	<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>	<u>\$ 26,416</u>
<i>Total all governmental funds</i>	<u><u>\$ 17,337</u></u>	<u><u>\$ 16,894</u></u>	<u><u>\$ 18,232</u></u>	<u><u>\$ 20,426</u></u>	<u><u>\$ 25,891</u></u>	<u><u>\$ 29,739</u></u>	<u><u>\$ 35,354</u></u>	<u><u>\$ 37,087</u></u>	<u><u>\$ 36,412</u></u>	<u><u>\$ 34,300</u></u>



GASB 54 Presentation:(2010-11)

	2010-11						Total
	Gneral Fund	Real Prop	CIP	Equip	Facilities	Other Govt Funds	
Inventory & Prepaids	(35,618)						(35,618)
Veteran Memorial	(12,000)						(12,000)
<b>Non Spendable</b>	(47,618)	-	-	-	-	-	(47,618)
Debt Service						(368,167)	(368,167)
Special Revenue Programs and Projects						(1,589,674)	(1,589,674)
Continuing CIPS						(821,753)	(821,753)
<b>Restricted</b>	-	-	-	-	-	(2,779,594)	(2,779,594)
State Budget Stablization	(1,025,000)						(1,025,000)
Continuing CIPS			(7,070,125)	(732,726)			(7,802,851)
<b>Committed</b>	(1,025,000)	-	(7,070,125)	(732,726)	-	-	(8,827,851)
Emergency & Operating	(3,936,228)						(3,936,228)
OPEB	(200,000)						(200,000)
Unallocated		(6,767,777)	(2,178,100)	(3,221,316)	(3,665,592)		(15,832,785)
<b>Assigned</b>	(4,136,228)	(6,767,777)	(2,178,100)	(3,221,316)	(3,665,592)	-	(19,969,013)
<b>Unallocated</b>	(2,675,226)						(2,675,226)
<b>Unassigned</b>	(2,675,226)	-	-	-	-	-	(2,675,226)
<b>Total Fund Equity</b>	<b>(7,884,072)</b>	<b>(6,767,777)</b>	<b>(9,248,225)</b>	<b>(3,954,042)</b>	<b>(3,665,592)</b>	<b>(2,779,594)</b>	<b>(34,299,302)</b>



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									
		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Revenues</b>											
	Taxes	\$ 8,755	\$ 9,393	\$ 10,117	\$ 12,263	\$ 13,781	\$ 15,205	\$ 16,566	\$ 17,115	\$ 17,545	\$ 17,714
	License, permits and park-in-lieu	1,846	1,810	2,170	2,198	2,568	2,522	3,493	2,532	3,025	3,187
	Intergovernmental	5,227	5,233	4,790	4,048	4,515	4,323	4,470	4,365	3,680	3,988
	Grants and donations	1,274	301	392	701	549	359	1,294	305	559	929
	Charges for services	3,003	2,657	2,885	2,997	3,272	3,701	3,673	3,422	3,494	4,020
	Fines and forfeitures	216	254	284	268	201	264	286	329	246	148
	Interest and rentals	1,143	731	609	906	1,338	1,692	1,857	945	504	333
	Other	285	201	211	419	395	777	1,284	359	1,394	521
	<b>Total revenues</b>	<b>21,749</b>	<b>20,580</b>	<b>21,458</b>	<b>23,800</b>	<b>26,619</b>	<b>28,843</b>	<b>32,923</b>	<b>29,372</b>	<b>30,447</b>	<b>30,840</b>
<b>Expenditures</b>											
	General government										
	Public safety	8,142	8,424	8,813	9,428	10,067	11,084	12,217	13,183	13,230	13,875
	Public works	2,362	2,805	3,236	3,961	3,775	4,321	4,286	5,038	4,420	4,793
	Recreation	1,737	1,685	1,801	1,820	1,952	2,103	2,257	2,443	1,994	2,062
	Community development	1,849	2,012	2,040	2,293	2,606	2,922	3,384	3,826	3,770	3,973
	Administration/Community services	2,009	2,208	2,206	2,215	2,414	2,658	3,222	3,623	3,600	3,845
	Capital improvements	4,760	3,052	1,637	1,348	72	1,374	2,719	1,288	2,784	4,475
	Debt service										
	Principal	683	342	145	199	193	193	657	101	85	85
	Interest and fiscal charges	260	221	145	158	146	143	138	103	81	80
	<b>Total expenditures</b>	<b>21,802</b>	<b>20,749</b>	<b>20,023</b>	<b>21,422</b>	<b>21,225</b>	<b>24,798</b>	<b>28,880</b>	<b>29,605</b>	<b>29,964</b>	<b>33,188</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>		<b>(53)</b>	<b>(169)</b>	<b>1,435</b>	<b>2,378</b>	<b>5,394</b>	<b>4,045</b>	<b>4,043</b>	<b>(233)</b>	<b>483</b>	<b>(2,348)</b>
<b>Other financing sources (uses)</b>											
	Debt issuance	-	-	2,372	-	257	-	-	-	-	-
	Payment to refunded bonded escrow agent	-	-	(2,506)	-	-	-	-	-	-	-
	Transfers in	4,847	4,531	3,938	5,652	6,639	6,153	5,388	2,396	2,781	3,509
	Transfers out	(5,107)	(4,804)	(3,902)	(5,834)	(6,827)	(6,350)	(5,581)	(2,596)	(3,020)	(3,574)
	<b>Total Other financing sources (uses)</b>	<b>(260)</b>	<b>(273)</b>	<b>(98)</b>	<b>(182)</b>	<b>69</b>	<b>(197)</b>	<b>(193)</b>	<b>(200)</b>	<b>(239)</b>	<b>(65)</b>
<b>Special items</b>											
	CALPers Side Fund Pay Down	-	-	-	-	-	-	-	-	(3,005)	-

City of Los Altos

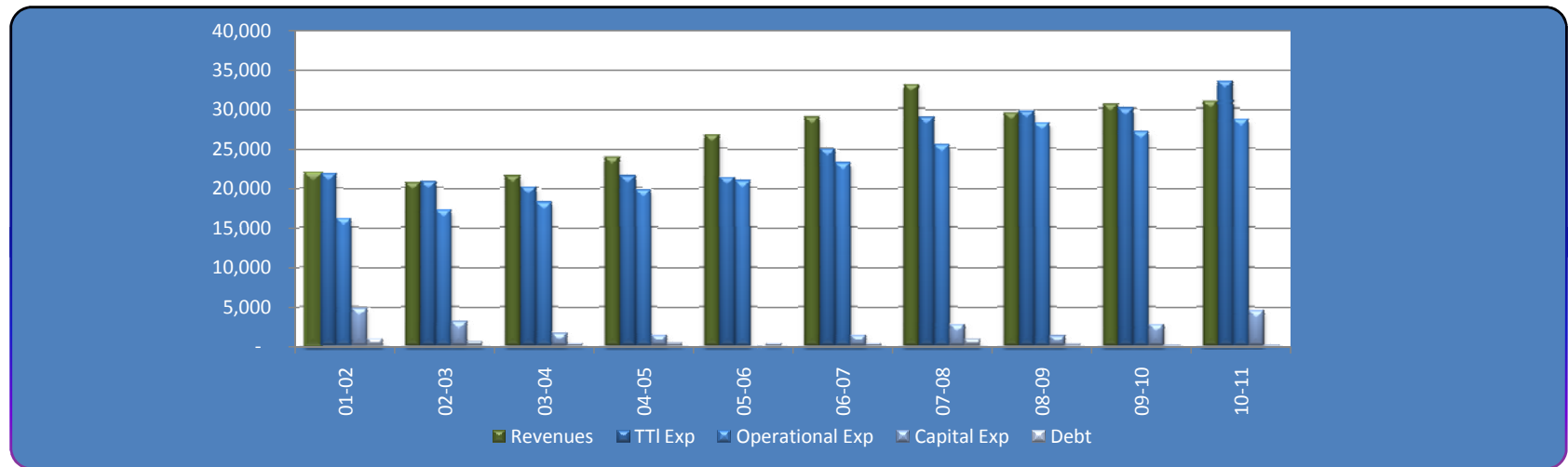
Changes in Fund Balances - Governmental Funds

Last Ten Fiscal Years

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

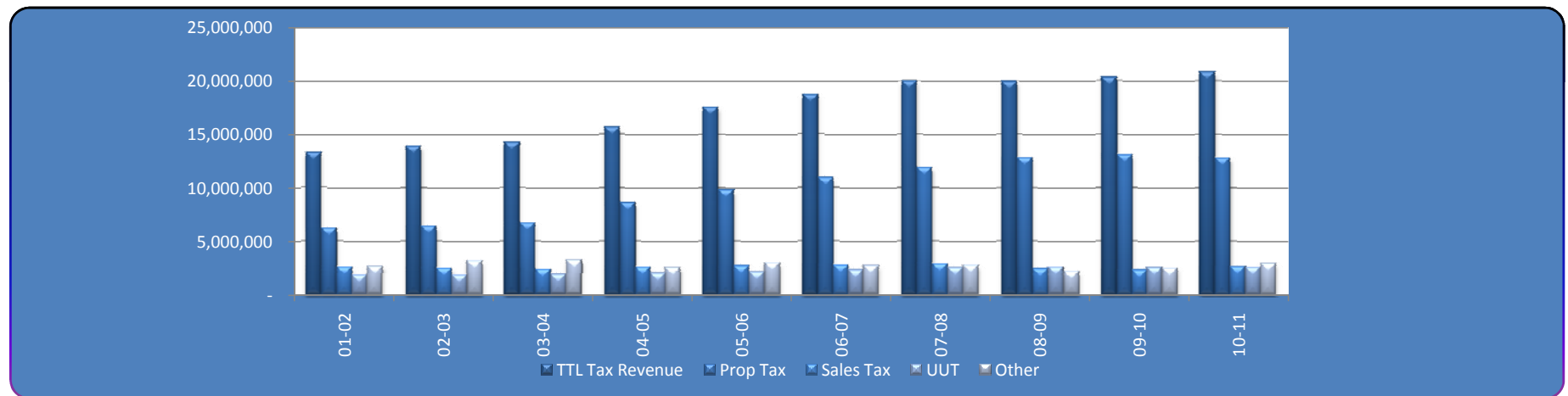
	Fiscal Year									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Sale of capital assets-net	-	-	-	-	-	-	1,798	2,167	2,167	300
<b>Total special items</b>	-	-	-	-	-	-	1,798	2,167	(838)	300
<b>Net change in fund balances</b>	<b>\$ (313)</b>	<b>\$ (442)</b>	<b>\$ 1,337</b>	<b>\$ 2,196</b>	<b>\$ 5,463</b>	<b>\$ 3,848</b>	<b>\$ 5,648</b>	<b>\$ 1,734</b>	<b>\$ (594)</b>	<b>\$ (2,113)</b>
<b>Debt service as a percentage of non-capital expenditures</b>	5.5%	3.2%	1.6%	1.8%	1.6%	1.4%	3.0%	0.7%	0.6%	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	Sales Tax	Business Licenses	Utility Users	Transient Occupancy	Real Estate Transfer Tax	Motor Vehicle License Tax	Building Development	Special Assessments	Total
2001-02	6,148,343	2,572,772	312,243	1,832,299	254,887	345,742	1,548,970	157,526	49,706	13,222,488
2002-03	6,379,459	2,463,693	340,969	1,824,795	633,861	360,217	1,663,228	158,311	55,229	13,879,762
2003-04	6,707,237	2,330,608	333,668	1,885,591	945,649	531,052	1,253,254	117,654	127,138	14,231,851
2004-05	8,580,232	2,552,530	365,859	1,969,699	1,057,995	520,702	302,756	256,646	32,149	15,638,568
2005-06	9,766,623	2,662,313	364,602	2,100,663	1,260,279	463,077	643,378	248,349	40,015	17,549,299
2006-07	10,902,569	2,749,964	380,470	2,274,478	1,469,867	505,083	188,799	137,461	39,848	18,648,539
2007-08	11,875,286	2,872,146	417,934	2,483,138	1,525,090	412,235	124,607	223,248	41,056	19,974,740
2008-09	12,758,918	2,412,220	403,338	2,530,162	1,289,722	265,493	96,264	91,648	40,918	19,888,683
2009-10	13,051,308	2,255,527	413,054	2,514,880	1,345,855	390,298	83,767	220,232	-	20,274,921
2010-11	12,793,603	2,587,889	399,461	2,543,287	1,517,579	387,905	145,798	459,935	-	20,835,457



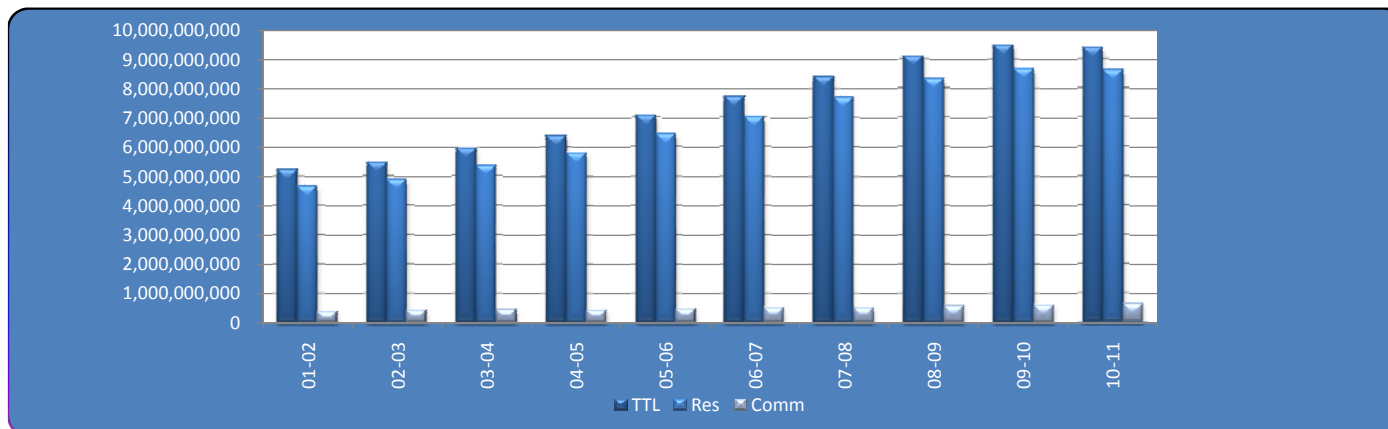
Source:  
City of Los Altos Finance Department

**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
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%
2010-11	8,593,495,093	619,191,247	40,822,574	108,454,967	9,361,963,881	1%	-1%

Source:  
HdL Coren & Cone

- (1) - The California State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any property improvements of substantial value to the property. These values are considered to be full market values.
- (2) - California cities do not set their own direct tax rate. The California State Constitution establishes the rate at 1% and the County of Santa Clara is responsible for allocating a portion of that amount to all the taxing entities within each of the City's tax rate areas. The City has 15 tax rate areas and receives of approximately 12% of that 1% rate.

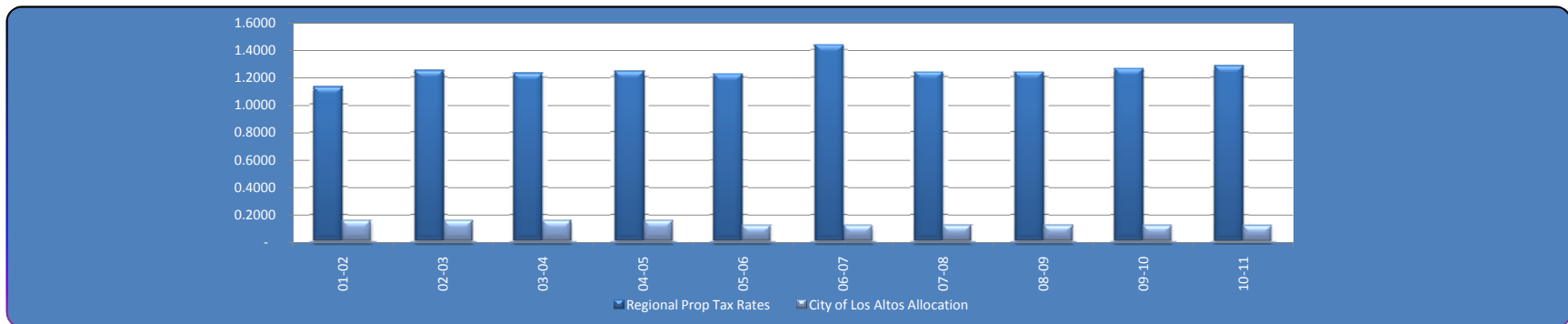


City of Los Altos  
Direct and Overlapping Tax Rates  
Last Ten Fiscal Years  
(rate per \$100 of taxable value)

Overlapping Rates (1)														
Fiscal Year	Basic County-Wide	Santa Clara Retirement	County Library Retirement	Los Altos Elementary School	Mountain View Elementary School	Cupertino Elementary School	Whisman School Bond	Foothill-De Anza College	Mountain View Los Altos High School	Fremont Union High School	Santa Clara Valley Water District	County Hospital Bonds	El Camino Hospital	Total
2001-02	1.0000	0.0364	0.0024	0.0457	-	-	-	-	0.0319	-	0.0062	-	-	1.12260
2002-03	1.0000	0.0388	0.0024	0.0398	0.0370	0.0329	0.0328	0.0108	0.0188	0.0246	0.0072	-	-	1.24510
2003-04	1.0000	0.0388	0.0024	0.0483	0.0388	0.0357	-	0.0110	0.0183	0.0249	0.0087	-	-	1.22690
2004-05	1.0000	0.0388	0.0024	0.0487	0.0423	0.0360	-	0.0129	0.0193	0.0268	0.0092	-	-	1.23640
2005-06	1.0000	0.0388	0.0024	0.0452	0.0378	0.0350	-	0.0119	0.0179	0.0260	0.0078	-	-	1.22280
2006-07	1.0000	0.0388	0.0024	0.0551	0.0340	0.2098	-	0.0346	0.0169	0.0243	0.0072	-	0.0129	1.43600
2007-08	1.0000	0.0388	0.0024	0.0526	0.0294	0.0306	-	0.0123	0.0148	0.0339	0.0061	-	0.0129	1.23380
2008-09	1.0000	0.0388	0.0024	0.0526	0.0294	0.0306	-	0.0123	0.0148	0.0339	0.0061	-	0.0129	1.23380
2009-10	1.0000	0.0388	0.0024	0.0539	0.0288	0.0312	-	0.0322	0.0147	0.0306	0.0074	0.0122	0.0129	1.26510
2010-11	1.0000	0.0388	0.0024	0.0600	0.0322	0.0308	-	0.0326	0.0151	0.0365	0.0072	0.0095	0.0129	1.27800

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	2010-11			2001-02		
	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	\$ 40,219,951	1	0.43%			
Springwood Apartments LLC	26,803,256	2	0.29%			
Compass Grand Los Altos LLC	21,251,465	3	0.23%			
David & Lucile Packard Foundation	18,807,489	4	0.20%	\$ 16,656,607	3	0.32%
KRC Los Altos Limited Partnership	18,730,000	5	0.20%			
4 Seasons Associates LLC	18,175,505	6	0.19%			
Palo Alto Medical Foundation	17,957,340	7	0.19%			
Los Altos Hotel Associates LLC	17,059,210	8	0.18%			
Village Court Partners	16,142,301	9	0.17%	13,017,946	6	0.25%
Whole Foods Market California Inc	14,894,744	10	0.16%			
Kenneth T. Namimatsu, Et Al				21,975,241	2	0.42%
Transamerica Senior Props Inc				16,324,531	4	0.31%
Los Altos El Camino Associates				42,938,892	1	0.83%
Rambus Inc				13,525,005	5	0.26%
Steve J. Vidovich, Et. Al.				9,665,976	7	0.19%
Cornerstone Properties II				8,290,721	8	0.16%
Excel Commercial Corporation				7,813,944	9	0.15%
99 Investors LLC				7,445,967	10	0.14%
Total	\$ 210,041,261		2.24%	\$ 157,654,830		3.04%

Source:  
HdL Coren & Cone

**City of Los Altos  
Principal Employers  
Current Year**

Employer	2009-10 (latest Available)		
	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	2,246		17.97%
Total City Employees	12,500	(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	Overall	Unsecured	Overall %
	Secured Tax Levy	Unsecured Tax Levy	Tax Collections	Delinquent Unsecured
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
2010-11	3,654,128,401	288,311,420	268,113,225	7.01

**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, 2011

2010-11 Assessed Valuation :

\$ 9,361,963,881

	Total Debt 6/30/2011	% Applicable (1)	Property Tax Payors Share of Debt 6/30/11
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>			
Santa Clara County	334,900,000	3.529	\$ 11,818,621
Santa Clara Valley Water District, Zone W-1	405,000	4.315	17,476
Foothill-De Anza Community College District	650,224,288	10.007	65,067,945
Fremont Union High School District	265,975,108	4.276	11,373,096
Mountain View-Los Altos Union High School District	50,486,384	29.292	14,788,472
Cupertino Union School District	122,899,991	7.043	8,655,846
Los Altos School District	86,664,000	53.573	46,428,505
El Camino Hospital District	143,805,000	19.807	28,483,456
North County Library Authority	330,000	65.696	216,797
Santa Clara Valley Water District Benefit Assessment District	143,160,000	3.529	5,052,116
City of Los Altos 1915 Act Bonds (Assessment District Bonds)	907,880	100.000	907,880
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 192,810,210</u>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
Santa Clara County General Fund Obligations	\$ 786,980,000	3.529	\$ 27,772,524
Santa Clara County Pension Obligations	386,024,822	3.529	13,622,816
Santa Clara County Board of Education Certificates of Participation	12,580,000	3.529	443,948
Foothill-De Anza Community College District Certificates of Participation	21,215,000	10.007	2,122,985
Mountain View-Los Altos Union High School District Certificates of Participation	6,115,000	29.292	1,791,206
<b>City of Los Altos Certificates of Participation</b>	<b>1,945,000</b>	<b>100.000</b>	<b>1,945,000</b>
Midpeninsula Regional Park District General Fund Obligations	131,003,031	5.859	7,675,468
Santa Clara County Vector Control District Certificates of Participation	3,800,000	3.529	134,102
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>\$ 55,508,049</u>
TOTAL DIRECT DEBT			1,945,000
TOTAL OVERLAPPING DEBT			246,373,259
COMBINED TOTAL DEBT			<u><u>\$ 248,318,259</u></u> (2)

(1) Percentage of overlapping agency's assessed valuation located within the boundaries of the city.  
and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Total Direct Debt (\$ 1,945,000)	0.02%
Total Overlapping Tax and Assessment Debt	1.82%
Combined Total Debt	2.65%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source:

California Municipal Statistics, Inc.

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

Fiscal Year	Governmental Activities		Capital Lease	Total	Population	Per Capita	Per Capita Personal Income (3)
	General Obligation Bond	Certificates of Participation					
2001-02	-	3,325,000	304,823	3,629,823	27,795	130	67,760
2002-03	-	3,040,000	282,802	3,322,802	27,655	120	68,159
2003-04	-	3,115,000	213,299	3,328,299	27,619	121	70,827
2004-05	-	3,010,000	163,948	3,173,948	27,513	115	76,384
2005-06	-	2,895,000	112,038	3,007,038	27,584	109	81,743
2006-07	-	2,775,000	57,436	2,832,436	27,941	101	89,706
2007-08	-	2,195,000	-	2,195,000	28,165	78	94,999
2008-09	-	2,115,000	-	2,115,000	28,457	74	96,222
2009-10	-	2,030,000	-	2,030,000	28,863	70	92,389
2010-11	-	1,945,000	-	1,945,000	28,863	67	73,414

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 Altos 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

<b>Fiscal Year</b>	<b>Assessed Valuation *</b>	<b>Debt Limit 15% of Assessed Valuation</b>	<b>Debt Applicable to Limit</b>	<b>Legal Debt Margin</b>
<b>2001-02</b>	5,184,051,170	777,607,676	-	777,607,676
<b>2002-03</b>	5,445,779,876	816,866,981	-	816,866,981
<b>2003-04</b>	5,924,209,314	888,631,397	-	888,631,397
<b>2004-05</b>	6,373,193,405	955,979,011	-	955,979,011
<b>2005-06</b>	7,045,722,898	1,056,858,435	-	1,056,858,435
<b>2006-07</b>	7,677,060,695	1,151,559,104	-	1,151,559,104
<b>2007-08</b>	8,392,386,981	1,258,858,047	-	1,258,858,047
<b>2008-09</b>	9,064,191,075	1,359,628,661	-	1,359,628,661
<b>2009-10</b>	9,451,402,484	1,417,710,373	-	1,417,710,373
<b>2010-11</b>	9,361,963,881	1,404,294,582	-	1,404,294,582

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
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%
2010-11	28,863	-	8,035	0.87%	5.7%	73,414	45.3	98.10%	76.80%

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									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b><i>Public Safety *</i></b>										
Police Operations	35.50	35.50	35.50	35.50	35.50	36.50	36.50	36.50	32.00	32.00
Police Traffic Safety	2.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	5.00	5.00
Communications	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	11.00	11.00
Fire (Contract Basis)	-	-	-	-	-	-	-	-	-	-
<b><i>Maintenance Services</i></b>	27.00	25.00	27.00	26.50	28.00	29.50	30.00	29.00	29.50	29.50
<b><i>Recreation</i></b>	14.25	14.25	8.25	8.25	8.25	6.75	7.00	7.00	7.00	7.00
<b><i>Community Development</i></b>										
Planning & Building	12.00	12.00	12.00	12.00	12.00	12.50	13.00	13.00	13.00	13.00
Engineering	7.25	6.25	7.25	8.00	9.00	9.00	9.00	9.00	8.00	9.00
Economic Development	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.00
<b><i>Administration</i></b>										
City Management	3.55	3.55	3.60	3.50	3.50	4.25	4.10	6.25	5.75	4.75
Administration & Finance	9.00	9.00	9.00	9.00	9.00	9.00	11.00	10.00	10.00	10.00
<b><i>Sewer</i></b>	7.75	7.75	6.75	5.75	5.75	6.75	6.75	6.75	6.25	6.25
<b><i>Solid Waste</i></b>	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b><i>Storm Drain</i></b>	-	0.25	0.25	0.50	0.50	1	1	1	1	1
<b>Total</b>	<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>	<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  
Operating Indicators by Function/Program  
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 *	2008-09 *	2009-10 *	2010-11 *
<b>Police:</b>										
Arrests	653	628	532	528	383	453	449	630	634	396
Moving citations issued	3,819	4,375	4,236	3,193	3,306	3,197	2,435	2,926	1,879	1,437
Parking citations issued	(1)	1,114	828	1,197	1,040	2,295	2,455	2,015	1,531	960
Municipal code violations issued	(1)	350	499	249	376	522	552	458	580	(3) 21
<b>Public Works:</b>										
Crack sealing in lineal feet	(1)	188,500	18,400	41,500	241,000	55,028	52,000	105,600	53,326	56,984
Street sign installed and replaced	(1)	713	3,094	517	578	434	245	206	1,042	117
<b>Recreation:</b>										
Classes/programs	(1)	1,880	2,078	1,981	2,384	1,890	1,781	1,332	1,604	1,714
Facility rentals	(1)	397	500	440	419	589	583	3,154	4,010	(2) 2,462
Field/gymnasium permits	(1)	12	20	49	74	77	127	3,529	2,774	(2) 2,415
<b>Planning:</b>										
Plan applications submitted	235	321	303	259	290	340	331	376	318	335
<b>Building:</b>										
Permits issued	2,660	1,540	1,651	1,735	1,871	1,733	1,759	1,602	1,711	1,706
Plan checks submitted	(1)	234	322	284	461	335	485	522	455	537
Inspections	(1)	6,705	6,447	5,593	7,742	7,307	7,236	6,204	5,788	6,203
<b>Sewer:</b>										
Cleaning and flushing in lineal feet	(1)	515,638	963,683	928,997	1,380,984	810,261	1,100,150	732,162	434,250	596,006
<b>Storm Drain:</b>										
Catch basin/storm drain cleaned (measured in storm inlets cleaned)	(1)	686	1,825	2,282	2,111	1,754	1,827	1,459	2,823	3,038

Source: City of Los Altos Quarterly Reports.

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

Note:

- (1) Data are not available for this period.
- (2) Data reflect uses instead of reservation.
- (3) Change in reporting from reported to issued

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

Fiscal Year	Non City Obligation Debt Special Assessment Debt Service															
	Other Expired Debts			Avalon Dr. Curb & Gutter			Raymundo Curb & Gutter			Blue Oak Lne Sewer			Total Special Assessment Debt Service			
	Special	Principal	Interest	Special	Principal	Interest	Special	Principal	Interest	Special	Principal	Interest	Special	Principal	Interest	Coverage
2001-02	35,847.00	30,000.00	10,374.00	13,859.00	4,783.00	5,707.00							49,706.00	34,783.00	16,081.00	0.98
2002-03	41,722.00	30,000.00	8,295.00	13,507.00	5,000.00	5,423.00							55,229.00	35,000.00	13,718.00	1.13
2003-04	113,802.00 (1)	35,000.00	5,586.00	13,336.00 (1)	5,000.00	5,133.00							127,138.00	40,000.00	10,719.00	2.51
2004-05	19,111.00	40,000.00	2,890.00	13,038.00	5,000.00	4,888.00							32,149.00	45,000.00	7,778.00	0.61
2005-06	-	20,000.00	720.00	13,956.00	6,000.00	4,524.00	26,058.00		7,407.00				40,014.00	26,000.00	12,651.00	1.04
2006-07				13,599.00	6,000.00	4,176.00	26,249.00	12,391.00	12,471.00				39,848.00	18,391.00	16,647.00	1.14
2007-08				13,965.29	6,000.00	3,828.00	27,090.86	14,000.00	11,857.50				41,056.15	20,000.00	15,685.50	1.15
2008-09				14,325.00	7,000.00	3,451.00	28,117.00	14,000.00	11,207.00				42,442.00	21,000.00	14,658.00	1.19
2009-10				13,233.00	7,000.00	5,873.00	27,873.00	15,000.00	13,360.00				41,106.00	22,000.00	19,233.00	1.00
2010-11				13,685.62	7,000.00	2,639.00	26,981.12	16,000.00	9,812.00	51,375.66	-	34,614.49	92,042.40	23,000.00	47,065.49	1.31

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.



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

Function/Program	Fiscal Year									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 *	2008-09 *	2009-10 *	2010-11 *
<b>Police:</b>										
Arrests	653	628	532	528	383	453	449	630	634	396
Moving citations issued	3,819	4,375	4,236	3,193	3,306	3,197	2,435	2,926	1,879	1,437
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<b>Public Works:</b>										
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Street sign installed and replaced	(1)	713	3,094	517	578	434	245	206	1,042	117
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Classes/programs	(1)	1,880	2,078	1,981	2,384	1,890	1,781	1,332	1,604	1,714
Facility rentals	(1)	397	500	440	419	589	583	3,154	4,010	(2) 2,462
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<b>Planning:</b>										
Plan applications submitted	235	321	303	259	290	340	331	376	318	335
<b>Building:</b>										
Permits issued	2,660	1,540	1,651	1,735	1,871	1,733	1,759	1,602	1,711	1,706
Plan checks submitted	(1)	234	322	284	461	335	485	522	455	537
Inspections	(1)	6,705	6,447	5,593	7,742	7,307	7,236	6,204	5,788	6,203
<b>Sewer:</b>										
Cleaning and flushing in lineal feet	(1)	515,638	963,683	928,997	1,380,984	810,261	1,100,150	732,162	434,250	596,006
<b>Storm Drain:</b>										
Catch basin/storm drain cleaned (measured in storm inlets cleaned)	(1)	686	1,825	2,282	2,111	1,754	1,827	1,459	2,823	3,038

Source: City of Los Altos Quarterly Reports.

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

Note:

- (1) Data are not available for this period.
- (2) Data reflect uses instead of reservation.
- (3) Change in reporting from reported to issued



**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 the City Council  
of the City of Los Altos  
Los Altos, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Los Altos, California (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 2, 2012. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinions 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.

To the Honorable Mayor and Members of the 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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, 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.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
February 2, 2012