

**TO:** Financial Commission

**FROM:** Russell J. Morreale, Staff Liaison

**SUBJECT:** Draft June 30, 2013 Comprehensive Annual Financial Report (CAFR)

**RECOMMENDATION:**

- a. Auditor's presentation & discussion of the CAFR draft
- b. Recommendation to proceed to present to City Council

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**BACKGROUND**

The Financial Commission annually accepts a presentation of the Draft Comprehensive Annual Financial Report (CAFR) as a precursor to its delivery to City Council.

**DISCUSSION**

Attached is the Preliminary Draft of Comprehensive Annual Financial Report (CAFR) for the year ending June 30, 2013 (Attachment B) as well as a highlight summary entitled "2013 CAFR at a Glance" (Attachment A). This audit represents the second opinion and report issued by Burr Pilger Mayer (BPM), the auditors selected last year as a new firm for the City. It has been the City's practice to periodically rotate independent audit firms.

This report is presented in a draft version subject to final review points and comments by the Financial Commission, staff and the audits peer review team. Pending any such comments, the final report will be compiled for a planned delivery to City Council December 10, 2013.

The Transmittal Letter and Management, Discussion and Analysis (MDA), both of which are component sections of the CAFR, provide a more in-depth review and executive summary of the City's financial performance.

Attachments:

- A) 2013 CAFR at a Glance
- B) Draft Comprehensive Annual Financial Report June 30, 2013

Attachment A

2013 CAFR at a Glance

# 2013 CAFR at a Glance (1 of 3)

## Compliance

Unqualified (clean) Opinion - timely delivery to the Financial Commission and Council

Second year auditors – Burr, Pilger, Mayer

Received the 2012 - GFOA Excellence in Reporting Award

Prior year reported net pension asset prior period write-off recorded - \$3.6 M

- Consolidated 34 intangible asset presentation only. No cash/governmental fund balance impact

- FY 2012/13 pension liability fund pay-down expensed

Continued presentation of budget-to-actuals for all major and minor funds

Third year implementation of GASB 54 including new fund reserve definitions

No Single Audit (federal grant) required this year

# 2013 CAFR at a Glance (2 of 3)

## Financial

### **General Fund**

\$3.1 million operating revenues over expenditures

\$560,000 planned transfer realized for future Capital Project funding

Policy reserves enhanced - increased OPEB reserves added to - budget targets achieved

\$950,000 planned pay-down of CalPERS side fund liabilities made

Revenues 5% over budget - 8% over last year – Property, Sales Tax , Hotel Tax and Recreation up

Property Tax 1% over budget and 6% over last year actual results

Expenses under budget coming in at 94% with an actual year-to-year 2.4% increase

\$5.5 million in consolidated emergency reserves at year-end

### **Other Funds**

No increases in City debt

Another year of substantial capital improvements - \$5.7 million in streets - Parks – Ped. Safety- Sewer

CIP Fund balance \$4.8 million - \$3 million committed for authorized capital projects

Real Property Proceeds Fund - \$7.4 million with new year proceeds from the sale of land

Community Facility Renewal Fund – \$7.1 million with development proceeds

Other governmental funds operate at expected levels of reserves

Storm Drain Fund fully General Fund dependent

Sewer Fund performance is stable - Solid Waste Fund reports a net gain

# 2013 CAFR at a Glance (3 of 3)

## Challenge Indicators

National and State economic recovery remains protracted and sluggish

FED policy subject to changes as new leadership emerges in 2014

The overall California budget has improved ,but remains an ever-present concern

Significant CalPERS rate increases projected and future cost pressures remain a major concern

Workers' Compensation and Liability Insurance claim valuations point to future cost and increases

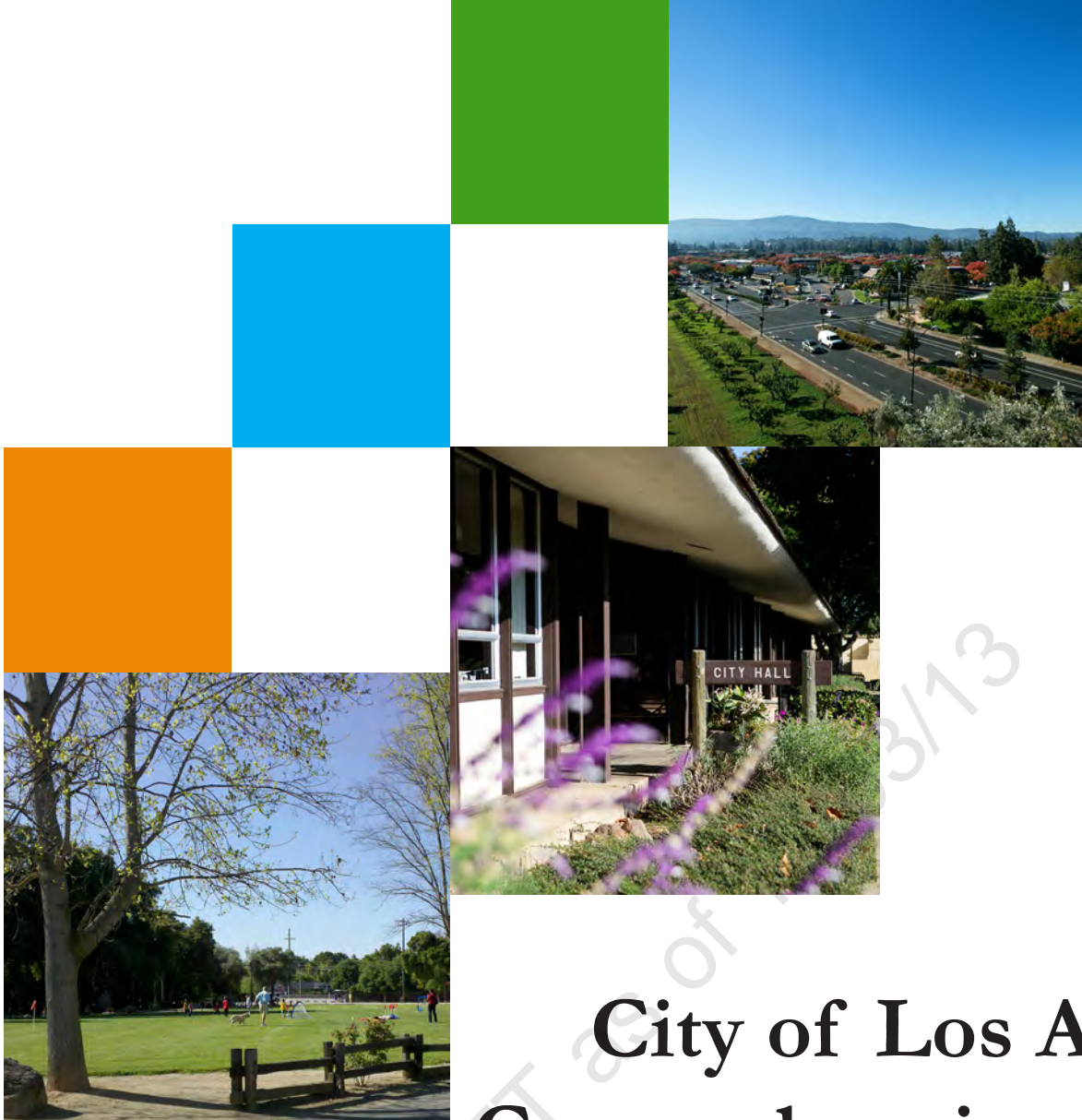
Funding for aged City facilities and technology needs must be planned for

Increases in employee health care costs are expected given recent trends

Other Post Employment Benefits (OPEB )Liabilities set at \$2 million and pending formal funding

Attachment B

City of Los Altos Comprehensive Annual Financial Report  
June 30, 2013



# City of Los Altos Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013





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DRAFT as of 7/25/13



**CITY OF LOS ALTOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
Fiscal year ended June 30, 2013

DRAFT as of 12/03/13

Prepared by:  
Finance Department



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DRAFT as of 7/25/13

**CITY OF LOS ALTOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Fiscal year ended June 30, 2013

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

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

**CITY OF LOS ALTOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Fiscal year ended June 30, 2013

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

	<u>Page</u>
Required Supplementary Information:	
Schedule of Revenues and Expenditures – Budget and Actual:	
General Fund.....	70
Real Property Proceeds.....	71
Note to Required Supplementary Information.....	72
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet.....	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	80
Schedules of Revenues, Expenditures and Changes in Fund Balances– Budget and Actual:	
Vehicle Impound.....	83
Supplemental Law Enforcement.....	84
Gas Tax.....	85
Proposition 1B.....	86
Community Development Block Grant Fund.....	87
Downtown Parking.....	88
Traffic Impact Fee .....	89
Estate Donation .....	90
Debt Service Fund .....	91
Internal Service Funds:	
Combining Statement of Net Position.....	93
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	94
Combining Statement of Cash Flows .....	95
Agency Fund:	
Combining Statement of Changes in Fiduciary Net Position and Liabilities .....	97

**CITY OF LOS ALTOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Fiscal year ended June 30, 2013

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

	<u>Page</u>
STATISTICAL SECTION	
Net Position by Component .....	101
Changes in Net Position .....	102
Fund Balances – Governmental Funds .....	104
Changes in Fund Balances – Governmental Funds .....	106
Tax Revenues by Source – Governmental Funds .....	108
Assessed Value of Taxable Property .....	109
Property Tax Dollar Breakdown .....	110
Property Tax Dollars By Recipient Group .....	111
Direct and Overlapping Tax Rates .....	112
Principal Property Taxpayers .....	113
Property Tax Levies and Collections .....	114
Ratios of Outstanding Debt by Type .....	115
Schedule of Direct and Overlapping Bonded Debt .....	116
Legal Debt Margin .....	117
Demographic Statistics .....	118
Principal Employers .....	119
Full-Time Equivalent City Employees by Function/Program .....	120
Operating Indicators by Function/Program .....	122
Capital Asset Statistics by Function/Program .....	123
Trust and Agency Debt Administration .....	124



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DRAFT as of 7/25/13



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

December 10, 2013

**Honorable 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, 2013 along with the Independent Auditors' Report. The CAFR was prepared by the City's Finance Department and the information contained therein is based on a comprehensive framework of internal control established for this purpose. The objective is to provide reasonable assurance that the financial statements are free of material misstatements. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the information, as presented, is accurate in all material respects, that the presentation fairly shows the financial position and the results of the City's operations as measured by the financial activity of its various funds, and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

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

**PROFILE OF THE CITY AND ITS SERVICES**

Tree-lined streets and a small village atmosphere characterize Los Altos, which is located in the heart of world famous Silicon Valley. Just 40 miles south of San Francisco, Los Altos is a residential community with a population of approximately 29,000 served by seven small retail areas. The seven square mile residential city is developed with small businesses, schools, libraries and churches. Incorporated on December 1, 1952, Los Altos is a general law city operating under the Council-Manager form of government. There are five Council members elected at-large, serving four-year overlapping terms. Municipal services provided include police, streets, facilities and parks maintenance, engineering, community development, recreation, solid waste and sewer. Fire protection is provided through a contract with the Santa Clara County Fire Department.

## SERVICE EFFORTS AND MAJOR INITIATIVES

### Service Efforts and Budget Compliance

The City continues to provide a high level of service to its residents and citizens through multi-year financial planning. Budget limits were met with the General Fund reporting a strong operating surplus indicative of the prudent fiscal measures Los Altos has put in place and diligently followed since the economic downturn. The fiscal results this year have favorably delivered on this careful planning and forward-looking process. Contingency reserves have again been strengthened, capital improvements funded and budget projections met. Final pension liability pay downs were acted upon per the fiscal strategy set forth by Council. This year of reporting reveals significant development tax and fee collections, funds which have been recorded within the City's capital project funds. All major funds performed as expected and reflect continued cost-saving efforts during these times of economic recovery.

### Major Initiatives

**Capital Improvements:** FY 2012/13 marked yet another year of capital re-investment into the community with substantial resources applied to City-wide improvements. Some larger dollar capital expenditures, applied to both ongoing and/or completed projects, of note this year include:

San Antonio Road Sidewalk	\$ 1,189,460
Sewer Collection System Upgrade	544,510
First Street Phase 1B	536,520
Annual Street Resurfacing	702,470
Homestead Road Safety Improvements	291,990
Annual Sewer Main Repairs	303,020
NPDES Compliance	224,430
South Sewer Main Replacement	174,810
Annual Sewer Root Foaming	166,410
Parking Management Plan	157,280
Tri-City Safety Public Safety Virtual Consolidation	154,540
Annual ADA Accessibility	154,230
Fallen Leaf Lane Sewer Main Replacement	128,860
In Pavement Crosswalk Lighting Systems	115,820
Annual Concrete Repair	133,030
Sewer Collection System Upgrade	67,230
KMVT Increased Public Broadcasting Capital	65,000
ADA Transition Plan	60,500
Annual Street Striping	59,910
Sewer Main Replacement Phase II	55,970
Climate Action Plan	55,970
First Street Streetscape Design	50,320
IT Initiatives	38,970



**Pedestrian Safety, Roads and Walkways:** Los Altos is noteworthy for investing substantial resources on a variety of roadway, pedestrian and bikeway initiatives and improvements. Over \$1 million was applied to street resurfacing, sidewalk repairs and street lighting systems and bicycle transportation updates, enhanced safety lighting, street striping, signage and Americans with Disabilities Act enhancements. These efforts support the City's high roadway condition index while increasing overall pedestrian, bicycle and vehicular safety.

**Ongoing Downtown Revitalization:** Revitalization of the downtown corridor continues with great emphasis placed on the rehabilitation of San Antonio Road and completion of street/intersection improvements. Current and recent year dollars spent on First Street improvements have facilitated the private developments noted below and in the prior year report. Phase IB, an extension of last year's First Street improvements made, is progressing towards completion. These projects will result in the complete renovation of the First and Main Streets intersection, installation of new signals, core sidewalk and lighting improvements. These upgrades are intended to have a positive impact on the core downtown area and enhance the overall pedestrian experience.

**Noteworthy Private Developments:** Significant private development progress was made again this year with several key First Street groundbreakings, including a new marquis Safeway store, 48 luxury townhomes, and an office/retail development at First and Main Streets. A major residential/retail development at the site of the former Los Altos Garden Supply center near the El Camino business district is also underway. These endeavors underscore the strategic posture the City has taken in supporting economic development efforts. This year also saw the completion of 20 new townhomes on south First Street. Private investment dollars in the tens of millions have been introduced into the downtown equation.

**Enhanced Safety Technology:** Expenditures continue to be applied to the Silicon Valley Regional Interoperability project. This important regional project will enhance the public safety data and radio communications systems, with a focus on multi-city interoperability and strategic planning. It promotes shared technology systems that will enrich the abilities of the Los Altos, and surrounding public safety agencies, to communicate with each other in both routine and emergency situations. This project allows for sharing of information that will assist the regional enactment of safety duties. Nearly \$500,000 has been expended this year with this project continuing through FY 2013/14.

**Homestead Roadway Improvements:** Nearly \$300,000 has been expended on the improvement of streetscape, pathway and road improvements on Homestead Road in south Los Altos. This capital improvement is intended to promote pedestrian and bicycle safety, beautify medians and develop vehicular circulation efficiency on this important roadway.

**Sewer System Improvements:** A fully studied and revamped Sewer Master Plan was completed and adopted by City Council this past year as an important step to ensuring the long-term viability of this vital infrastructure. In the current year alone, the City invested nearly \$1 million in system improvements and key maintenance measures at a variety of City locations. As the new master plan progresses into the future, it will provide a roadmap to fortifying high priority line replacements and system installations.

## FINANCIAL CONTROLS AND PROCEDURES

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

**Internal Control Structure:** City management is responsible for establishing and maintaining fiscal internal controls important in safeguarding the assets of the government from loss, theft or misuse, and to ensure that accounting data is accurately compiled in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of controls should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits require estimates and judgments by management. Adopted administrative purchasing policies were updated in June 2012 and provide a significant attribute to the internal control model.

**Cash Management Policies:** It is the City's practice to "pool" available cash from all funds for investment purposes. In accordance with the annually adopted investment policy, available cash is invested with the goal of safety, meaning protection of principal, as the first priority, ensuring adequate liquidity as the second priority and maximizing yield as the third priority. This past year continued to display historic lows in interest rates with a drop in LAIF earnings rates below one half of 1%. This condition was, and is, expected to persist. Staff acted on the Council's plan to engage investment advisory services and have diversified the City's investment portfolio as a means of mitigating the impact of interest rate swings. As always, the emphasis remains on preserving the safety of principal.

**Strengthening Key Fund Reserves:** This financial report reflects the attainment of judicious fiscal reserves noting increases in both capital and economic safety fund balances. As projected in the budget process, the results herein place the City in a position to maintain its 20% General Fund reserve goal – a goal reached a year in advance of the projected plan.

**Risk Management:** The City has long been insured for general liability through a Joint Powers authority (JPA) that covers claims in an amount up to \$10 million with a deductible or uninsured liability of up to \$100,000 per claim. The City is self-insured for Workers' Compensation and has an excess insurance policy for such claims up to the statutory limits. The deductible for Workers' Compensation was lowered to \$250,000 to further enhance risk protection. In the current year, the City transferred its general liability insurance coverage to the Bay Cities Joint Powers Insurance Authority as a measure to enhance and strengthen coverage. The City updated its actuarial valuations in FY 2012/13 resulting in a notable increase in workers' compensation and general liability obligations. Although the City maintains adequate funding levels, these rising cost challenge areas need continued attention.

**GASB 45 Compliance:** This report complies with the provisions of Government Accounting Standard Board Statement #45 (GASB 45). This standard pertains to Other Post Employee Benefits (OPEB) and requires the completion of an actuarial study to quantify and account for related liabilities. This recent reporting requirement is described in financial note 12 of the CAFR and the related liabilities reflected in the statements. As of June 30, 2013, the City's net OPEB obligation was valued at \$993,000, an amount reflected in the government-wide statements. Long-term unfunded liabilities equal \$2.1 million. Over the past three budget cycles, the City has earmarked and set aside \$500,000 in reserves to address this liability funding. Over the course of the next year, a variety of funding options available to the City will be evaluated. In the interim, these costs will be accounted for on a pay-as-you-go basis and included into future budgets.

## **EXECUTIVE FINANCIAL OVERVIEW**

This executive financial overview is presented as a supplement to the more detailed and comprehensive analysis presented in the MDA. This section highlights key financial performance indicators for our major funds.

### **General Fund**

The General Fund, the primary operating fund of the City, performed extremely well realizing operating revenues over expenditures of \$3.1 million, more than double achieved in the prior year. This results from a planned commitment to cautious financial planning, conservative budget estimates and dedicated departmental stewardship. This year is also distinguished to the extent that key revenue trends have reflected a notable and long-awaited uptick. At year end, the total General Fund balance equaled \$8.5 million with an unassigned fund balance of \$2.4 million after commitments and assignments of \$6.1 million. As planned for in the budget process, a portion of this surplus margin has been allocated to funding capital improvements, increasing existing economic reserves and further funding Other Post-Employment Benefits (OPEB) as directed per Council's discretion.

Considering the transfer and use of reserve activity listed below, most notably \$700,000 for future capital commitments and \$950,000 to further pay-down CalPERS side fund liabilities, the final General Fund balance still increases by \$1 million. This non-operating and transfer activity is summarized as follows:

- \$950,000 to further pay-down the CalPERS side-fund liabilities
- \$565,000 transfer out of operating surplus reserves to the Capital Projects Fund
- \$232,000 transfer out to fund Storm Drain Fund activities
- \$200,000 transfer out to seed future equipment replacements
- \$165,000 transfer out for general debt service payments
- \$190,000 transfer in from the Gas Tax Fund for supporting engineering operations
- \$75,000 transfer in from public safety grant funds
- \$20,000 transfer in from safety vehicle impound fees

The recovery of the General Fund revenue stream has seemingly displayed a bit of “light at the end of the tunnel,” a condition that will be watched closely given the uncertainty that still lingers in the national and state economy. This current-year turnaround in Property tax trends is encouraging with 2013 realizing 6% gains in contrast to a small to no increases in recent years. Moderate growth is expected in line with regional forecasts. A table of year-to-year comparisons of key General Fund revenues follows:

<i>Revenue (millions)</i>	<i>2012 Actual</i>	<i>2013 Actual</i>	<i>Variance \$</i>	<i>Variance %</i>
<i>Property Tax</i>	\$13.30	\$14.13	0.83	6.23%
<i>Sales Tax</i>	2.75	2.93	0.18	6.56%
<i>Hotel Tax</i>	1.78	1.95	0.16	9.23%
<i>Utility Users Tax</i>	2.55	2.60	0.05	2.05%
<i>Other Taxes</i>	0.91	1.12	0.21	23.22%
<i>Franchise Fees</i>	1.73	1.77	0.04	2.21%
<i>Interest</i>	0.07	0.08	0.01	14.23%
<i>Recreation</i>	1.81	1.86	0.06	3.16%
<i>License and Permits</i>	2.51	3.24	0.72	28.72%
<i>Other</i>	1.49	1.60	0.10	7.00%
<b>Total</b>	<b>\$28.91</b>	<b>\$31.28</b>	<b>2.37</b>	<b>8.19%</b>

General Fund revenues have increased robustly by 8% versus a 1% in the prior year. Revenues came in at 105% of annual budget estimates with property tax, sales tax, hotel tax, franchise fees and recreation service fees being the front runners. Property tax, the City’s mainstay, strongly rebounded from the prior year and sets a positive tone for future budget planning. Sales tax came in again for a second year at a 6% gain coming off of double-digit drops three years ago. Tourism continues to its recovery as indicated by the hotel tax gains of over 9% following a 17% increase last year. Interest income continues to fall and gains in this area will be modest at best as the federal government navigates a new Federal Reserve chair and its easing strategy. Utility users and Real Estate transfer tax performed well coming in over budget estimates. License and permit fees championed the year with nearly 30% increases - a clear indication of vigorous development activity, much of which cannot be expected to repeat itself. Residential remodel and rebuilding activity maintains a strong pace. Recreation programs generated revenues of 3% above last year banner levels. Franchise Fees were within budget. It is quite extraordinary that all major general revenue sources display year-to-year gains.

General Fund expenditures came in 6% below budget contributing to the net surplus mentioned above. These savings primarily result from temporarily deferring the filling of additional authorized positions in 2012/13 and continued budget management diligence at the department level. Compared to last year, expenses increased by \$680K or 2.4% mostly driven by labor, benefits and professional service costs.

Even with the welcome signs of strength noted above, the City’s revenue base remains in a delicate environment and the City remains cognizant of rising costs in the areas of pension rates, insurance, capital funding and deferred facility maintenance. As such, the City’s commitment to maintaining prudent, proactive and conservative fiscal planning is important.

## Other Funds

**Capital Project Funds:** The Capital Projects Fund was very active, with expenditure levels reaching \$4 million, ending the year with a total Fund balance of \$4.8 million. The remaining \$1.7 million of this fund balance will be applied to the funding of future projects as identified in the City's five-year Capital Improvement Program. Long-term forecasts again underscore the need to identify specific dedicated capital project funding sources as a means of eliminating this Fund's reliance on General Fund residual transfers.

The Community Facility Renewal Fund, a capital fund designed to support City-wide facility improvements reports a balance of \$7.2 million. The Real Property Proceeds Fund ended the year with a balance of \$7.4 million with additional deposits made on the sale of property at 400 Main Street. Given the significant private developments in Los Altos, the Traffic Impact and Park in-Lieu Funds have grown substantially with balances of \$1.4M and \$4.6M respectively. Lastly, the Equipment Replacement Fund finished the year with a balance of \$3.7 million, a moderate drop from prior year levels.

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

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

## ECONOMIC TRENDS

Recent forecast have indicated that the State is "on the road to normalcy" albeit under a new definition of normal trends. The economy is expected to be notably better off than what has been experienced in past recent years with moderate but stable growth expected into 2013/14. GDP in the 3% ranges are expected for the next two years in contrast to the 2% growth numbers touted this time last year. As we navigate the two-year FY 2013/15 budget cycles, we would be remiss not to stay observant of the financial threats that face local municipalities. We remain watchful of easing housing and credit pressures, the reparation of the California State budget, state and national pension reform initiatives, rising insurance costs and the implementation of a revamped healthcare model.

## INDEPENDENT AUDIT

The public accounting firm of Burr Pilger Mayer (BPM) was selected last year as a new firm to perform the annual independent audit as part of the City's rotation practice. Their second year auditors' report on the City's financial statements is included in the financial section of this report.

## **AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2012. This was the seventh consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## **ACKNOWLEDGEMENTS**

Preparation of this report could not have been accomplished without the efficient and dedicated services of the Finance Department staff, notably Sarina Revillar and Courtney Makishima. We would like to express our appreciation to all members of the department who contributed in any part to the final product. We also want to thank Burr Pilger Mayer (BPM), our independent auditors, for their high level of service and professionalism in performing this year-end financial audit.

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

Respectfully submitted,

Marcia Somers  
City Manager

Russell J. Morreale  
Finance Director



Government Finance Officers Association

**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, 2012**



Executive Director/CEO

**City of Los Altos**  
**List of Principal Officials**  
**As of June 30, 2013**

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**ELECTED OFFICIALS**

Mayor .....	Jarret Fishpaw
Mayor Pro Tem .....	Megan Satterlee
City Council .....	Jeannie Bruins
City Council .....	Valorie Cook Carpenter
City Council .....	Jan Pepper

**APPOINTED OFFICIALS**

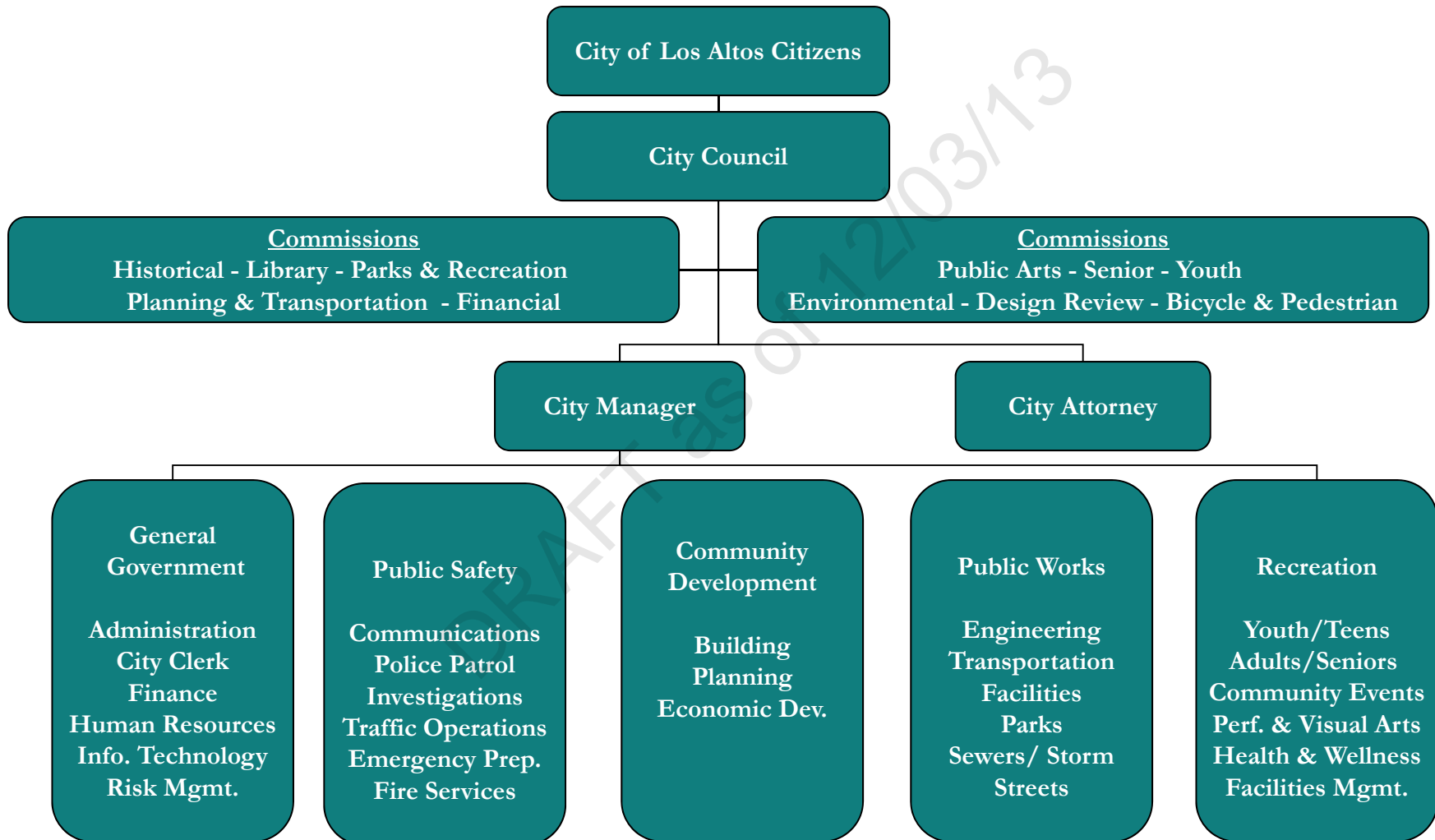
City Manager .....	Marcia Somers
City Attorney .....	Jolie Houston

**EXECUTIVE TEAM**

Assistant City Manager /Community Development..	James Walgren
Assistant City Manager/Human Resources .....	J Logan
Chief of Police.....	Tuck Younis
Finance Director .....	Russell J. Morreale
Public Works Director .....	Jim Gustafson
Recreation Director .....	Beverly Tucker



# City of Los Altos Organizational Chart June 30, 2013



**A Great Place to Live & Raise a Family**



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**INTRODUCTORY SECTION**

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**FINANCIAL SECTION**

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DRAFT as of 7/25/13

## 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, 2013, 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, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated                     , 2013, 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.

San Jose, California  
                    , 2013



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**City of Los Altos**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2013**

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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, 2013. Readers are encouraged to consider this information in conjunction with the executive summary have furnished in the letter of transmittal that can be found on pages  to  of this report.

### **FINANCIAL HIGHLIGHTS**

The City ended its fiscal year on a government-wide basis with total revenues of \$43M, a 5% increase from the prior year, and expenses of \$38.2M, an increase of 10%. The results represent combined government and business operations, increases in net assets including sizable infrastructure maintenance costs and the impact of expended pension side-fund pay downs. Favorable fiscal results have again strengthen general reserves, remained within budget limits and are sufficient to sustain capital project plans.

Operational revenue gains were noted across the board in property, sales, utility users, hotel occupancy, business license and real estate transfer taxes as well recreation programming. Community development fees came in at significant increases as a factor of several landmark private developments that have entered full construction mode during the year of this reporting. City-wide building and planning fees also repeated 2012 robust levels. No revenue declines of note were observed beyond the anticipated drop in interest income. Sewer and solid waste revenues were stable and positioned to facilitate future operational and capital needs.

The increase in Government-wide expenses is mostly a derivative of governmental fund activities. Budget spending limits were met given a continued focus on cost control and additional hiring deferrals in recent years. Los Altos continues to mitigate cost pressures in a variety of ways including realizing full pay-down of CalPERS pension side-fund liabilities; strategically managing staffing vacancies; strict capital project management; and the implementation of second and third-tier pension plans. Resource uses continue to reflect an emphasis on public safety, infrastructure maintenance, quality of life and community development activity.

Much progress has again been made on capital improvement projects, including street maintenance and resurfacing, streetscape and intersection improvements, City-wide concrete and sidewalk repairs, pedestrian and traffic safety enhancements, and safety technology enhancements. The City made significant capital investments in the maintenance and improvement of the City-wide sewer systems in line with the Sewer Master Plan recently adopted by Council.

The City's positive operating revenues over expenditures reflect prudent cost-conscious budgeting and financial management stewardship. The margin of revenues over expenditures came in above prior year level results setting a favorable position as upcoming budgets are developed. Budget estimates have been met for all key operating and business funds.

### **Government-Wide View**

- Net assets (excess of assets over liabilities) equaled \$102M, an increase of \$5.2M, or 5% including the impact of the net asset pension write down. These numbers are based on a restated governmental beginning balance given an a change in accounting presentation adjustment related to the treatment of City net pension assets These assets represent the City's total net holdings and are not necessarily unrestricted depending upon the source of the original funding.
- Unrestricted assets equal \$37.7M, an increase of \$4.6 million, or 5%. Governmental unrestricted assets totaled \$29.9M at year end, while business activities related unrestricted assets totaled decreased by \$7.8M. This trend is attributed to significant grant and capital contributions with partial offsets given the use of funds for infrastructure maintenance and improvements. It is important to note that unrestricted net assets, as presented in the government-wide section of the CAFR, do not account for local fund restrictions, project assignments and/or policy reserves as classified within the governmental fund section of the report.
- Governmental activities reported ending net assets of \$87.4M, an increase of \$4.1M, or 5%. The increase in government assets arises from positive operating results, significant development fee collections and cost containment. These results also reflect the substantial income of development tax proceeds, positive revenue trends offset by use of resources of nearly \$1.1M, for infrastructure maintenance beyond capitalized costs.
- Business activities reported ending net assets of \$14.6M, an increase of \$1.1 M or 8% given positive operating results in the Sewer and Solid Waste Funds, substantial capital investments along with partial offsets of Storm Drain activity losses.
- On a combined basis, restricted net assets amounted to \$7.4M vs. \$3.9M last year and represent the extent to which funds are categorically constrained.

### **Fund Level View**

- The General Fund realized an operating surplus of \$3.1M or \$1.7M above the prior year
- General Fund revenues, excluding transfers, increased robustly over prior year actuals by \$2.4M or 8% to \$31.3M. Current year results also exceeded budget estimates by 4%. Related expenditures increased by \$700,000 to \$28.2M, or 3%, a pace of growth 50% below the prior year trend.
- The City made a near final CalPERS side fund liabilities pre-payment of \$950,000 to further mitigate pension costs pressures.

- Total governmental fund balances equaled \$39M at fiscal year-end, a strong increase of \$3.5M, or 10%, due to the inflow of significant development tax dollars, focused cost savings efforts, a recovering regional economy and overall favorable operational results. Significant expenditures were both expected and realized in the capital improvement funds.
- General government capital spending approximated \$4.3M. The level of capital reinvestment in Los Altos reflects a sustained focus on the maintenance of streets, facilities, traffic calming efforts and safety. As result, the Capital Improvements Projects Fund balance decreased by \$1.5M net of incoming grant and special purpose revenues to end the year at \$4.8M.
- The Real Property Proceeds Fund balance increased by \$500,000 as result of additional final pre-sale deposits on the sale of property at 400 Main Street increasing this fund's balance to \$7.4M.
- The balance in the Community Facilities Renewal Fund increased by \$100,000 with City funding as Los Altos plans for the inevitability of community facility redevelopment. At year-end, this fund balance approximated \$7.2M.
- The in-lieu Park Fund entered the "major fund" reporting group ending the year with a material balance of \$4.6M and displaying extraordinary growth of \$3.6M given the significant level of private development advanced in the past year.
- The Equipment Replacement Fund balance remained at \$3.7M with the use of funds for replacement purchases offset by annual General Fund contributions.
- Sewer operations ended the year favorably with an increase in net assets of \$600,000. Sewer revenues of \$5.1M were 13% higher as compared to a drop in 2012 given a shift in water usage trends. This marks the third year of noted movement towards consumer conservation. Consequently, expenses also exceeded prior year levels by 2% coming in at \$4.5M. A review of maintenance expenses reflects continued attention to system maintenance. In the current year, the City adopted a multi-year master plan that updates a long-term rate and capital plan for these operations.
- As reported in the prior year, the Storm Drain Fund has exhausted available resources. These operations are now fully General Fund-subsidized and will continue to be absent the implementation of a fee-based model.
- Both Workers' Compensation and general liability claim liabilities have increased materially with the latest update of related actuarial valuations. The Workers' Compensation Fund ended the year with an unrestricted fund balance of \$211,000, a decrease of \$89,000. Related liabilities increased from \$2.5M to \$3M. The General Liability fund ended the year with unrestricted fund balances of \$322,000, a decrease of \$195,000. Related liabilities increased from \$190,000 to \$350,000. Both funds cover their actuarial valuations but the noted trends will require larger future funding levels short of dramatic changes in claim experiences and legislation.

- Other Non-major Governmental Funds ended the year with a total combined fund balance of \$2.9M, reflecting the reclassification of the in-lieu Parks fund to the major fund group given its significant development fee collections.

## 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 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 \_\_ to \_\_ of this report.

### Reporting on the City's Most Significant Funds

**Fund Financial Statements:** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds; proprietary funds; and fiduciary funds.

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

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

The City maintains 24 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Project Fund, Equipment Replacement Fund, Real Property Proceeds Fund and the Community Facilities Renewal Fund, all of which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in the fund financial statements section of this report.

An annual appropriated budget is adopted each year for each governmental fund. A budgetary comparison statement has been provided for several key governmental funds to demonstrate compliance with this budget.

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

**Proprietary Funds:** The City maintains two types of *proprietary funds*. Services for which the City charges customers a fee are generally reported in the City's *enterprise funds*. These proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its City dental plan, unemployment 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 City follows the practice of adopting annual budgets for these operations as well.

The combining statements referred to earlier in relation to 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 \_\_ to \_\_ of this report.

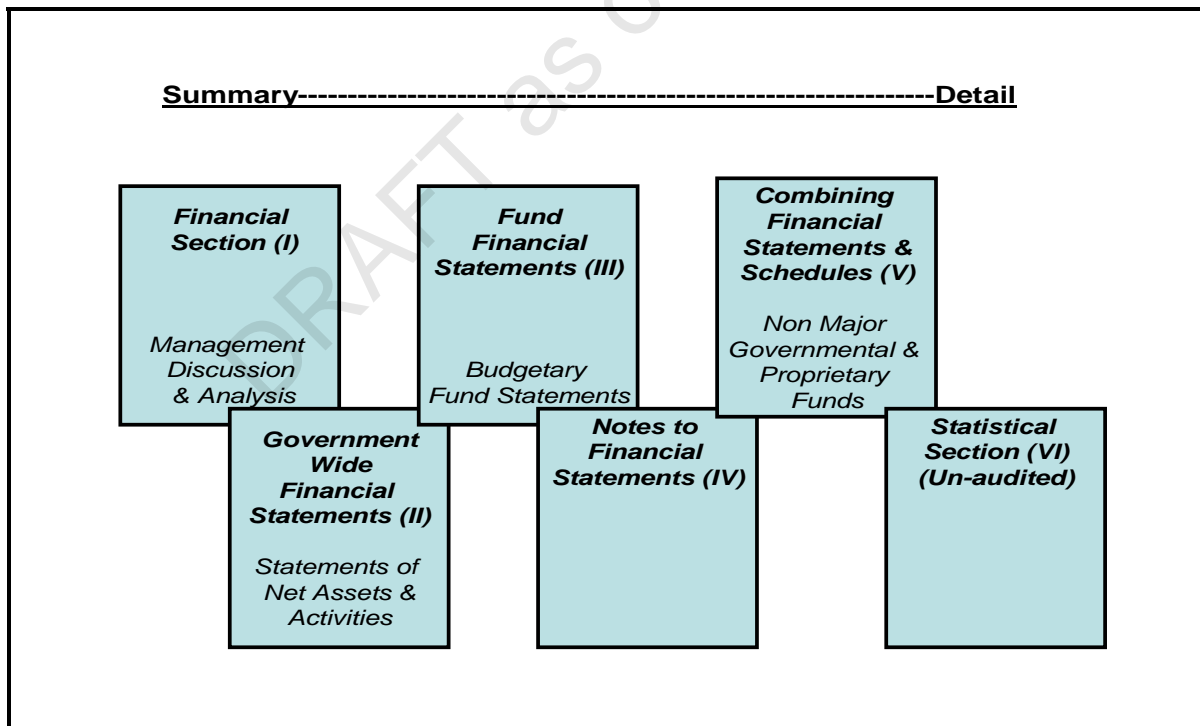
**Notes to the Basic Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These can be found on pages \_\_ to \_\_ of this report.

**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, 2013. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. On a combined basis, the City experienced a \$5.2M, or a 5% increase in net assets. A summary is noted below:

### City of Los Altos Net Assets

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Cash and Investments	\$ 46,350,260	\$ 40,710,097	\$ 7,923,383	\$ 7,546,024
Other Assets	1,256,034	5,428,628	353,919	528,091
Capital Assets	51,767,330	50,270,889	6,773,419	5,951,698
<b>Total Assets</b>	<b>99,373,624</b>	<b>96,409,614</b>	<b>15,050,721</b>	<b>14,025,813</b>
Bond Debt	1,760,000	1,855,000	-	-
Other Liabilities	10,223,284	7,483,460	434,467	534,830
<b>Total Liabilities</b>	<b>11,983,284</b>	<b>9,338,460</b>	<b>434,467</b>	<b>534,830</b>
Net Assets				
Investments in Capital -	50,102,330	50,270,889	6,773,419	5,951,698
Net of Related Debt				
Restricted	7,405,661	3,925,741	-	-
Unrestricted	29,882,349	32,874,524	7,842,836	7,539,285
<b>Total Net Assets</b>	<b>\$ 87,390,340</b>	<b>\$ 87,071,154</b>	<b>\$ 14,616,255</b>	<b>\$ 13,490,983</b>

Investment in capital assets makes up the largest portion of the City's net assets, over fifty percent (56%). These assets reflect land, buildings, infrastructure, machinery and equipment, less any associated outstanding debt. As these assets represent foundational infrastructure used in support of basic City services, they are generally not available for future spending.

An additional portion of the City's net assets, seven percent (7%), represent resources subject to external spending restrictions. The remaining forty percent (37%) of net assets are defined as unrestricted and generally available for future capital projects and discretionary use with the caveat these funds are a composite of several governmental funds which may include assigned project commitments and assignments specifically associated with active and ongoing projects.

Some key entity-wide observations include the following:

- Cash and investments holdings increased by 12%, a factor of favorable operations, cost savings and collection of substantial one-time developments fees, in particular over \$4 million in in-lieu park and traffic impact fees from the new construction First Street retail and local multi-family units. Real property proceeds of nearly \$500,000 were also realized in this year.

- Net assets equaled \$102M, an increase of \$5.2% or 5%, due to the resource flow activity noted above and the capitalization of completed projects.
- Substantial capital improvements, approximating \$2.3M, were realized. These include pedestrian and bicycle safety enhancements, street repairs and striping, major streetscape and intersection enhancements, concrete repairs, facility maintenance, and safety technology improvements.
- Business-type activities reported net assets of \$14.6M at year end, a \$1.1M, or 8%, increase. The Sewer Master Plan has been completed laying a future path of funding and project needs. Solid Waste revenues exceeded direct expenses allowing for future initiatives in this important environmental area of operations.

### **Governmental Activities**

Governmental programs, which include general public services, realized revenue increases of \$2.3M, or 7%, while total expenditures increased by 11% or \$3.3M. Including all sources and uses, governmental net assets increased by \$4.1M, or 5%, ending the year with a total fund balance of \$87.4M.

- Property tax continues to be the City's single largest source of revenue representing about 38% of general government-wide revenues. Property tax returned to a growth trend increasing by \$830,000, or 6%.
- Charges for services, making up 28% of government revenues, displayed extraordinary, in some cases one-time, planning and building activity increasing by a banner \$4.2M, or 66%. This revenue category was again bolstered by gains in recreation programming and a general spurt in residential remodel and rebuilding activity. Both community development and recreation services continue to capitalize on their cost recovery goals.
- Other major taxes showed gains of \$700,000, or 8%. Highlights include a 7% increase in sales tax, a 9% increase in hotel occupancy tax, a 17% in business license tax, 25% increase in real estate transfer tax and 2% in Utility Users Tax.
- Interest revenues came in under budget but moderately above prior year actuals by \$50,000 given continued tepid interest rates. Yields remain at historic low rates in line with the current Federal Reserve posture.
- Government expenses, including allocated capital maintenance costs, increased by \$3.2 million or 11%. A closer review reveals that the change in pension net asset accounting treatment, a first time adjustment this year, accounted for 3% of this increase. Most of the cost increases are mostly attributable to the rise in safety, public works and building and planning activity.
- Interest on long-term debt remained flat reflective of the City's low debt level.

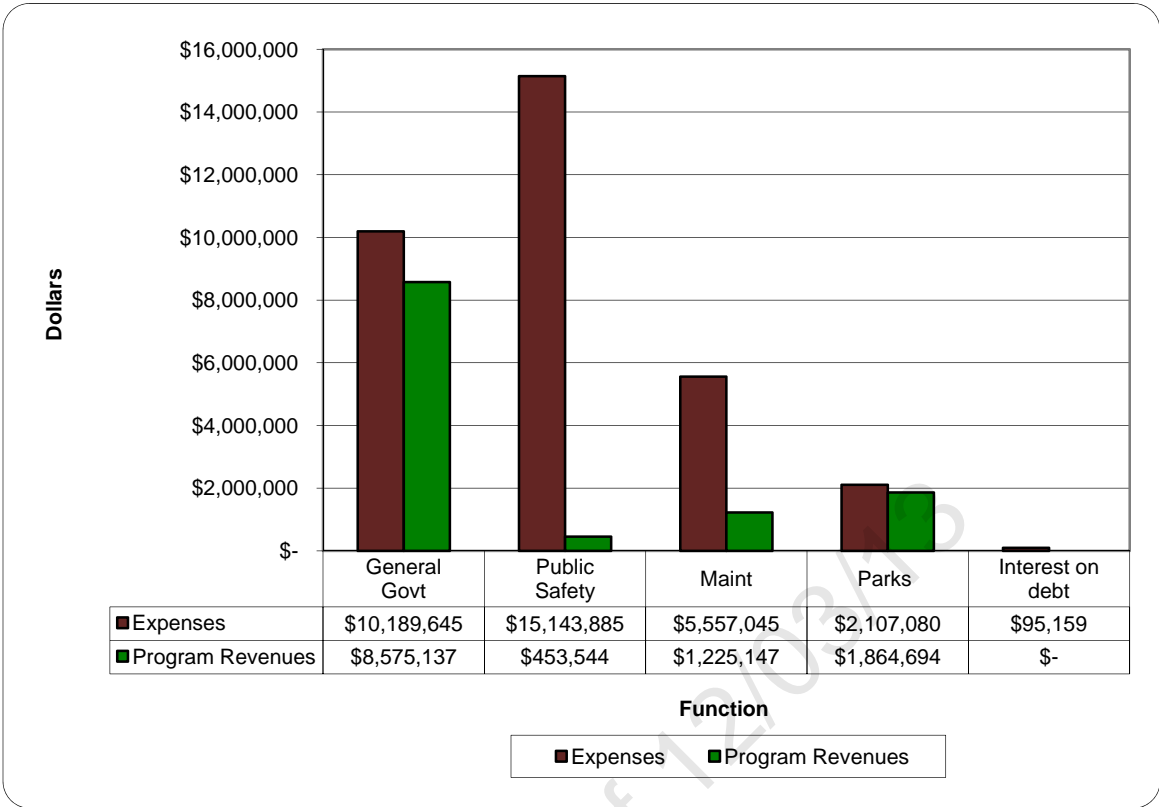


A comparison of the governmental activities and business-type activities program revenues and expenses for the current year and prior year is presented below:

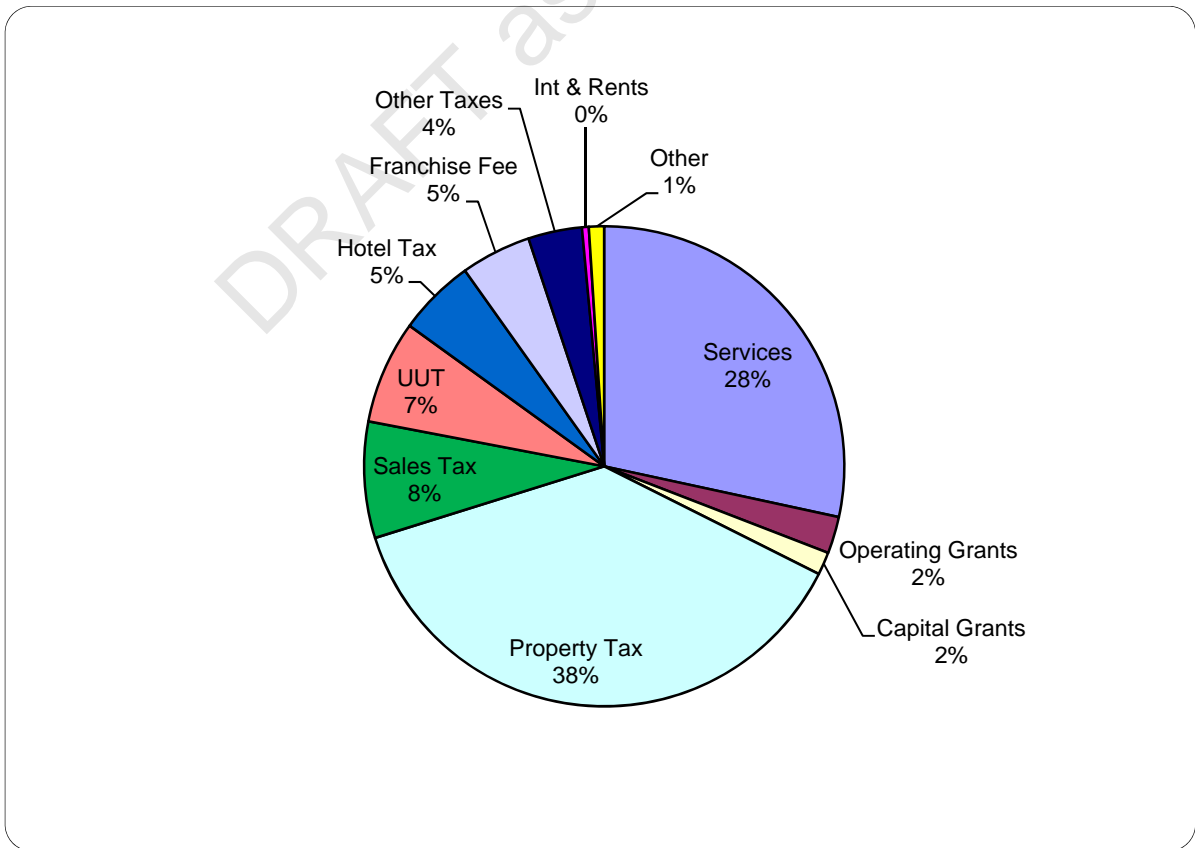
**City of Los Altos Changes in Net Assets  
Fiscal Year Ending June 30, 2013**

	Government 2013	Government 2012	Business 2013	Business 2012
<b>Revenues</b>				
<b>Program Revenue</b>				
Charges for Services	\$ 10,620,376	\$ 6,368,897	\$ 5,999,417	\$ 5,324,514
Operating Grants and Contributions	925,841	998,202	-	-
Capital Grants and Contributions	572,305	4,372,871	-	-
<b>General Revenue</b>				
Property Tax	14,130,040	13,301,950	-	-
Sales Tax	2,926,441	2,746,374	-	-
Utility User Tax	2,600,054	2,547,777	-	-
Other Taxes	3,301,726	2,868,347	-	-
Franchise Fees	1,769,516	1,731,193	-	-
Interest Income	173,514	114,781	9,844	37,259
Sale of Capital Assets	(7,767)	-	-	-
Miscellaneous	381,715	130,833	-	-
<b>Total Revenues</b>	<b>37,393,761</b>	<b>35,181,225</b>	<b>6,009,261</b>	<b>5,361,773</b>
<b>Expenses</b>				
Public Safety	15,143,885	14,797,058	-	-
Public Works	5,557,045	5,157,456	-	-
Recreation	2,107,080	2,193,281	-	-
Community Development	4,513,661	3,583,076	-	-
Admin/Community Services	5,675,984	4,034,260	-	-
Interest on Long-Term Debt	95,159	69,284	-	-
Sewer	-	-	4,529,242	4,386,069
Solid Waste	-	-	354,735	341,449
Storm Drain	-	-	231,910	212,653
<b>Total Expenses</b>	<b>33,092,814</b>	<b>29,834,415</b>	<b>5,115,887</b>	<b>4,940,171</b>
<b>Excess (Deficiency) before transfers</b>	<b>4,300,947</b>	<b>5,346,810</b>	<b>893,374</b>	<b>421,602</b>
<b>Transfers</b>	<b>(231,898)</b>	<b>(247,370)</b>	<b>231,898</b>	<b>247,370</b>
<b>Loss on Disposal of Assets</b>	<b>(544,576)</b>	<b>(544,576)</b>	<b>(544,576)</b>	<b>(544,576)</b>
<b>Change in Net Assets</b>	<b>4,069,049</b>	<b>4,554,864</b>	<b>1,125,272</b>	<b>668,972</b>
<b>Net Assets - Beginning of Year</b>	<b>83,321,291</b>	<b>82,516,290</b>	<b>13,490,983</b>	<b>12,822,011</b>
<b>Net Assets - End of Year</b>	<b>\$ 87,390,340</b>	<b>\$ 87,071,154</b>	<b>\$ 14,616,255</b>	<b>\$ 13,490,983</b>

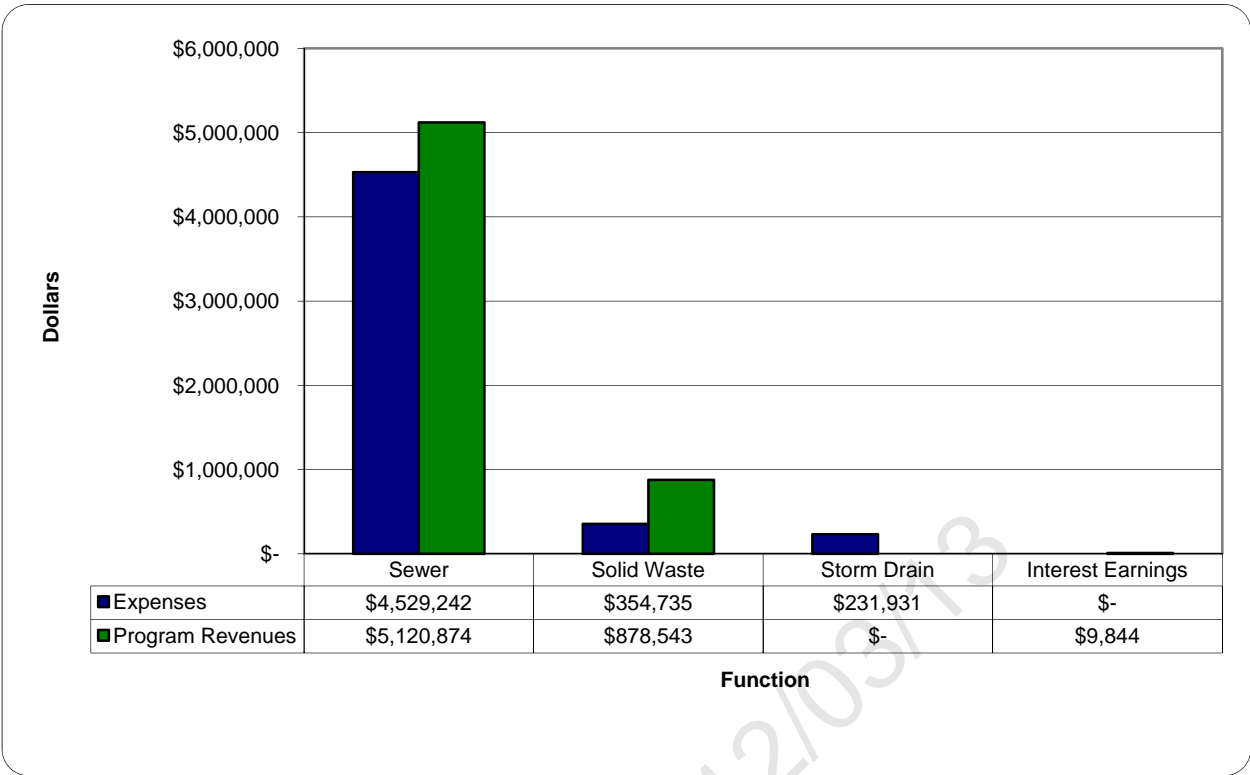
**Program Expenses and Revenues - Governmental Activities**



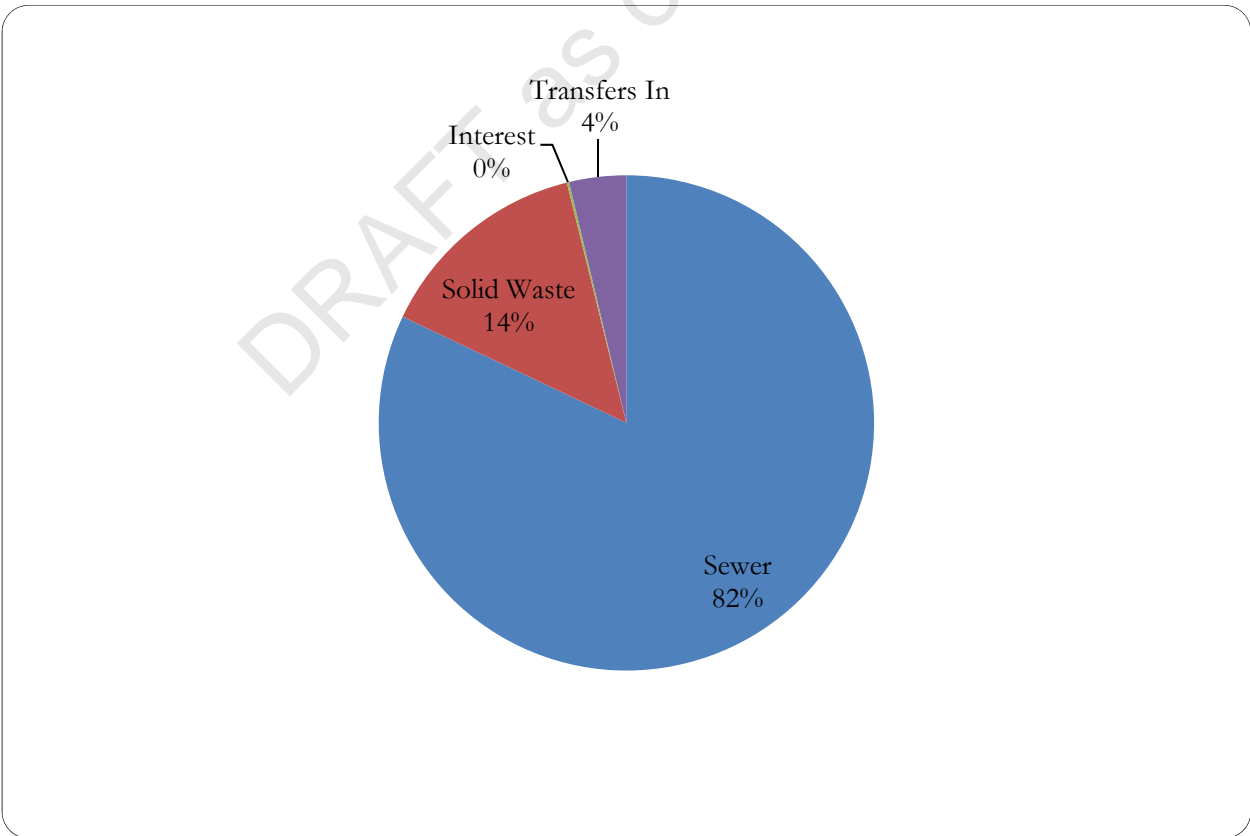
**Government Revenues - All Sources**



**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 14% of the total net assets. Net assets from business-type activities increased by \$1.1M, or 8%, with favorable operating results augmented by Storm Drain and internal service fund incoming transfers.

- 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 increased by 14%, partially offsetting the conservation utility usage trends noted last year and addressed in the recently updated Sewer Master Plan.
- Sewer expenditures rose consistent with revenue trends, increasing by 3%, or \$145,000. Net assets increased by \$600,000, quite an improvement from the prior year, ending the year with a total equity of \$12.6M.
- Revenue for solid waste collections increased by \$60,000 or 7% mostly as result of the annual increase in administrative fees. Expenditures remained relatively stable. Accordingly, net assets for the fund increased by \$530,000 leaving a total fund balance of \$2M. Recent cost allocation plan changes in the level of administrative fee support will moderately alter this income pattern going forward.
- The General Fund contributed to the Storm Drain Fund to augment annual expenses. For FY 2012/13 the transfer equaled \$230,000 to cover annual operational costs. As projected in budgetary estimates and the prior year financial reports, this fund has exhausted its reserves. 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, the City may need to consider Storm Drain and URPP as General Fund activities.

## FUND FINANCIAL ANALYSIS

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. Fund balances have been re-categorized and presented in compliance with GASB54.

The City's governmental funds reported a combined ending fund balance of \$39M, an increase of \$3.5M or nearly 10%. Of the total combined balance, 6% remains as unassigned and without commitment.

The City has taken the judicious path of defining and assigning established key fund balance reserves as called out in adopted financial policies and projected in fiscal forecasts – what some might call “rainy day funds.” These key reserves are as defined as follows:

<i>General Fund Contingency Reserves</i>	<i>June 30, 2013</i>
<i>Emergency Operating</i>	\$5,525,000
<i>Unreserved Fund Balance</i>	2,428,281
<b><i>Total General Fund Available Funds</i></b>	<b>\$7,953,281</b>

The emergency and operating reserves, components of the General Fund, are 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 strategies to have in place with the current financial climate.

The City has set aside \$500,000, an increase of \$100,000 over last year, 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 created in response to GASB 45.

Overall favorable operating results have led to a total General Fund balance of \$8.5M, after transfers, and an unassigned fund balance of \$2.4M. These amounts align closely with long-term budgetary forecast and the adopted biennial operating plan.

Beyond the General Fund, other funds also have key balances of importance in supporting the City’s fiscal plan. These are summarized as follows:

<i>Other Key Fund Balances</i>	<i>30-Jun-13</i>
<i>Ongoing Capital Projects</i>	\$3,046,926
<i>Capital Project Unreserved</i>	1,793,117
<i>Equipment Replacement</i>	3,670,288
<i>Real Property Proceeds</i>	7,414,894
<i>Community Facility Renewal</i>	7,165,592
<i>Park in Lieu Fees</i>	4,590,390
<b><i>Total</i></b>	<b>\$27,681,207</b>

It is notable this year that the in-lieu park funds, restricted as to parks, park land and recreation uses, have risen to the level of \$4.6 million as result of the significant private development activity in Los Altos. These, and the other dollars listed above, are anticipated to apply to future capital needs.

The Capital Projects Fund balance varies materially as progress occurs on approved projects and external funding becomes available. In FY 2012/13, general government capital project spending approximated \$4.3M, a significant level commensurate with the prior year. Beyond funding previously approved projects, the City remains challenged to address the long list of identified and unfunded projects for future consideration.

**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 remained at \$6M including approved capital projects. The Storm Drain Fund balance remains dependent on the General Fund while the Solid Waste Fund increased to \$2M. 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 FY 2012-13 the City paid approximately \$14,000 in sewer fees and \$320,000 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 \$59M (net of accumulated depreciation).

Investments in capital assets include land, buildings, improvements, machinery, streets, infrastructure and equipment. Governmental capital assets totaled \$52M and those of business-type activities totaled \$7M. Assets increased by \$2.3M overall with the completion of several significant projects. Additional information on capital assets can be found in footnote 4 of these financial statements as part of the summary listed below:

#### Capital Assets as of June 30, 2013

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2013 Total</i>	<i>2012 Total</i>
<i>Land</i>	\$11,539,449	0	\$11,539,449	\$11,539,449
<i>Work in Progress</i>	4,075,565	379,320	4,454,885	5,570,144
<i>Buildings</i>	13,582,770	6,155,892	19,738,662	18,688,502
<i>Improvements</i>	3,594,511	0	3,594,511	3,733,354
<i>Machinery &amp; Equip</i>	1,055,114	238,207	1,293,321	1,515,876
<i>Infrastructure</i>	17,919,932	0	17,919,932	15,175,262
<i>Total Assets</i>	<b>\$51,767,341</b>	<b>\$6,773,419</b>	<b>\$58,540,760</b>	<b>\$56,222,587</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 \$1.8M and relates solely to the purchase of Rosita Park (formerly known as the Saint Williams site). No additional debt was incurred and the City has no significant capital leases.

Other debt consists of long-term employee compensated absence obligations of \$1.5M, for general and business activities, a factor of accumulated balances at year-end.

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, 2013

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2013 Total</i>	<i>2012 Total</i>
<i>Certificate of Participation</i>	\$1,760,000	\$0	\$1,760,000	\$1,855,000
<i>Compensated Absences</i>	1,554,510	46,528	1,601,039	1,474,891
<b>Total</b>	<b>\$3,289,236</b>	<b>\$40,655</b>	<b>\$3,329,891</b>	<b>\$3,568,321</b>

The City also carries a year-end net Post-Retirement Health obligation (OPEB) of \$994,000. This obligation increased in line with annual actuarial valuations and is a factor of benefit levels and population metrics.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The FY 2012/13 General Fund budget, adopted as part of the biennial plan, equaled \$29.4M and changed modestly by \$1.4 million to \$30.9M during the year. The bulk of this change reflects the approved CalPERS pension side-fund pay-down of \$950,000. Prior year encumbrances account for most of the other final adjustments, leaving changes during the fiscal year of less than 2%. Budget to actual results came in favorably with revenues exceeding estimates by 8% and expenditures coming in at 6% below established limits.

### ECONOMIC FACTORS AND FY 2013/15 BIENNIAL BUDGET AND RATES

General Fund revenue is forecast to increase by 2% per the FY 2012/13 budget while expenditures are being held to a similar level. No significant changes were made as the budget presents a continuity of a balanced equation. The deferral of personnel positions was expanded primarily given concerns over increasing pension rates, but also the funding of aging city facilities and the fiscal impact of published and pending master plans.

The biennial 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 budget also integrates a comprehensive five-year Capital Improvement Program and strategic forecasts. Key budget highlights are noted below:

- Revenues are expected to increase moderately pending current year results and the City projects meeting its operational goal of a 20% reserve as endorsed in 2008/09 by the City Council. OPEB reserves as required will be added to as well as transfers proposed from the General Fund to fund Capital Projects and Equipment Replacements. In the prior year, the City blended its Emergency Operating and State Budget Stabilization Reserves realizing a contingency reserve level of over \$6M.
- The budget projects an increase of 4.5% in property tax receipts, noting a break in recent sluggishness. This projection includes 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 nearly half of all governmental funds revenue.
- Other key taxes are estimated to experience moderate increases in the 3% range. Utilizing the most recent data and regional and national trends, sales tax revenue is projected to be relatively flat while hotel occupancy tax again displays recovery with an 11% increase. Other taxes including real estate transfers, motor vehicle license fees and business license all display modest growth.

- Planning and building activity has shown significant development strength. Anticipating a drop off in one-time development activity has influenced a 7% projected decline in this revenue base. These projections still anticipate strength in local activity.
- No new positions were added with the number of authorized positions remaining unchanged at 130.
- The two-year budget honors existing multi-year labor contracts. Salaries for filled authorized positions remain within budget projections.
- General operational costs were held relatively flat growing to 3% at the end of year two. Paced materials, service and equipment expenditures, the enhanced presence of pension reform, prudent salary levels and the deferral of 12 positions continue to factor into such patterns and projections.
- Overall, PERS pension rates increased but were mitigated by the pay-down of the City's side-fund liability expected to be fully paid down in FY 2013/14. Rates for public safety and miscellaneous employees increased moderately from prior year levels but, as recent changes in legislation and forecasts strongly suggest, are expected to materially increase in the short term given method and assumption changes underway. Health insurance rates are assumed to increase by at least 7.5%.
- In the prior year, the City successfully implemented a second-tier pension model that lowers the level of benefit for new hires. This change is anticipated to render material savings as the years evolve. The State of California also mandated pension reform effective 2013 that imposed yet another third and lower benefit plan for new prospective enrollees.
- The budget further significantly augments the funding of OPEB through the establishment of an internal assigned reserve projected to be \$850,000 by the end of FY 2014/15.

For a more current discussion of the state of the economy beyond those assumptions made in the FY 2013/15 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 Los Altos 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, 1 North San Antonio Road, Los Altos, CA 94022.





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**CITY OF LOS ALTOS, CALIFORNIA**

**STATEMENT OF NET POSITION**

June 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 46,178,264	\$ 7,923,384	\$ 54,101,648
Account receivables	1,099,304	353,919	1,453,223
Interest receivable	59,720	-	59,720
Prepaid items and inventory	36,727	-	36,727
Total current assets	<u>47,374,015</u>	<u>8,277,303</u>	<u>55,651,318</u>
Noncurrent assets:			
Restricted cash and investments	171,996	-	171,996
Deferred charges	60,283	-	60,283
Capital assets:			
Nondepreciable assets	15,615,003	379,320	15,994,323
Depreciable assets, net	36,152,327	6,394,099	42,546,426
Total assets	<u>99,373,624</u>	<u>15,050,722</u>	<u>114,424,346</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	3,712,344	339,133	4,051,477
Interest payable	11,994	-	11,994
Accrued liabilities	518,757	25,114	543,871
Other payable	133,734	-	133,734
Compensated absences payable - current portion	393,752	11,632	405,384
Claims and judgments payable - current portion	669,896	-	669,896
Long-term debt - current portion	95,000	-	95,000
Total current liabilities	<u>5,535,477</u>	<u>375,879</u>	<u>5,911,356</u>
Noncurrent liabilities:			
Compensated absences payable	1,181,256	34,896	1,216,152
OPEB liability	993,943	23,692	1,017,635
Claims and judgments payable	2,607,608	-	2,607,608
Long-term debt	1,665,000	-	1,665,000
Total noncurrent liabilities	<u>6,447,807</u>	<u>58,588</u>	<u>6,506,395</u>
Total liabilities	<u>11,983,284</u>	<u>434,467</u>	<u>12,417,751</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	<u>50,102,330</u>	<u>6,773,419</u>	<u>56,875,749</u>
Restricted for:			
Debt service	363,593	-	363,593
Special revenue programs	5,840,616	-	5,840,616
Other purpose and projects	1,201,452	-	1,201,452
Total restricted	<u>7,405,661</u>	<u>-</u>	<u>7,405,661</u>
Unrestricted	<u>29,882,349</u>	<u>7,842,836</u>	<u>37,725,185</u>
Total net position	<u>\$ 87,390,340</u>	<u>\$ 14,616,255</u>	<u>\$ 102,006,595</u>

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

**CITY OF LOS ALTOS, CALIFORNIA**

**STATEMENT OF ACTIVITIES**

Fiscal year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Primary government:					
Governmental activities:					
Public safety	\$ 15,143,885	\$ 344,030	\$ 109,514	\$ -	\$ 453,544
Public works	5,557,045	33,596	698,730	492,821	1,225,147
Recreation	2,107,080	1,864,694	-	-	1,864,694
Community development	4,513,661	7,430,708	59,201	-	7,489,909
Admin/community services	5,675,984	947,348	58,396	79,484	1,085,228
Interest on long-term debt	95,159	-	-	-	-
Total governmental activities	<u>33,092,814</u>	<u>10,620,376</u>	<u>925,841</u>	<u>572,305</u>	<u>12,118,522</u>
Business-type activities:					
Sewer	4,529,242	5,120,874	-	-	5,120,874
Solid waste	354,735	878,543	-	-	878,543
Storm drain	231,910	-	-	-	-
Total business-type activities	<u>5,115,887</u>	<u>5,999,417</u>	<u>-</u>	<u>-</u>	<u>5,999,417</u>
Total primary government	<u>\$ 38,208,701</u>	<u>\$ 16,619,793</u>	<u>\$ 925,841</u>	<u>\$ 572,305</u>	<u>\$ 18,117,939</u>

General revenues and transfers:

  Taxes:

    Property

    Sales and use

    Utility users

    Other taxes

    Franchise fees

      Total taxes

  Interest income

  Miscellaneous

  Loss on disposal of assets

  Transfers

    Total general revenues and transfers

  Change in net position

  Net position at beginning of year, as restated (Note 5)

  Net position at end of year

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

Net (Expenses) Revenues and  
Changes in Net Position

Governmental Activities	Business-type Activity	Total
\$ (14,690,341)	\$ -	\$ (14,690,341)
(4,331,898)	-	(4,331,898)
(242,386)	-	(242,386)
2,976,248	-	2,976,248
(4,590,756)	-	(4,590,756)
(95,159)	-	(95,159)
<u>(20,974,292)</u>	<u>-</u>	<u>(20,974,292)</u>
-	591,632	591,632
-	523,808	523,808
-	(231,910)	(231,910)
<u>-</u>	<u>883,530</u>	<u>883,530</u>
<u>(20,974,292)</u>	<u>883,530</u>	<u>(20,090,762)</u>
14,130,040	-	14,130,040
2,926,441	-	2,926,441
2,600,054	-	2,600,054
3,301,726	-	3,301,726
1,769,516	-	1,769,516
<u>24,727,777</u>	<u>-</u>	<u>24,727,777</u>
173,514	9,844	183,358
381,715	-	381,715
(7,767)	-	(7,767)
(231,898)	231,898	-
<u>25,043,341</u>	<u>241,742</u>	<u>25,285,083</u>
4,069,049	1,125,272	5,194,321
<u>83,321,291</u>	<u>13,490,983</u>	<u>96,812,274</u>
<u>\$ 87,390,340</u>	<u>\$ 14,616,255</u>	<u>\$ 102,006,595</u>

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



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**CITY OF LOS ALTOS, CALIFORNIA**  
**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**Major Governmental Funds**

The funds described below were determined to be major funds by the City in the FY 2011-12. Individual nonmajor 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 other 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.

***In-Lieu Park Land Fund***

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

***Community Facilities Renewal Fund***

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

***Nonmajor Governmental Funds***

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

**CITY OF LOS ALTOS, CALIFORNIA**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

June 30, 2013

	Major Funds			
	General Fund	Real Property Proceeds	Capital Projects	Equipment Replacement Fund
<b>ASSETS</b>				
Cash and investments	\$ 9,803,756	\$ 7,414,894	\$ 6,554,337	\$ 3,671,380
Restricted cash and investments	-	-	-	-
Receivables, net of allowance for uncollectibles:				
Accounts	1,014,476	-	33,775	-
Interest	59,720	-	-	-
Prepays	21,723	-	-	-
Inventory	15,004	-	-	-
<b>Total assets</b>	<b>\$ 10,914,679</b>	<b>\$ 7,414,894</b>	<b>\$ 6,588,112</b>	<b>\$ 3,671,380</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 1,760,179	\$ -	\$ 1,748,069	\$ 1,092
Accrued liabilities	518,757	-	-	-
Other payable	133,734	-	-	-
<b>Total liabilities</b>	<b>2,412,670</b>	<b>-</b>	<b>1,748,069</b>	<b>1,092</b>
Fund balances:				
Nonspendable	48,728	-	-	-
Restricted	-	-	-	-
Committed	-	-	3,046,926	583,434
Assigned	6,025,000	7,414,894	1,793,117	3,086,854
Unassigned	2,428,281	-	-	-
<b>Total fund balances</b>	<b>8,502,009</b>	<b>7,414,894</b>	<b>4,840,043</b>	<b>3,670,288</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,914,679</b>	<b>\$ 7,414,894</b>	<b>\$ 6,588,112</b>	<b>\$ 3,671,380</b>

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



Major Funds			
In-Lieu Park Land Fund	Community Facilities Renewal Fund	Nonmajor Governmental Funds	Total
\$ 4,590,390	\$ 7,165,592	\$ 2,706,170	\$ 41,906,519
-	-	171,996	171,996
-	-	50,000	1,098,251
-	-	-	59,720
-	-	-	21,723
-	-	-	15,004
<u>\$ 4,590,390</u>	<u>\$ 7,165,592</u>	<u>\$ 2,928,166</u>	<u>\$ 43,273,213</u>
\$ -	\$ -	\$ 112,892	\$ 3,622,232
-	-	-	518,757
-	-	-	133,734
<u>-</u>	<u>-</u>	<u>112,892</u>	<u>4,274,723</u>
-	-	-	48,728
4,590,390	-	2,815,274	7,405,664
-	-	-	3,630,360
-	7,165,592	-	25,485,457
-	-	-	2,428,281
<u>4,590,390</u>	<u>7,165,592</u>	<u>2,815,274</u>	<u>38,998,490</u>
<u>\$ 4,590,390</u>	<u>\$ 7,165,592</u>	<u>\$ 2,928,166</u>	<u>\$ 43,273,213</u>

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



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DRAFT as of 7/25/13

# CITY OF LOS ALTOS, CALIFORNIA

## GOVERNMENTAL FUNDS

### RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2013

Fund balances of governmental funds \$ 38,998,490

Amounts reported for governmental activities in the statement of net position are different 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 51,767,330

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.

(11,994)

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.

60,283

Long-term liabilities are not due and payable in the current period. Therefore, they were not report in the governmental funds balance sheet.

Long-term liabilities - current portion (95,000)

Long-term liabilities - noncurrent portion (1,665,000)

OPEB liability (993,943)

Compensated absences - current portion (393,752)

Compensated absences - noncurrent portion (1,181,256)

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 position.

905,182

Net position of governmental activities \$ 87,390,340

**CITY OF LOS ALTOS, CALIFORNIA**

**GOVERNMENTAL FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

Fiscal year ended June 30, 2013

	Major Funds			
	General	Real	Capital	Equipment
	Fund	Property Proceeds	Projects	Replacement Fund
<b>Revenues:</b>				
Taxes	\$ 19,444,398	\$ -	\$ -	\$ -
License, permits and fees	3,311,730	-	-	-
Intergovernmental	3,528,966	-	182,345	-
Grants and donations	61,910	-	625,598	-
Charges for services	4,480,278	-	-	-
Fines and forfeitures	153,415	-	-	-
Interest and rentals	104,226	11,601	-	-
Other	190,111	-	-	-
<b>Total revenues</b>	<b>31,275,034</b>	<b>11,601</b>	<b>807,943</b>	<b>-</b>
<b>Expenditures:</b>				
General government				
Public safety	14,194,042	-	297,222	200,287
Public works	4,364,633	-	466,523	-
Recreation	2,101,716	-	298	-
Community development	4,148,114	-	342,939	-
Admin/community services	3,370,919	-	118,655	-
Capital improvements	-	-	2,916,030	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>28,179,424</b>	<b>-</b>	<b>4,141,667</b>	<b>200,287</b>
Excess (deficiency) of revenues over (under) expenditures	3,095,610	11,601	(3,333,724)	(200,287)
<b>Other financing sources (uses):</b>				
Transfers in	282,395	-	1,795,716	100,000
Transfers out	(1,410,898)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(1,128,503)</b>	<b>-</b>	<b>1,795,716</b>	<b>100,000</b>
<b>Special item:</b>				
Proceeds from sale of assets	-	492,427	-	-
PERS side fund prepayment	(950,000)	-	-	-
<b>Total special items</b>	<b>(950,000)</b>	<b>492,427</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>1,017,107</b>	<b>504,028</b>	<b>(1,538,008)</b>	<b>(100,287)</b>
<b>Fund balances at beginning of year</b>	<b>7,484,902</b>	<b>6,910,866</b>	<b>6,378,051</b>	<b>3,770,575</b>
<b>Fund balances at end of year</b>	<b>\$ 8,502,009</b>	<b>\$ 7,414,894</b>	<b>\$ 4,840,043</b>	<b>\$ 3,670,288</b>

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

Major Funds			
In-Lieu Park Land Fund	Community Facilities Renewal Fund	Nonmajor Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 19,444,398
3,636,000	-	689,142	7,636,872
-	-	801,697	4,513,008
-	-	62,576	750,084
-	-	-	4,480,278
-	-	17,395	170,810
4,640	-	14,469	134,936
-	-	-	190,111
<u>3,640,640</u>	<u>-</u>	<u>1,585,279</u>	<u>37,320,497</u>
-	-	-	14,691,551
-	-	-	4,831,156
-	-	-	2,102,014
-	-	61,966	4,553,019
-	-	165,345	3,654,919
-	-	-	2,916,030
-	-	95,000	95,000
-	-	74,573	74,573
<u>-</u>	<u>-</u>	<u>396,884</u>	<u>32,918,262</u>
<u>3,640,640</u>	<u>-</u>	<u>1,188,395</u>	<u>4,402,235</u>
-	100,000	165,000	2,443,111
-	-	(1,514,112)	(2,925,010)
<u>-</u>	<u>100,000</u>	<u>(1,349,112)</u>	<u>(481,899)</u>
-	-	-	492,427
-	-	-	(950,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(457,573)</u>
3,640,640	100,000	(160,717)	3,462,763
949,750	7,065,592	2,975,991	35,535,727
<u>\$ 4,590,390</u>	<u>\$ 7,165,592</u>	<u>\$ 2,815,274</u>	<u>\$ 38,998,490</u>

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

# CITY OF LOS ALTOS, CALIFORNIA

## GOVERNMENTAL FUNDS

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Fiscal year ended June 30, 2013

Net change in fund balances of governmental funds \$ 3,462,763

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, 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. 3,135,584

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (1,639,143)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized over the life of the bond in the government-wide statements.

Principal payment 95,000  
Amortization of cost issuance (20,061)

The amounts below included in the Statement of Activities do not provide or require the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change)

Compensated absences (140,772)  
Interest payable (525)  
Other post employment healthcare benefits (200,489)  
Long-term receivable from the sale of the Los Altos Treatment Plant (400,000)

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. (223,308)

Changes in net position of governmental activities \$ 4,069,049

**CITY OF LOS ALTOS, CALIFORNIA**  
**GOVERNMENTAL FUNDS**  
**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.

DRAFT as of 12/03/13

**CITY OF LOS ALTOS, CALIFORNIA**

**PROPRIETARY FUNDS**

**STATEMENT OF NET POSITION**

June 30, 2013

	Major Enterprise Funds			Total	Internal Service Funds
	Sewer	Solid Waste	Storm Drain		
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 5,882,674	\$ 2,024,560	\$ 16,150	\$ 7,923,384	\$ 4,271,745
Accounts receivable	345,738	8,181	-	353,919	1,053
Total current assets	6,228,412	2,032,741	16,150	8,277,303	4,272,798
Noncurrent assets:					
Capital assets:					
Nondepreciable	379,320	-	-	379,320	-
Depreciable	15,681,556	-	1,969,221	17,650,777	-
Less accumulated depreciation	(9,287,457)	-	(1,969,221)	(11,256,678)	-
Total capital assets, net	6,773,419	-	-	6,773,419	-
Total non-current assets	6,773,419	-	-	6,773,419	-
Total assets	13,001,831	2,032,741	16,150	15,050,722	4,272,798
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	315,823	23,310	-	339,133	90,112
Accrued liabilities	10,707	900	13,507	25,114	-
Compensated absences - current portion	11,632	-	-	11,632	-
Claims and judgements - current portion	-	-	-	-	669,896
Total current liabilities	338,162	24,210	13,507	375,879	760,008
Noncurrent liabilities:					
Compensated absences - noncurrent portion	34,896	-	-	34,896	-
OPEB liabilities	19,420	1,594	2,678	23,692	-
Claims and judgments - noncurrent portion	-	-	-	-	2,607,608
Total noncurrent liabilities	54,316	1,594	2,678	58,588	2,607,608
Total liabilities	392,478	25,804	16,185	434,467	3,367,616
<b>NET POSITION (DEFICIT)</b>					
Invested in capital assets, net of related debt	6,773,419	-	-	6,773,419	-
Unrestricted (deficit)	5,835,934	2,006,937	(35)	7,842,836	905,182
Total net position (deficit)	\$ 12,609,353	\$ 2,006,937	\$ (35)	\$ 14,616,255	\$ 905,182

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



**CITY OF LOS ALTOS, CALIFORNIA**

**PROPRIETARY FUNDS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (DEFICIT)**

Fiscal year ended June 30, 2013

	Major Enterprise Funds			Total	Internal Service Funds
	Sewer	Solid Waste	Storm Drain		
Operating revenues:					
Charges for services	\$ 5,120,874	\$ 878,543	\$ -	\$ 5,999,417	\$ 1,315,568
Total operating revenues	5,120,874	878,543	-	5,999,417	1,315,568
Operating expenses:					
Outside services	2,870,862	274,797	77,934	3,223,593	110,156
Employee services	718,242	76,861	153,976	949,079	-
Repairs and maintenance	715,258	3,077	-	718,335	-
Claims reimbursement	-	-	-	-	1,175,249
Insurance	-	-	-	-	491,090
Administration	-	-	-	-	12,381
Depreciation	224,880	-	-	224,880	-
Total operating expenses	4,529,242	354,735	231,910	5,115,887	1,788,876
Total operating income	591,632	523,808	(231,910)	883,530	(473,308)
Nonoperating revenues:					
Interest	6,118	3,726	-	9,844	-
Total nonoperating revenues	6,118	3,726	-	9,844	-
Income (loss) before transfers	597,750	527,534	(231,910)	893,374	(473,308)
Transfers:					
Transfers in	-	-	231,898	231,898	250,000
Total transfers	-	-	231,898	231,898	250,000
Change in net position	597,750	527,534	(12)	1,125,272	(223,308)
Net position (deficit) at beginning of year	12,011,603	1,479,403	(23)	13,490,983	1,128,490
Net position (deficit) at end of year	\$ 12,609,353	\$ 2,006,937	\$ (35)	\$ 14,616,255	\$ 905,182

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

**CITY OF LOS ALTOS, CALIFORNIA**

**PROPRIETARY FUNDS**

**STATEMENT OF CASH FLOWS**

Fiscal year ended June 30, 2013

	Major Enterprise Funds			Total	Internal Service Funds
	Sewer	Solid Waste	Storm Drain		
Cash flows from operating activities:					
Cash received from customers	\$ 5,299,063	\$ 874,528	\$ -	\$ 6,173,591	\$ -
Cash received from other funds	-	-	-	-	1,320,656
Cash payments to suppliers for goods and services	(3,721,743)	(262,415)	(77,934)	(4,062,092)	-
Cash payments to employees for services	(710,430)	(76,651)	(142,199)	(929,280)	-
Cash payments to claimants	-	-	-	-	(1,172,263)
Insurance premiums and settlements	-	-	-	-	98,190
Net cash provided by (used for) operating activities	866,890	535,462	(220,133)	1,182,219	246,583
Cash flows from noncapital financing activities:					
Transfers in	-	-	231,898	231,898	250,000
Net cash provided by noncapital financing activities	-	-	231,898	231,898	250,000
Cash flows from capital and related financing activities:					
Capital asset additions	(1,046,602)	-	-	(1,046,602)	-
Net cash provided by (used for) capital and related financing activities	(1,046,602)	-	231,898	(814,704)	250,000
Cash flows from investing activities:					
Interest	6,119	3,726	-	9,845	-
Net cash provided by investing activities	6,119	3,726	-	9,845	-
Net increase (decrease) in cash and cash equivalents	(173,593)	539,188	11,765	377,360	496,583
Cash and cash equivalents at beginning of year	6,056,267	1,485,372	4,385	7,546,024	3,775,162
Cash and cash equivalents at end of year	<u>\$ 5,882,674</u>	<u>\$ 2,024,560</u>	<u>\$ 16,150</u>	<u>\$ 7,923,384</u>	<u>\$ 4,271,745</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 591,632	\$ 523,808	\$ (231,910)	\$ 883,530	\$ (473,308)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	224,880	-	-	224,880	-
Changes in assets and liabilities:					
Accounts receivable	178,187	(4,015)	-	174,172	5,088
Accounts payable	(135,622)	15,459	-	(120,163)	76,043
Accrued liabilities	1,940	210	11,777	13,927	-
Compensate absences	5,873	-	-	5,873	-
OPEB liabilities	-	-	-	-	-
Claims and judgments	-	-	-	-	638,760
Net cash provided by (used for) operating activities	<u>\$ 866,890</u>	<u>\$ 535,462</u>	<u>\$ (220,133)</u>	<u>\$ 1,182,219</u>	<u>\$ 246,583</u>

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

**CITY OF LOS ALTOS, CALIFORNIA**  
**FIDUCIARY FUND FINANCIAL STATEMENT**

**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.

DRAFT as of 12/03/13

**CITY OF LOS ALTOS, CALIFORNIA**

**FIDUCIARY FUNDS**

**STATEMENT OF ASSETS AND LIABILITIES**

June 30, 2013

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 1,967,699
Accounts receivable	418
	<u>                    </u>
Total assets	<u>\$ 1,968,117</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 212,400
Due to others	1,755,717
	<u>                    </u>
Total liabilities	<u>\$ 1,968,117</u>

DRAFT as of 12/03/13

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

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**1. Summary of Significant Accounting Policies**

The basic financial statements of the City of Los Altos, California (the 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) 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, public works, capital improvements, and general supporting administrative services. 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 within 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 such provisions and managerial requirements.

**Government-wide and Fund Financial Statements**

The City's Government-wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. 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 Position. The Statement of Activities and Changes in Net Position presents changes in the net position of the City. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability for goods or services is incurred.

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

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

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

---

**1. Significant Accounting Policies, continued**

***b) Basis of Presentation, Measurement Focus and Basis of Accounting, continued***

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 Position 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 Position 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 in the aggregate. An accompanying schedule is included to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-Wide financial statements.

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 City’s primary revenue sources, which have been treated as susceptible to accrual by the City, are: property tax, sales tax, hotel 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 and are accrued accordingly.

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.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

---

**1. Significant Accounting Policies, continued**

***b) Basis of Presentation, Measurement Focus and Basis of Accounting, continued***

**Governmental Fund Financial Statements, continued**

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 Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows for all proprietary funds.

A column representing the City's internal service funds, those funds that support agency wide shared service costs, is also presented in these statements. These internal service balances and activities are 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 Position. The Statement of Revenues, Expenses and Change in Fund Net Position 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 Position. 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.

**Internal Service Funds**

Internal Service Funds account for services provided to other departments pertaining to the employee self-insurance dental program, unemployment insurance, workers' compensation insurance and liability insurance, all of which are funded on a cost reimbursement basis as budget projections and valuations develop.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**1. Significant Accounting Policies, continued**

***b) Basis of Presentation, Measurement Focus and Basis of Accounting, continued***

**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, public works, and community development and recreation activities.

*Real Property Proceeds Fund* - accounts for the proceeds from the sale of real property.

*Capital Project Fund* - accounts for the acquisition and construction of major general government 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 administration and support of contracted solid waste services, a self-supporting user-charge for service activity.

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

***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.



**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

---

**1. Significant Accounting Policies, continued**

***e) Cash, Cash Equivalents and Investments***

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

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

The City participates in an investment pool managed by the State of California 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.

The City places liquid assets in a co-managed investment account with the goal of enhancing the diversity of its investment holdings. This portfolio complies with state code investment requirements and is subject to a more restrictive City adopted investment policy. 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, mainly consisting vehicle fuel and paper supplies, 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 and charged to departments as 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 and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**1. Significant Accounting Policies, continued**

***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. The General Fund is typically used to pay out compensated absences that arise in the course of any one year. Unpaid and accumulated liabilities for some compensated absences accrue to future resources. In Proprietary Funds, compensated absences are expensed to the various funds in the period they are earned, and such fund's share of the unpaid liability is recorded as a long-term liability of the fund.

***i) Property Taxes***

Santa Clara County (County) assesses all properties in the City, and it bills, collects and distributes property taxes to the City. Both secured and unsecured property taxes are levied on January 1. The 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, and 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 capital 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 for equipment, \$25,000 for Building and Facility Improvements and \$100,000 for Infrastructure.

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, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**1. 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 Position.

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.

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 Position.

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.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**1. Significant Accounting Policies, continued**

*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.

*n) 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.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**2. Cash, Cash Equivalents, and Investments**

**a) Cash Deposits**

The City's cash and investments at June 30, 2013 are presented as follows:

Cash and investments	\$ 54,101,651
Cash and investments held by bond trustee	171,996
Fiduciary funds:	
Cash and investments	<u>1,967,700</u>
Total cash and investments	<u><u>\$ 56,241,347</u></u>

Cash and investments consist of the following as of June 30, 2013:

Cash on hand	\$ 2,170
Deposits with financial institutions	1,946,640
Investments:	
Bond trust investments	261,778
Liquid investments	32,866,612
Managed investments	<u>21,164,185</u>
Total cash and investments	<u><u>\$ 56,241,385</u></u>

**b) Investments**

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in 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%
Bankers' Acceptances	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, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**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.

Investments held in City Treasury grouped by maturity date at June 30, 2013, are shown below:

Investment Type	Remaining Maturity (in Years)			Total
	1 Year or Less	2 Years	3 Years	
Money Market	\$ 358,573	\$ -	\$ -	\$ 358,573
Securities of U.S. Government				
Treasury and agencies:				
Federal Home Loan Bank Bonds (FHLB)	-	-	1,186,512	1,186,512
Federal Home Loan Mrtg. Corp. Notes (FHLMC)	-	-	2,484,250	2,484,250
Federal National Mortg. Assn. Notes (FNMA)	-	-	4,440,106	4,440,106
Federal Farm Credit Bank (FFCB)	-	1,003,710	2,836,245	3,839,955
U.S. Securities	2,003,750	3,362,855	2,044,145	7,410,750
U.S. Corporate Notes	-	-	1,444,039	1,444,039
Local Agency Investment Funds (LAIF)	32,866,612	-	-	32,866,612
Trust Bond Funds	261,778	-	-	261,778
<b>Total investments</b>	<b>\$ 35,490,713</b>	<b>\$ 4,366,565</b>	<b>\$ 14,435,297</b>	<b>54,292,575</b>
Demand Deposits and Cash on Hand				1,948,810
<b>Total cash and investments</b>				<b>\$ 56,241,385</b>

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**2. Cash, Cash Equivalents, and Investments, continued**

*c) Risk Disclosures, continued*

**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, 2013, the City's deposit and investments were rated as follows:

Investment Type	Credit Quality Ratings		Market Value
	Moody's	S&P	
Cash on hand	Not Rated	Not Rated	\$ 2,170
US Bank General Checking	Not Rated	Not Rated	1,946,640
Money Market	Aaa	AA+	358,573
Securities of U.S. Government Agencies:			
Federal Home Loan Bank Bonds (FHLB)	Aaa	AA+	1,186,511
Federal Home Loan Mrtg. Corp. Notes (FHLMC)	Aaa	AA+	2,484,250
Federal National Mortg. Assn. Notes (FNMA)	Aaa	AA+	4,440,106
Federal Farm Credit Bank (FCCB)	Aaa	AA+	3,839,955
U.S. Securities	Aaa	AA+	7,410,750
Corporate Notes:			
General Electric Corp	Aa3	AA+	649,385
WalMart Stores, Inc.	Aa2	AA	794,655
Trust Bond Funds - Held by City	Not Rated	Not Rated	211,778
Trust Bond Funds - Held by Trustee	Not Rated	Not Rated	50,000
Local Agency Investment Funds (LAIF)	Not Rated	Not Rated	32,866,612
Total investments			<u>\$ 56,241,385</u>

**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, 2013, the City's bank balance was \$2,515,563 and the corresponding carrying book balance was \$2,158,418. Of the bank balance, \$250,000 was covered by federal depository insurance and \$2,265,563 was collateralized.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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2. **Cash, Cash Equivalents, and Investments**, continued

*c) Risk Disclosures, continued*

**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, 2013, the City held \$32,866,612 in LAIF, which had invested 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities, as compared to 2.75% in the previous year. The LAIF fair value factor of 1.000273207 was used to calculate the fair value of the investments in LAIF.

DRAFT as of 12/10/13



**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**3. Interfund Transactions**

***Transfers***

Transfers between funds during the fiscal year ended June 30, 2013 were as follows:

Transfer From	Transfer To	Amount
General Fund	Capital project	\$ 564,000 (a)
	Equipment replacement	100,000 (b)
	Community Facility Fund	100,000 (h)
	Storm Drain	231,898 (d)
	Workers Compensation Fund	250,000 (c)
	Debt Service Funds	165,000 (c)
		<u>1,410,898</u>
Nonmajor Governmental Funds	General Fund	282,395 (e) (f)
	Capital projects	1,231,717 (a)
		<u>1,514,112</u>
		<u>\$ 2,925,010</u>

Interfund transfers were principally used for the following purposes:

- (a) Fund capital projects
- (b) Replace public safety and public works vehicles
- (c) Maintain minimum fund balance in debt service and Workers Comp. funds
- (d) Support the operations of the storm drain fund
- (e) Public safety related funds paid to the General Fund
- (f) Gas tax to support street projects
- (g) Transfer capital assets
- (h) Support facility replacements

Transfers are used to move unrestricted general fund revenues to finance various programs accounted for in other funds based on budgetary authorizations. 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. Additionally, Transfers are made to and from the Capital Improvement Program fund in line with approved and appropriated project dollar sources.

A substantial volume of capital projects were expended and/or completed.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**4. Capital Assets**

**a) Government-wide Financial Statements**

At June 30, 2013, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable assets:			
Construction in progress	\$ 4,075,553	\$ 379,320	\$ 4,454,873
Land	11,539,449	-	11,539,449
Total nondepreciable assets	<u>15,615,002</u>	<u>379,320</u>	<u>15,994,322</u>
Depreciable assets:			
Buildings	21,637,868	14,862,078	36,499,946
Improvements	5,079,055	-	5,079,055
Machinery and equipment	4,231,706	819,477	5,051,183
Infrastructure	25,495,035	1,969,221	27,464,256
Total depreciable assets	<u>56,443,663</u>	<u>17,650,776</u>	<u>74,094,439</u>
Less accumulated depreciation	<u>(20,291,336)</u>	<u>(11,256,677)</u>	<u>(31,548,013)</u>
Total depreciable assets, net	<u>36,152,327</u>	<u>6,394,099</u>	<u>42,546,426</u>
Total capital assets	<u>\$ 51,767,329</u>	<u>\$ 6,773,419</u>	<u>\$ 58,540,748</u>

The following is a summary of capital assets for governmental activities for the year ended June 30, 2013:

	Balances at July 1, 2012	Additions	Deletions	Transfers	Balances at June 30, 2013
<b>Governmental activities:</b>					
Nondepreciable assets:					
Construction in progress	\$ 4,522,348	\$ 2,593,391	\$ -	\$ (3,040,186)	\$ 4,075,553
Land	11,539,449	-	-	-	11,539,449
Total nondepreciable assets	<u>16,061,797</u>	<u>2,593,391</u>	<u>-</u>	<u>(3,040,186)</u>	<u>15,615,002</u>
Depreciable assets:					
Buildings	21,637,868	-	-	-	21,637,868
Improvements	5,079,055	-	-	-	5,079,055
Machinery and equipment	4,183,173	189,309	(140,776)	-	4,231,706
Infrastructure	22,082,803	372,046	-	3,040,186	25,495,035
Total depreciable assets	<u>52,982,899</u>	<u>561,355</u>	<u>(140,776)</u>	<u>3,040,186</u>	<u>56,443,664</u>
Less accumulated depreciation:					
Buildings	(7,600,599)	(454,499)	-	-	(8,055,098)
Improvements	(1,345,701)	(138,843)	-	-	(1,484,544)
Machinery and equipment	(2,919,966)	(378,240)	121,614	-	(3,176,592)
Infrastructure	(6,907,541)	(667,562)	-	-	(7,575,103)
Total accumulated depreciation	<u>(18,773,807)</u>	<u>(1,639,144)</u>	<u>121,614</u>	<u>-</u>	<u>(20,291,337)</u>
Net depreciable assets	<u>34,209,092</u>	<u>(1,077,789)</u>	<u>(19,162)</u>	<u>3,040,186</u>	<u>36,152,327</u>
Capital assets, net	<u>\$ 50,270,889</u>	<u>\$ 1,515,602</u>	<u>\$ (19,162)</u>	<u>\$ -</u>	<u>\$ 51,767,329</u>

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**4. Capital Assets, continued**

**a) Government-wide Financial Statements, continued**

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2013 are as follows:

Public safety	\$ 239,233
Public works	783,466
Community/cultural services	475,376
Community development	8,392
General government	132,677
Total depreciation expense	\$ 1,639,144

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

	Balances at July 1, 2012	Additions	Deletions	Transfers	Balances at June 30, 2013
<b>Business-type activities:</b>					
Nondepreciable assets:					
Construction in progress	\$ 1,047,796	\$ 252,059	\$ -	\$ (920,535)	\$ 379,320
Total nondepreciable assets	1,047,796	252,059	-	(920,535)	379,320
Depreciable assets:					
Buildings	13,183,486	758,059	-	920,535	14,862,080
Infrastructure	1,969,221	-	-	-	1,969,221
Machinery and equipment	782,992	36,483	-	-	819,475
Total depreciable assets	15,935,699	794,542	-	920,535	17,650,776
Less accumulated depreciation:					
Buildings	(8,532,253)	(173,931)	-	-	(8,706,184)
Infrastructure	(1,969,221)	-	-	-	(1,969,221)
Machinery and equipment	(530,323)	(50,948)	-	-	(581,271)
Total accumulated depreciation	(11,031,797)	(224,879)	-	-	(11,256,676)
Net depreciable assets	4,903,902	569,663	-	920,535	6,394,100
Capital assets, net	\$ 5,951,698	\$ 821,722	\$ -	\$ -	\$ 6,773,420

Depreciation expense for business-type activities for the year ended June 30, 2013 is as follows:

Sewer	\$ 224,879
Storm drain	-
Total depreciation expense	\$ 224,879

**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 Position.

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

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**5. Net Pension Asset**

In FY 2009-10, the City prepaid a major portion, \$3,005,795, of its unfunded CalPERS side fund liability. This prepayment is recorded on the Statement of Net Position as a Net Pension Asset. Additional payments have been made in subsequent periods and in FY 2012-13, the City prepaid an additional \$950,000 towards its goal of eliminating these existing liabilities and mitigating future pension costs. These pay-down payments are classified under the caption of “Special item” expenditures in the governmental statements of activity for each related year.

In the prior years, the City presented this prepayment as a “Net Pension Asset” on the Government-wide Statement of Net Position. A subsequent review of this treatment and interpretation of the associated standard has resulted in the reversal of this asset recognition and the prior period adjustment noted below. This adjustment impacts government-wide net position but no impact on operational governmental fund and/or cash balances.

Balance at July 1, 2012	\$ 87,071,154
Reclassification of Net Pension Asset	<u>3,749,863</u>
Balance at July 1, 2012, restated	<u><u>\$ 83,321,291</u></u>

In FY 2013-14, the City made a final prepayment of the remaining side fund liabilities, achieving full pay-off for both the safety and miscellaneous plans.

**6. Long-Term Obligations**

**a) Governmental Activities Long-Term Debt**

Summary of changes in governmental activities long-term debt for the year ended June 30, 2013 is as follows:

	Balances at July 1, 2012	Additions	Reductions	Balances at June 30, 2013	Due in 1 Year	Due in More Than 1 Year
Certificate of participation	\$ 1,855,000	\$ -	\$ (95,000)	\$ 1,760,000	\$ 95,000	\$ 1,665,000

**2004 Refunding Certificate of Participation**

On November 1, 1996, the City issued \$2,630,000 principal amount of Certificates of Participation (ABAG 38 COPs). The purpose of the ABAG 38 COPs was to finance the partial purchase of the 5.5 acre Saint William School site for public purposes and uses. During 2004 the City issued \$2,500,000 of 2004 Refunding Certificates of Participation to advance refund \$2,390,000 of outstanding principal on the ABAG 38 Certificates of Participation, set up reserve funds, and to pay related issuance costs. The entire ABAG 38 Certificates of Participation had been paid off by June 30, 2004. This advance refunding was undertaken to reduce total future debt service payments.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**6. Long-Term Obligations**

*a) Governmental Activities Long-Term Debt, continued*

**2004 Refunding Certificate of Participation, continued**

At June 30, 2013, future debt service requirements for the 2004 Refunding were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 95,000	\$ 69,956	\$ 164,956
2015	100,000	66,918	166,918
2016	105,000	63,568	168,568
2017	105,000	59,892	164,892
2018	110,000	56,060	166,060
2019 - 2023	635,000	210,755	845,755
2024 - 2028	610,000	66,512	676,512
Total	<u>\$ 1,760,000</u>	<u>\$ 593,661</u>	<u>\$ 2,353,661</u>

*b) Non-City Obligations*

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.

	<u>Balances at July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances at June 30, 2013</u>	<u>Due in 1 Year</u>	<u>Due in More Than 1 Year</u>
Raymundo Curb & Gutter	\$ 187,000	\$ -	\$ (17,000)	\$ 170,000	\$ 18,000	\$ 152,000
Avalon Curb & Gutter	34,000	-	(8,000)	26,000	8,000	18,000
Blue Oak Lane	610,000	-	(10,000)	600,000	10,000	590,000
Total	<u>\$ 831,000</u>	<u>\$ -</u>	<u>\$ (35,000)</u>	<u>\$ 796,000</u>	<u>\$ 36,000</u>	<u>\$ 760,000</u>

**Raymundo & Avalon Special Assessment Districts**

The Raymundo Curb & Gutter Assessment District Improvement Bond was issued on August 3, 2005 to provide financing for the street improvements in that District. The Avalon Drive Curb & Gutter Assessment District Improvement Bond was issued for a similar purpose in 2000. The bonds are payable from a special property tax levied to those residents living within the respective 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, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**7. Compensated Absences Payable**

The City's compensated absences at June 30, 2013, were as follows:

	Balances at July 1, 2012	Additions	Reductions	Balances at June 30, 2013	Due in 1 Year	Due in More Than 1 Year
Governmental	\$ 1,434,236	\$ 949,430	\$ (829,156)	\$ 1,554,510	\$ 388,628	\$ 1,165,882
Business-type activities	40,655	44,310	(38,438)	46,527	11,632	34,895
	<u>\$ 1,474,891</u>	<u>\$ 993,740</u>	<u>\$ (867,594)</u>	<u>\$ 1,601,037</u>	<u>\$ 400,260</u>	<u>\$ 1,200,777</u>

**8. Net Position/Fund Balances**

**a) Fund Balances**

In the fund financial statements, governmental funds report the following classifications: non-spendable, restricted, committed, assigned, and unassigned. The City Council, as the highest level of decision making authority for the City, can commit fund balances through the adoption of a formal action in accordance with the adoption of its annual Financial Policy. This policy authorizes the City Manager to assign fund balances and has set the budgetary level of control at the Fund and Capital Project level for the governing body and the department level for the City Manager and assignees.

**b) Stabilization Arrangement**

The City Council has established an Emergency and Operating (Emergency) Reserve goal level of 20% of annual operating expenditures has set funds aside accordingly through its annual budgetary actions. These funds would be available for use in such conditions to mitigate negative economic fiscal impacts or State takeaways and can be activated within any one budget cycle through Council action. An economic downturn would entail a projected and/or sudden drop in core revenues (major tax and service revenue loss) of equal to or greater than 5% (including the impact of inflation) and/or a change in economic parameters (such as interest rates, debt service rates, commodity prices, pension rates) that cause a material change in expenditures of 5% or more, or the occurrence of a local natural disaster or unexpected financial claim requiring the immediate use of cash balances of 5% or more, or the occurrence of a local natural disaster or unexpected financial claim requiring the immediate use of cash balances.

In FY 2012-13, in line with budget approval, the City reallocated the pre-established State Budget Stabilization reserve into the aforementioned Emergency reserve. This results in the establishment of one Reserve balance to assist in periods of economic recovery or extraordinary need. The City's FY 2013-14 fiscal plan projects the realization of its 20% reserve goal.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**8. Net Position/Fund Balances, continued**

***c) Classifications***

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.”

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2013, fund balances for government funds are made up of the following;

- *Non-spendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, long-term notes receivable and land.
- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be modified only by the City taking the same formal action that imposed the constraint originally.
- *Assigned Fund Balance* – comprised of amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the City Council or (b) a body (for example: a budget or finance committee) or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned Fund Balance* – conveys the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**8. Net Position/Fund Balances, continued**

**d) Policies**

*Order of Utilization*

The standard also requires governments to disclose the accounting policies that indicate the order in which restricted, committed, assigned and unassigned amounts are spent.

The City considers restricted amounts to have been spent first when expenditures are incurred and both restricted and unrestricted fund balances are available. Additionally, the City considers committed amounts to have been spent first, assigned amounts to have been spent second, and unassigned amounts to have been spent last when an expenditure is incurred for purposes of which committed, assigned, and unassigned fund balance is available.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

*Assignment and Commitment Authority*

The City Council has approved a financial policy authorizing the City Manager to assign fund balances to facilitate year-end reporting requirements. The City Council, as the highest level of decision making authority for the City, has the ability to commit fund balances through the adoption of a formal policy and/or action. The same action must be taken to modify or rescind the commitment.

**e) Fund Balances**

Fund balances for all the major and non-major governmental funds as of June 30, 2013 were distributed as follows:

	General	Real Property Proceeds	Capital Projects	Equipment Replacement	Community Facilities Renewal	Nonmajor Funds	Total
<b>Nonspendable:</b>							
Inventory and prepaids	\$ 36,728	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,728
Veteran memorial	12,000	-	-	-	-	-	12,000
Total nonspendable	<u>48,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,728</u>
<b>Restricted:</b>							
Debt service	-	-	-	-	-	363,593	363,593
Special revenue programs and projects	-	-	-	-	-	5,840,616	5,840,616
Continuing CIPS	-	-	-	-	-	1,201,452	1,201,452
Total restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,405,661</u>	<u>7,405,661</u>
<b>Committed:</b>							
State budget stabilization	-	-	-	-	-	-	-
Continuing CIP	-	-	3,046,926	583,434	-	-	3,630,360
Total committed	<u>-</u>	<u>-</u>	<u>3,046,926</u>	<u>583,434</u>	<u>-</u>	<u>-</u>	<u>3,630,360</u>
<b>Assigned:</b>							
Emergency and operating	5,525,000	-	-	-	-	-	5,525,000
OPEB	500,000	-	-	-	-	-	500,000
PERS Reserve	-	-	-	-	-	-	-
Capital projects	-	7,414,898	1,793,115	3,086,854	7,165,593	-	19,460,460
Total assignment	<u>6,025,000</u>	<u>7,414,898</u>	<u>1,793,115</u>	<u>3,086,854</u>	<u>7,165,593</u>	<u>-</u>	<u>25,485,460</u>
<b>Unassigned</b>							
	<u>2,428,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,428,282</u>
<b>Total</b>	<u><u>\$ 8,502,010</u></u>	<u><u>\$ 7,414,898</u></u>	<u><u>\$ 4,840,041</u></u>	<u><u>\$ 3,670,288</u></u>	<u><u>\$ 7,165,593</u></u>	<u><u>\$ 7,405,661</u></u>	<u><u>\$ 38,998,491</u></u>



**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**9. Risk Management**

**a) *Bay Cities Joint Powers Insurance Authority***

The City is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and floods for which the City is insured through Bay Cities Joint Powers Insurance Authority (Bay City).

The City has joined Bay City for general liability, property, errors and omissions, crimes and automobile physical damage coverage in the current year. Bay City is a public agency created in 1986 by and among various municipalities in Northern California to provide a pooled approach to liability insurance pursuant to the California Government Code. It is governed by a Board of Directors comprised of appointed officials from the member entities. The purpose of the pool is to provide various levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each member pays an actuarially determined premium based on a formula which takes into account the prior three years' loss experience, annual payroll, and population.

Bay City provides coverage for its Members in excess of the member's retained limit, or self-insured retention (SIR), up to \$1,000,000 per occurrence. Each Member retains the portion of every loss that falls within their SIR, ranging from \$5,000 to \$500,000. Bay City is also a member of the California Affiliated Risk Management Authorities (CARMA), a risk sharing joint powers authority. When losses exceed the \$1,000,000 per occurrence limit, CARMA provides coverage up to \$29,000,000.

The City self-insures the first \$100,000 of each liability loss. Once the City's deductible is met, Bay Cities becomes responsible for payment of all claims up to the upper limit. During the year ended June 30, 2013, the City contributed \$387,874 for current year coverage.

The City continues to carry excess insurance policy for Workers' Compensation claims through the CSAC Excess Insurance Authority JPA up to the statutory limits and does so using the services of a contracted third-party administrator. The City has a \$250,000 deductible as of June 30, 2013. During the year, the City contributed \$103,216 for current year coverage.

As of June 30, 2013, \$50,000 of revolving funds was held in trust on behalf of the City by the workers' compensation third-party claims administrator. \$55,000 is also being held by Bay Cities in the procurement of liability and claims coverage. The City will receive these funds upon termination of services subject to final withdrawal adjustments.

The Bay City financial statements may be obtained from Bay Cities Joint Powers Insurance Authority, Bickmore / 1750 Creekside Oaks Drive, Suite 200 / Sacramento, CA 95833. CSAC Excess Insurance Authority financial statements may be obtained from CSAC Excess Insurance Authority / 75 Iron Point Circle / Suite 200 / Folsom, CA 956300.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**9. Risk Management**, continued

**b) Liability for Uninsured Claims**

The GASB requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed in the section above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion, of these claims. GASB Statement No. 10, “Financial Reporting for Risk Financing and Related Insurance Issues,” requires that this amount be separately identified and recorded as a liability. Changes in the balances of claims liabilities during the past three years were as follows:

	June 30,		
	2013	2012	2011
Unpaid claims, beginning of year	\$ 2,638,744	\$ 2,407,519	\$ 2,107,901
Incurred claims and changes in estimates	1,047,139	744,540	458,940
Claim payments	(408,379)	(513,315)	(159,322)
Unpaid claims, end of year	\$ 3,277,504	\$ 2,638,744	\$ 2,407,519

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, 2013 and projected values through FY 2014-15. The FY 2012-13 values 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 \$669,896.

**10. 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 \$75 per month for each full-time budgeted position. The funds accumulated are used to reimburse full-time salaried employees, council members and their dependents for covered dental claims. There are no administrative charges for this plan. The Dental Reimbursement Fund maintains a positive fund balance of \$157,832 with contributions and reimbursements for the past four fiscal years as follows:

Fiscal year ended June 30,	Contribution Amount	Reimbursement Amount
2009	\$ 96,480	\$ 112,690
2010	92,213	111,342
2011	90,506	106,000
2012	112,254	109,632
2013	114,264	104,711
Total	\$ 505,717	\$ 544,375

The dental plan year commences January 1<sup>st</sup> of each calendar year. An annual maximum dental reimbursement of \$1,500 is provided for each employee and \$1,000 for each of their dependents. 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, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**11. Pension Plans**

***California Public Employees' Retirement System Plan***

**Plan Description**

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS 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 CalPERS' 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, CalPERS 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**

The City's second-tier plans for both its safety and miscellaneous groups providing an alternate level of benefits for newly hired employees. Furthermore, in the current fiscal year, the State of California Assembly Bill 340 (AB 340) created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013.

Existing active legacy plans carry statutory defined contribution rates, within the benefit levels that the City offers, of 9% of covered salaries for safety employees and 8% for miscellaneous employees. Second-tier plan members will be required by State statute to contribute the full 9% for safety and 7% for miscellaneous. Third-tier employees, for both safety and miscellaneous, hired under AB 340, contribute their full shares defined as 50% of normal cost, a level set by state law for each respective plan and agency.

The City makes up a portion of the contributions required of legacy City employees on their behalf and for their account. On a combined basis, for all plan levels and groups in the current year, this amounted to \$659,375 for the year ended June 30, 2013, as compared to \$790,884 in the prior year.

For legacy employees the City was required to contribute an actuarial determined employer rate of 25.137% for the period from July 1, 2012 through June 30, 2013 of covered payroll for safety employees and 15.178% of annual covered payroll for miscellaneous employees. For second tier plan employees in the same period, the City was required to contribute 20.057% of covered payroll for safety employees and 7.846% of covered payroll for miscellaneous employees. New CalPERS enrollees, as defined under State imposed AB 340 legislation, have estimated employer rates of 11.5% and 6.25% for safety employees and miscellaneous employees, respectively. Contribution rates are established annually and may be amended by CalPERS. 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.

The City has paid down the safety side-fund liability using planned designated reserves approximating \$5 million. As of June 30, 2013, the estimated balance of the Side Fund for the public safety plan was reduced to approximately \$155,000 with miscellaneous fully paid off. In the subsequent period, the City made final and full payment of all side fund liabilities.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**11. Pension Plans, continued**

***California Public Employees' Retirement System Plan, continued***

**Annual Pension Cost**

For FY 2012-13, the City's annual required employer contributions pension was equal to \$2,023,801 and presented along with other historical contributions as listed below.

Fiscal Year Ended	Annual Pension Cost (APC)		Percentage of APC Contributed	Net Pension Obligation
	Miscellaneous	Safety		
6/30/2011	\$ 1,131,312	\$ 715,110	100%	\$ -
6/30/2012	1,189,791	890,770	100%	-
6/30/2013	1,111,913	911,888	100%	-

A summary of principal assumptions and methods used to determine the annual required contributions is shown below for the cost-sharing multiple-employer defined benefit plan.

Valuation Date	June 30, 2010
Actuarial Cost Method Entry	Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	19 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

**Funding Status as of the Most Recent Actuarial Date**

The City retirement plans for safety and miscellaneous employees are part of the CalPERS 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 safety and miscellaneous employee plans is not available or disclosed.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**12. 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 CalPERS 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 (\$112 per month for FY 2011-12 and \$115 per month for FY 2012-13). In FY 2011-12, the City’s contribution averaged \$64.59 per month. The City does not provide contributions for retiree dental, vision or life insurance benefits.

***City’s Funding Policy***

The City continues to pay for retiree healthcare benefits on a pay-as-you go basis. This reporting year the City contributed \$33, 585 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

As of June 30, 2013, \$500,000 has been set aside in the General Fund as a reserve with future budgets projected to make increased annual contributions thereafter.

***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	\$ 261,000
Interest on net OPEB obligation	34,000
Amortization of net OPEB obligation	(61,000)
Annual OPEB cost (expense)	<u>234,000</u>
Contributions made (including premiums paid)	<u>(33,511)</u>
Increase in net OPEB obligation	200,489
Net OPEB obligation, beginning of year	<u>793,457</u>
Net OPEB obligation, end of year	<u><u>\$ 993,946</u></u>

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**12. Other Post Employment Benefits (OPEB), continued**

***Annual OPEB Cost and Net OPEB Obligation, continued***

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2012-13 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
6/30/2011	\$ 237,000	10.0%	\$ 212,540	\$ 604,032
6/30/2012	220,000	14.0%	189,422	993,946
6/30/2013	234,000	14.0%	200,489	993,946

***Funded Status and Funding Progress***

The funded status of the Plan as of June 30, 2011, the Plan's most recent actuarial valuation date, was as follows:

*In Thousands*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b)-(a)/(c)
6/30/09	\$ -	\$ 1,662	\$ 1,662	0.00%	\$ 10,884	20%
6/30/11	-	2,136	2,136	0.00%	10,369	21%

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 June 30, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. The PEMHCA minimum was assumed to annually increase by 4.5%. The UAAL is amortized as a level percentage of projected payrolls over 30 years on a closed basis commencing in 2009.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**13. Contingencies**

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are reasonably sufficient to cover any potential losses should an unfavorable outcome materialize.

**14. Other Information**

***Joint Powers Agreements***

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

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

**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.

**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. The Special Tax Bonds were paid off as of June 30, 2012. 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.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**14. Other Information, continued**

*Joint Powers Agreements, continued*

**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.

**OPEB Reserves**

A review of the City's fund balance assignments will reveal that as of June 30, 2012, \$500,000 in General Fund reserves have been assigned in recognition of existing Post-Retirement Health Actuarial Obligations noted above.

**15. Excess Expenditures Over Appropriations**

Expenditures exceeded budgeted appropriations in the following funds:

	Budget	Actual	Variance
Debt Service Fund	\$ 85,000	\$ 90,000	\$ (5,000)

**16. Proposition 1A Borrowing by the State of California**

Under the provisions of Proposition 1A and as part of the FY 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013 to those agencies not participating in the loan securitization process. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period.



**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

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**16. Proposition 1A Borrowing by the State of California, continued**

Authorized with the FY 2009-10 State budget, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the state. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

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

**17. Special Items**

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. In 2010, the third and final regular installment and all collections have been recorded into the Real Property Proceeds Fund. Payments to the City were made net of title and escrow fees and estimated preliminary development costs of \$400,000. In FY 2012-13, this full unused amount, including interest, was paid back in full to the City.

In the current period the City made a further pay-down of its CalPERS side fund liability in the amount of \$950,000 as part of a multi-year plan to reduce pension costs. This amount appears as a special item in the General Fund and is also discussed in the pension disclosure notes above.

**18. Developer Agreements**

***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. This was part of a minimum project scope of a two-story building approximating 31,000 square feet. The agreement is contingent upon a series of milestones and feasibility phases. In the current year the City received an additional \$100,000 of initial purchase option payments marking the end of the initial feasibility term. As of year-end, \$500,010 has been collected and these dollars are recorded as revenue in the Real Property Proceeds funds, the balance of which is assigned for future capital projects.

The Government-wide Financial Statements reflect a loss of \$544,576 representing the disposition and write off of the capitalized and un-depreciated value of the City owned physical improvements located at 400 Main Street. This transaction reflects the demolition of said improvements. The ultimate sale of the underlying property is subject to the conditions of the agreement entered into with the developer, which, once met, will trigger the recording and receipt of the sale proceeds. The full sale was realized in early FY 2013-14 as noted in the subsequent events footnote below.

**CITY OF LOS ALTOS, CALIFORNIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Fiscal year ended June 30, 2013

**19. Other Commitments**

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

Streets & Roadways	\$ 1,397,558
Pedestrian Safety	1,239,745
Infrastructure & Facilities	701,869
Parks	637,615
Sewer	3,650,223
Technology	793,875
Community Development	61,151
	\$ 8,482,036
	\$ 8,482,036

**20. Prior Period Adjustment**

Note 5 above refers to the prior treatment of the City's CalPERS side-fund pay-down, approximating \$3.7 million, as a "Net Pension Asset" on the Government-wide Statement of Net Position. A subsequent review and interpretation of this classification has negated the need to record this liability payoff as an asset considering the full cash payoff of the amount in question. As such, a prior-period adjustment has been recorded on the Statement of Net Position, effectively reducing the asset and respective net position in the amount of \$3,749,863. This transaction has no cash or fund balance impact on the City's operational and governmental funds.

**21. Subsequent Events**

In FY 2013-14, the City finalized the sale option for the property at 230 First Street and 400 Main Street for an agreed upon price of \$3.1 million, less the previously paid option installments recognized in the current and prior years. Escrow closed in early August 2013, resulting in the exchange of title to the buyer, 400 Main Morris Land, LLC. This transaction also triggered the initiation of the private development on the site, as previously approved through the planning and Council action process.

On May 14, 2013, the City adopted the results of an updated Sewer Rate study resulting in a new rate structure model, approximating a 7% per increase per year over the next five years, designed to facilitate the near and long-term capital and operating needs of the Sewer Enterprise Fund. The adoption of **the ordinance** occurred on July, 9, 2013.

In accordance with accounting standards affecting disclosures of subsequent events, the Company evaluated subsequent events for recognition and disclosure through **\_\_\_\_\_**, 2013, the date which these financial statements were available to be issued. Management concluded that, other than stated above, no material subsequent events have occurred since June 30, 2013 that require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

DRAFT as of 12/03/13

**CITY OF LOS ALTOS, CALIFORNIA**

**GENERAL FUND**

**SCHEDULE OF REVENUES AND EXPENDITURES –**

**BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Budget		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 18,659,760	\$ 18,659,760	\$ 19,444,398	\$ 784,638
Licenses, permits and fees	3,407,295	3,407,295	3,311,730	(95,565)
Intergovernmental	3,123,547	3,123,547	3,528,966	405,419
Grants and donations	50,000	50,000	61,910	11,910
Charges for services	3,821,033	3,821,033	4,480,278	659,245
Fines and forfeitures	215,064	215,064	153,415	(61,649)
Interest and rentals	435,200	435,200	104,226	(330,974)
Other	205,200	205,200	190,111	(15,089)
<b>Total revenues</b>	<b>29,917,099</b>	<b>29,917,099</b>	<b>31,275,034</b>	<b>1,357,935</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Public safety	14,574,635	14,653,317	14,194,042	459,275
Public works	4,497,946	4,656,574	4,364,633	291,941
Recreation	2,092,102	2,131,250	2,101,716	29,534
Community development	4,070,244	4,304,680	4,148,114	156,566
Admin/community services	4,180,702	4,203,776	3,370,919	832,857
<b>Total expenditures</b>	<b>29,415,629</b>	<b>29,949,597</b>	<b>28,179,424</b>	<b>1,770,173</b>
Excess (deficiency) of revenues over (under) expenditures	501,470	(32,498)	3,095,610	1,018,957
<b>Other financing sources (uses):</b>				
Transfers in	335,000	385,000	282,395	(102,605)
Transfers (out)	(636,475)	(1,286,475)	(1,410,898)	(124,423)
<b>Total other financing sources (uses)</b>	<b>(301,475)</b>	<b>(901,475)</b>	<b>(1,128,503)</b>	<b>(227,028)</b>
<b>Special item:</b>				
PERS side fund pay down	-	(950,000)	(950,000)	-
<b>Total special item</b>	<b>-</b>	<b>(950,000)</b>	<b>(950,000)</b>	<b>-</b>
Net change in fund balances	199,995	(1,883,973)	1,017,107	2,901,080
Fund balances at beginning of year	7,484,902	7,484,902	7,484,902	-
<b>Fund balances at end of year</b>	<b>\$ 7,684,897</b>	<b>\$ 5,600,929</b>	<b>\$ 8,502,009</b>	<b>\$ 2,901,080</b>

**CITY OF LOS ALTOS, CALIFORNIA**

**REAL PROPERTY PROCEEDS**

**SCHEDULE OF REVENUES AND EXPENDITURES –**

**BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest and rentals	\$ 80,487	\$ 80,487	\$ 11,601	\$ (68,886)
Total revenues	80,487	80,487	11,601	(68,886)
Special item:				
Proceeds from sale of asset	-	-	492,427	492,427
Total special item	-	-	492,427	492,427
Net change in fund balances	80,487	80,487	504,028	423,541
Fund balances at beginning of year	6,910,866	6,910,866	6,910,866	-
Fund balances at end of year	\$ 6,991,353	\$ 6,991,353	\$ 7,414,894	\$ 423,541

DRAFT as of 12/20/13

# CITY OF LOS ALTOS, CALIFORNIA

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Fiscal year ended June 30, 2013

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### 1. **Budget 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 projects and open purchase order commitments for which appropriations endure until the project or obligation 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.

DRAFT as of 12/03/12

**OTHER SUPPLEMENTARY INFORMATION**

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DRAFT as of 7/25/13



**CITY OF LOS ALTOS, CALIFORNIA**  
**NONMAJOR GOVERNMENTAL FUNDS**

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**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.

***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 Fund**

***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, CALIFORNIA**

**NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING BALANCE SHEET**

June 30, 2013

	Special Revenue			
	Vehicle Impound	Supplemental Law Enforcement	Gas Tax	Proposition 1B
<b>ASSETS</b>				
Cash and investments	\$ -	\$ -	\$ 676,681	\$ 40,098
Restricted cash and investments	-	-	-	-
Receivables, net of allowance for uncollectibles:				
Accounts	-	50,000	-	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 50,000</b>	<b>\$ 676,681</b>	<b>\$ 40,098</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balances:				
Restricted:				
Debt service	-	-	-	-
Special revenue programs and projects	-	50,000	602,542	40,098
Continuing CIP	-	-	74,139	-
<b>Total restricted</b>	<b>-</b>	<b>50,000</b>	<b>676,681</b>	<b>40,098</b>
<b>Total Fund balances</b>	<b>\$ -</b>	<b>\$ 50,000</b>	<b>\$ 676,681</b>	<b>\$ 40,098</b>

Special Revenue

Storm Drain Deposits	Community Development Block Grant	Downtown Parking	Traffic Impact Fee	Estate Donation	TDA
\$ 56,086	141,697	\$ 177,891	\$ 1,395,591	\$ 13,050	\$ 13,478
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 56,086</u>	<u>\$ 141,697</u>	<u>\$ 177,891</u>	<u>\$ 1,395,591</u>	<u>\$ 13,050</u>	<u>\$ 13,478</u>
<u>\$ -</u>	<u>\$ 101,675</u>	<u>\$ 11,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	101,675	11,217	-	-	-
-	-	-	-	-	-
56,086	40,022	166,674	890,893	13,050	13,478
-	-	-	504,698	-	-
<u>56,086</u>	<u>40,022</u>	<u>166,674</u>	<u>1,395,591</u>	<u>13,050</u>	<u>13,478</u>
<u>\$ 56,086</u>	<u>\$ 40,022</u>	<u>\$ 166,674</u>	<u>\$ 1,395,591</u>	<u>\$ 13,050</u>	<u>\$ 13,478</u>

(Continued)

**CITY OF LOS ALTOS, CALIFORNIA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET (CONTINUED)**

June 30, 2013

	Debt Service	Total Nonmajor Governmental Funds
	General	
<b>ASSETS</b>		
Cash and investments	\$ 191,598	\$ 2,706,170
Restricted cash and investments	171,996	171,996
Receivables, net of allowance for uncollectibles:		
Accounts	-	50,000
Total assets	\$ 363,594	\$ 2,928,166
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$ -	\$ 112,892
Total liabilities	-	112,892
Fund balances:		
Restricted:		
Debt service	363,594	363,594
Special revenue programs and projects	-	1,872,843
Continuing CIP	-	578,837
Total restricted	363,594	2,815,274
Total Fund balances	\$ 363,594	\$ 2,815,274



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**CITY OF LOS ALTOS, CALIFORNIA**

**NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**

Fiscal year ended June 30, 2013

	Special Revenue			
	Vehicle Impound	Supplemental Law Enforcement	Gas Tax	Proposition 1B
Revenues:				
Licenses, permits and fees	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	100,000	701,697	-
Grants and donations	-	-	-	-
Fines and forfeitures	17,395	-	-	-
Interest and rentals	-	-	3,034	432
Total revenues	<u>\$ 17,395</u>	<u>\$ 100,000</u>	<u>\$ 704,731</u>	<u>\$ 432</u>
Expenditures:				
Current:				
Community development	\$ -	\$ -	\$ -	\$ -
Admin/community services	-	-	-	-
Capital improvements	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,395</u>	<u>100,000</u>	<u>704,731</u>	<u>432</u>
Other financing sources(uses):				
Transfers in	-	-	-	-
Transfers out	<u>(17,395)</u>	<u>(75,000)</u>	<u>(1,116,237)</u>	<u>(283,769)</u>
Total other financing sources(uses)	<u>(17,395)</u>	<u>(75,000)</u>	<u>(1,116,237)</u>	<u>(283,769)</u>
Net change in fund balances	-	25,000	(411,506)	(283,337)
Fund balances at beginning of year	<u>-</u>	<u>25,000</u>	<u>1,088,187</u>	<u>323,435</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 676,681</u>	<u>\$ 40,098</u>

Special Revenue

Storm Drain Deposits	Community Development Block Grant	Downtown Parking	Traffic Impact Fee	Estate Donation	TDA
\$ -	\$ -	\$ 37,437	\$ 651,705	\$ -	\$ -
-	-	-	-	-	-
-	59,201	-	-	-	3,375
-	-	-	-	-	-
-	-	9,226	1,757	20	-
<u>\$ -</u>	<u>\$ 59,201</u>	<u>\$ 46,663</u>	<u>\$ 653,462</u>	<u>\$ 20</u>	<u>\$ 3,375</u>
\$ -	\$ -	\$ 61,966	\$ -	\$ -	\$ -
-	165,345	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	165,345	61,966	-	-	-
-	(106,144)	(15,303)	653,462	20	3,375
-	-	-	-	-	-
-	-	-	(18,336)	-	(3,375)
-	-	-	(18,336)	-	(3,375)
-	(106,144)	(15,303)	635,126	20	-
56,086	146,166	181,977	760,465	13,030	13,478
<u>\$ 56,086</u>	<u>\$ 40,022</u>	<u>\$ 166,674</u>	<u>\$ 1,395,591</u>	<u>\$ 13,050</u>	<u>\$ 13,478</u>

(continued)

**CITY OF LOS ALTOS, CALIFORNIA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES (CONTINUED)**

Fiscal year ended June 30, 2013

	Debt Service	Total Nonmajor Governmental Funds
	General	
Revenues:		
Licenses, permits and fees	\$ -	\$ 689,142
Intergovernmental	-	801,697
Grants and donations	-	62,576
Fines and forfeitures	-	17,395
Interest and rentals	-	14,469
Total revenues	\$ -	\$ 1,585,279
Expenditures:		
Current:		
Community development	\$ -	\$ 61,966
Admin/community services	-	165,345
Capital improvements	-	-
Debt service:		
Principal	95,000	95,000
Interest and fiscal charges	74,573	74,573
Total expenditures	169,573	396,884
Excess (deficiency) of revenues over (under) expenditures	(169,573)	1,188,395
Other financing sources(uses):		
Transfers in	165,000	165,000
Transfers out	-	(1,514,112)
Total other financing sources(uses)	165,000	(1,349,112)
Net change in fund balances	(4,573)	(160,717)
Fund balances at beginning of year	368,167	2,975,991
Fund balances at end of year	\$ 363,594	\$ 2,815,274



**CITY OF LOS ALTOS, CALIFORNIA**

**VEHICLE IMPOUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
Fines and forfeitures	\$ 45,000	\$ 17,395	\$ (27,605)
	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	45,000	17,395	(27,605)
	<u>          </u>	<u>          </u>	<u>          </u>
Excess (deficiency) of revenues over (under) expenditures	45,000	17,395	(27,605)
	<u>          </u>	<u>          </u>	<u>          </u>
Other financing sources (uses):			
Transfers out	(45,000)	(17,395)	27,605
	<u>          </u>	<u>          </u>	<u>          </u>
Total other financing sources (uses)	(45,000)	(17,395)	27,605
	<u>          </u>	<u>          </u>	<u>          </u>
Net change in fund balance	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Fund balance at beginning of year	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Fund balance at end of year	\$ -	\$ -	\$ -
	<u>          </u>	<u>          </u>	<u>          </u>

DRAFT as of 12/23/13

**CITY OF LOS ALTOS, CALIFORNIA**

**SUPPLEMENTAL LAW ENFORCEMENT**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
Intergovernmental	\$ 100,000	\$ 100,000	\$ -
	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total revenues			
	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Other financing sources (uses):			
Transfers out	<u>(100,000)</u>	<u>(75,000)</u>	<u>25,000</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(75,000)</u>	<u>25,000</u>
Net change in fund balance	-	25,000	25,000
Fund balance at beginning of year	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Fund balance at end of year	<u>\$ 25,000</u>	<u>\$ 50,000</u>	<u>\$ 25,000</u>

**CITY OF LOS ALTOS, CALIFORNIA**

**GAS TAX**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental	\$ 491,000	\$ 701,697	\$ 210,697
Interest and rentals	2,390	3,034	644
	<u>493,390</u>	<u>704,731</u>	<u>211,341</u>
Total revenues			
Excess (deficiency) of revenues over (under) expenditures	<u>493,390</u>	<u>704,731</u>	<u>211,341</u>
Other financing sources (uses):			
Transfers out	<u>(830,470)</u>	<u>(1,116,237)</u>	<u>(285,767)</u>
Total other financing sources (uses)	<u>(830,470)</u>	<u>(1,116,237)</u>	<u>(285,767)</u>
Net change in fund balance	(337,080)	(411,506)	(74,426)
Fund balance at beginning of year	<u>1,088,187</u>	<u>1,088,187</u>	-
Fund balance at end of year	<u><u>\$ 751,107</u></u>	<u><u>\$ 676,681</u></u>	<u><u>\$ (74,426)</u></u>

**CITY OF LOS ALTOS, CALIFORNIA**

**PROPOSITION 1B**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
Interest and rentals	\$ 5,500	432	\$ (5,068)
	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	5,500	432	(5,068)
	<u>          </u>	<u>          </u>	<u>          </u>
Excess (deficiency) of revenues over (under) expenditures	5,500	432	(5,068)
	<u>          </u>	<u>          </u>	<u>          </u>
Other financing sources (uses):			
Transfers out	(283,769)	(283,769)	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total other financing sources (uses)	(283,769)	(283,769)	-
	<u>          </u>	<u>          </u>	<u>          </u>
Net change in fund balance	(278,269)	(283,337)	(5,068)
	<u>          </u>	<u>          </u>	<u>          </u>
Fund balance at beginning of year	323,435	323,435	-
	<u>          </u>	<u>          </u>	<u>          </u>
Fund balance at end of year	\$ 45,166	\$ 40,098	\$ (5,068)
	<u>          </u>	<u>          </u>	<u>          </u>

DRAFT as of 12/23/13

**CITY OF LOS ALTOS, CALIFORNIA**

**COMMUNITY DEVELOPMENT BLOCK GRANT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
Grants and donations	\$ 117,254	59,201	\$ (58,053.00)
	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	117,254	59,201	(58,053)
	<u>          </u>	<u>          </u>	<u>          </u>
Expenditures:			
Current:			
Admin/community services	175,150	165,345	9,805
	<u>          </u>	<u>          </u>	<u>          </u>
Total expenditures	175,150	165,345	9,805
	<u>          </u>	<u>          </u>	<u>          </u>
Excess (deficiency) of revenues over (under) expenditures	(57,896)	(106,144)	(48,248)
	<u>          </u>	<u>          </u>	<u>          </u>
Net change in fund balance	(57,896)	(106,144)	(48,248)
	<u>          </u>	<u>          </u>	<u>          </u>
Fund balance at beginning of year	146,166	146,166	-
	<u>          </u>	<u>          </u>	<u>          </u>
Fund balance at end of year	\$ 88,270	\$ 40,022	\$ (48,248)
	<u>          </u>	<u>          </u>	<u>          </u>

DRAFT as of 12/23/13

**CITY OF LOS ALTOS, CALIFORNIA**

**DOWNTOWN PARKING**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Licenses, permits and fees	\$ 30,000	\$ 37,437	\$ 7,437
Interest and rentals	10,380	9,226	(1,154)
	<u>40,380</u>	<u>46,663</u>	<u>(1,154)</u>
Total revenues			
Expenditures:			
Current:			
Community development	57,500	61,966	(4,466)
	<u>57,500</u>	<u>61,966</u>	<u>(4,466)</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	(17,120)	(15,303)	(5,620)
Net change in fund balance	(17,120)	(15,303)	(5,620)
Fund balance at beginning of year	181,977	181,977	-
Fund balance at end of year	<u>\$ 164,857</u>	<u>\$ 166,674</u>	<u>\$ 1,817</u>

**CITY OF LOS ALTOS, CALIFORNIA**

**TRAFFIC IMPACT FEE**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
License, permits and fees	\$ -	\$ 651,705	\$ 651,705
Interest and rentals	3,300	1,757	(1,543)
	<u>3,300</u>	<u>1,757</u>	<u>(1,543)</u>
Total revenues	3,300	653,462	650,162
	<u>3,300</u>	<u>653,462</u>	<u>650,162</u>
Excess (deficiency) of revenues over (under) expenditures	3,300	653,462	650,162
	<u>3,300</u>	<u>653,462</u>	<u>650,162</u>
Other financing sources (uses):			
Transfers out	(18,336)	(18,336)	-
	<u>(18,336)</u>	<u>(18,336)</u>	<u>-</u>
Total other financing sources (uses)	(18,336)	(18,336)	-
	<u>(18,336)</u>	<u>(18,336)</u>	<u>-</u>
Net change in fund balance	(15,036)	635,126	650,162
	<u>(15,036)</u>	<u>635,126</u>	<u>650,162</u>
Fund balance at beginning of year	760,465	760,465	-
	<u>760,465</u>	<u>760,465</u>	<u>-</u>
Fund balance at end of year	\$ 745,429	\$ 1,395,591	\$ 650,162
	<u>\$ 745,429</u>	<u>\$ 1,395,591</u>	<u>\$ 650,162</u>

**CITY OF LOS ALTOS, CALIFORNIA**

**ESTATE DONATION**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Interest and rentals	<u>\$ 154</u>	<u>\$ 20</u>	<u>\$ (134)</u>
Total revenues	<u>154</u>	<u>20</u>	<u>(134)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>154</u>	<u>20</u>	<u>(134)</u>
Net change in fund balance	154	20	(134)
Fund balance at beginning of year	<u>13,030</u>	<u>13,030</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 13,184</u></u>	<u><u>\$ 13,050</u></u>	<u><u>\$ (134)</u></u>

DRAFT as of 12/03/13



**CITY OF LOS ALTOS, CALIFORNIA**

**DEBT SERVICE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures:			
Debt service:			
Principal	\$ 90,000	\$ 95,000	\$ (5,000)
Interest	77,300	74,572	2,728
Total expenditures	<u>167,300</u>	<u>169,572</u>	<u>(2,272)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(167,300)</u>	<u>(169,572)</u>	<u>(2,272)</u>
Other financing sources (uses):			
Transfers in	<u>165,000</u>	<u>165,000</u>	<u>-</u>
Total other financing sources (uses)	<u>165,000</u>	<u>165,000</u>	<u>-</u>
Net change in fund balance	(2,300)	(4,572)	(2,272)
Fund balance at beginning of year	<u>368,167</u>	<u>368,167</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 365,867</u></u>	<u><u>\$ 363,595</u></u>	<u><u>\$ (2,272)</u></u>

# CITY OF LOS ALTOS, CALIFORNIA

## INTERNAL SERVICE FUNDS

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Internal Service Funds are used to account for the financing of goods and services provided by one City department or agency to other departments or agencies of the City, or to other government units on a cost-reimbursement basis (including depreciation).

### ***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.

DRAFT as of 12/13/13

**CITY OF LOS ALTOS, CALIFORNIA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
June 30, 2013

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 165,572	\$ 213,838	\$ 3,220,980	\$ 671,355	\$ 4,271,745
Accounts receivable	-	-	1,053	-	1,053
Total assets	<u>\$ 165,572</u>	<u>\$ 213,838</u>	<u>\$ 3,222,033</u>	<u>\$ 671,355</u>	<u>\$ 4,272,798</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 7,740	\$ -	\$ 33,568	\$ 48,804	\$ 90,112
Claims and judgments - current portion	-	-	548,795	121,101	669,896
Noncurrent liabilities:					
Claims and judgments - noncurrent portion	-	-	2,428,154	179,454	2,607,608
Total liabilities	<u>7,740</u>	<u>-</u>	<u>3,010,517</u>	<u>349,359</u>	<u>3,367,616</u>
<b>NET POSITION</b>					
Unrestricted	<u>157,832</u>	<u>213,838</u>	<u>211,516</u>	<u>321,996</u>	<u>905,182</u>
Total net position	<u>\$ 157,832</u>	<u>\$ 213,838</u>	<u>\$ 211,516</u>	<u>\$ 321,996</u>	<u>\$ 905,182</u>

DRAFT as of 12/03/13

**CITY OF LOS ALTOS, CALIFORNIA**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**

Fiscal year ended June 30, 2013

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
Operating revenues:					
Charges for services	\$ 114,265	\$ 75,353	\$ 687,389	\$ 438,561	\$ 1,315,568
Total operating revenues	114,265	75,353	687,389	438,561	1,315,568
Operating expenses:					
Outside services	-	-	151	110,005	110,156
Claims reimbursement	104,711	23,399	913,946	133,193	1,175,249
Insurance	-	-	103,216	387,874	491,090
Administration	-	-	9,115	3,266	12,381
Total expenditures	104,711	23,399	1,026,428	634,338	1,788,876
Operating income	9,554	51,954	(339,039)	(195,777)	(473,308)
Transfers:					
Transfers in	-	-	250,000	-	250,000
Total transfers	-	-	250,000	-	250,000
Change in net position	9,554	51,954	(89,039)	(195,777)	(223,308)
Net position at beginning of year	148,278	161,884	300,555	517,773	1,128,490
Net position at end of year	\$ 157,832	\$ 213,838	\$ 211,516	\$ 321,996	\$ 905,182

**CITY OF LOS ALTOS, CALIFORNIA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
Fiscal year ended June 30, 2013

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance	Liability Insurance	Total
Cash flows from operating activities:					
Cash received from other funds	\$ 114,265	\$ 75,353	\$ 692,477	\$ 438,561	\$ 1,320,656
Cash payments to claimants	(101,725)	(23,399)	(913,946)	(133,193)	(1,172,263)
Insurance premiums and administration	-	-	440,736	(342,546)	98,190
Net cash provided by operating activities	12,540	51,954	219,267	(37,178)	246,583
Cash flows from noncapital financing activities:					
Transfers in	-	-	250,000	-	250,000
Net cash provided by noncapital financing activities	-	-	250,000	-	250,000
Net increase (decrease) in cash and cash equivalents	12,540	51,954	469,267	(37,178)	496,583
Cash and investments at beginning of year	153,032	161,884	2,751,713	708,533	3,775,162
Cash and investments at end of year	\$ 165,572	\$ 213,838	\$ 3,220,980	\$ 671,355	\$ 4,271,745
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 9,554	\$ 51,954	\$ (339,039)	\$ (195,777)	\$ (473,308)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Changes in assets and liabilities:					
Accounts receivable	-	-	5,088	-	5,088
Accounts payable	2,986	-	33,568	39,489	76,043
Claims and judgments payable	-	-	519,650	119,110	638,760
Net cash provided by (used for) operating activities	\$ 12,540	\$ 51,954	\$ 219,267	\$ (37,178)	\$ 246,583

# CITY OF LOS ALTOS, CALIFORNIA

## FIDUCIARY FUNDS

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### **Agency Funds**

#### ***North County Library Authority***

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

#### ***Avalon Drive Curb and Gutter***

This fund accounts for the accumulation of resources for payment of the debt service related to the construction and installation of curbs and gutters. The revenue is derived from the special assessment levied to property owners within that improvement district.

#### ***Raymundo Curb and Gutter***

This fund accounts for the accumulation of resources for payment of the debt service related to the construction and installation of curbs and gutters. The revenue is derived from the special assessment levied to property owners within that improvement district.

#### ***Blue Oak Lane Sewer***

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

DRAFT as of 12/03/18

**CITY OF LOS ALTOS, CALIFORNIA**

**AGENCY FUNDS**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

Fiscal year ended June 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2012
<i>North County Library Authority</i>				
ASSETS				
Cash and investments	\$ 1,275,527	\$ 2,013,375	\$ 1,477,202	\$ 1,811,700
Accounts receivable	582	441	605	418
Total assets	<u>\$ 1,276,109</u>	<u>\$ 2,013,816</u>	<u>\$ 1,477,807</u>	<u>\$ 1,812,118</u>
LIABILITIES				
Accounts payable	\$ 233,542	\$ 515,466	\$ 536,608	\$ 212,400
Due to others	1,042,567	1,498,350	941,199	1,599,718
Total liabilities	<u>\$ 1,276,109</u>	<u>\$ 2,013,816</u>	<u>\$ 1,477,807</u>	<u>\$ 1,812,118</u>
<i>Avalon Drive Curb and Gutter</i>				
ASSETS				
Cash and investments	\$ 46,364	\$ 13,961	\$ 12,727	\$ 47,598
Total assets	<u>\$ 46,364</u>	<u>\$ 13,961</u>	<u>\$ 12,727</u>	<u>\$ 47,598</u>
LIABILITIES				
Accounts payable	\$ -	\$ 12,419	\$ 12,419	\$ -
Due to others	46,364	1,542	308	47,598
Total liabilities	<u>\$ 46,364</u>	<u>\$ 13,961</u>	<u>\$ 12,727</u>	<u>\$ 47,598</u>
<i>Raymundo Curb and Gutter</i>				
ASSETS				
Cash and investments	\$ 46,764	\$ 27,707	\$ 28,233	\$ 46,238
Total assets	<u>\$ 46,764</u>	<u>\$ 27,707</u>	<u>\$ 28,233</u>	<u>\$ 46,238</u>
LIABILITIES				
Accounts payable	\$ -	\$ 27,979	\$ 27,979	\$ -
Due to others	46,764	(272)	254	46,238
Total liabilities	<u>\$ 46,764</u>	<u>\$ 27,707</u>	<u>\$ 28,233</u>	<u>\$ 46,238</u>

**CITY OF LOS ALTOS, CALIFORNIA**

**AGENCY FUNDS**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)**

Fiscal year ended June 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2012
<hr/> <i>Blue Oak Lane Sewer</i> <hr/>				
ASSETS				
Cash and investments	\$ 60,637	\$ 46,022	\$ 44,496	\$ 62,163
Total assets	<u>\$ 60,637</u>	<u>\$ 46,022</u>	<u>\$ 44,496</u>	<u>\$ 62,163</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to others	60,637	46,022	44,496	62,163
Total liabilities	<u>\$ 60,637</u>	<u>\$ 46,022</u>	<u>\$ 44,496</u>	<u>\$ 62,163</u>
<hr/> <i>Total Agency Funds</i> <hr/>				
ASSETS				
Cash and investments	\$ 1,429,292	\$ 2,101,065	\$ 1,562,658	\$ 1,967,699
Accounts receivable	582	441	605	418
Total assets	<u>\$ 1,429,874</u>	<u>\$ 2,101,506</u>	<u>\$ 1,563,263</u>	<u>\$ 1,968,117</u>
LIABILITIES				
Accounts payable	\$ 233,542	\$ 555,864	\$ 577,006	\$ 212,400
Due to others	1,196,332	1,545,642	986,257	1,755,717
Total liabilities	<u>\$ 1,429,874</u>	<u>\$ 2,101,506</u>	<u>\$ 1,563,263</u>	<u>\$ 1,968,117</u>



**STATISTICAL SECTION**

DRAFT as of 12/03/13

# CITY OF LOS ALTOS, CALIFORNIA

## STATISTICAL SECTION

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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 Position by Component
2. Changes in Net Position
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 Sources, Governmental Funds
2. Assessed Value of Taxable Property
3. Property Tax Dollar Break Down
4. Property Tax Dollars by Recipient
5. Direct and Overlapping Property Tax Rates
6. Principal Property Taxpayers
7. 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 Assets Statistics by Function/Program
4. Trust and Agency Debt Administration

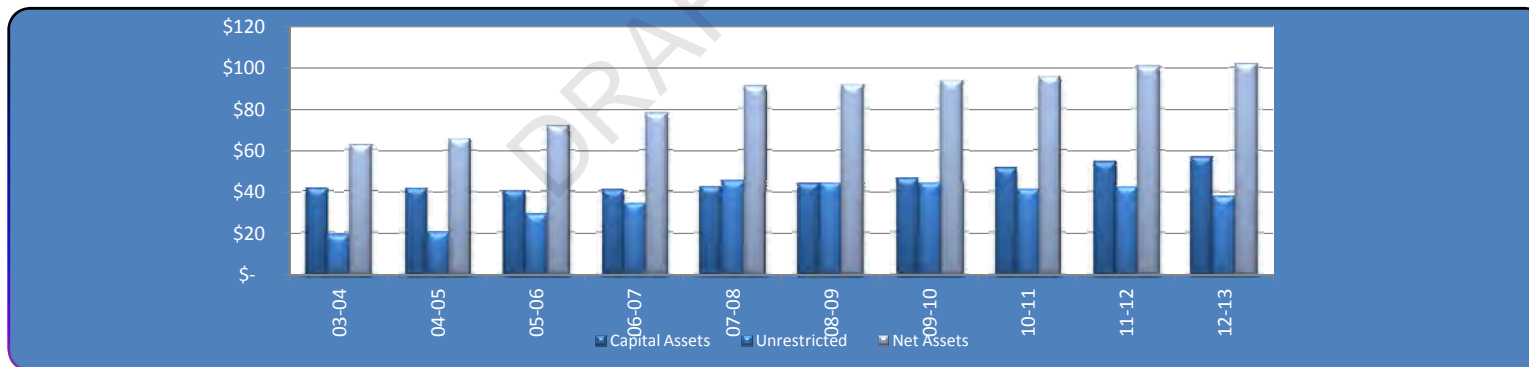
**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**City of Los Altos  
Net Position by Component**

**Last Ten Fiscal Years**

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

	Fiscal Year									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 38,589	\$ 39,023	\$ 37,877	\$ 38,186	\$ 40,251	\$ 40,684	\$ 42,596	\$ 46,011	\$ 48,511	\$ 50,102
Restricted	2,081	3,792	2,403	2,709	3,366	3,477	3,411	3,057	3,926	7,406
Unrestricted	16,114	16,178	23,343	27,386	37,038	36,184	35,476	33,448	34,634	29,883
<b>Total governmental activities net position</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>\$ 87,071</b>	<b>\$ 87,391</b>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ 2,646	\$ 2,510	\$ 2,527	\$ 2,388	\$ 2,219	\$ 3,316	\$ 3,552	\$ 5,197	\$ 5,952	\$ 6,773
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	2,736	4,228	5,511	6,977	7,922	8,102	8,766	7,625	7,539	7,843
<b>Total business-type activities net position</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>\$ 13,491</b>	<b>\$ 14,616</b>
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$ 41,235	\$ 41,533	\$ 40,404	\$ 40,574	\$ 42,470	\$ 44,000	\$ 46,148	\$ 51,208	\$ 54,463	\$ 56,875
Restricted	2,081	3,792	2,403	2,709	3,366	3,477	3,411	3,057	3,926	7,406
Unrestricted	18,850	20,406	28,854	34,363	44,960	44,286	44,242	41,073	42,173	37,726
<b>Total primary government net position</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>	<b>\$ 100,562</b>	<b>\$ 102,007</b>



Source:  
City of Los Altos Finance Department

City of Los Altos  
Changes in Net Position  
Last Ten Fiscal Years

(accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Expenses</b>										
Governmental activities:										
Public safety	\$ 8,853	\$ 9,856	\$ 9,913	\$ 11,033	\$ 12,415	\$ 13,563	\$ 13,812	\$ 14,101	\$ 14,797	\$ 15,144
Public works	3,594	4,498	4,224	4,799	4,886	5,318	5,170	5,451	5,157	5,557
Recreation	2,129	2,212	2,405	2,460	2,650	2,889	2,460	2,503	2,193	2,108
Community development	2,042	2,383	2,604	2,875	3,448	3,913	3,962	4,052	3,583	4,514
Admin/Community services	2,262	2,313	2,502	2,655	3,317	3,765	3,794	3,837	4,034	5,675
Interest on long-term activities	365	149	151	146	138	32	83	86	69	95
<b>Total governmental activities expenses</b>	<b>19,245</b>	<b>21,411</b>	<b>21,799</b>	<b>23,968</b>	<b>26,854</b>	<b>29,480</b>	<b>29,281</b>	<b>30,030</b>	<b>29,833</b>	<b>33,093</b>
Business-type activities:										
Sewer	3,711	3,167	3,324	3,712	3,886	4,810	4,438	4,520	4,386	4,529
Solid waste	1,071	1,125	1,264	1,575	1,609	1,574	1,826	717	341	355
Storm drain	-	118	183	181	213	188	199	200	213	232
<b>Total Business-type activities expenses</b>	<b>4,782</b>	<b>4,410</b>	<b>4,771</b>	<b>5,468</b>	<b>5,708</b>	<b>6,572</b>	<b>6,463</b>	<b>5,437</b>	<b>4,940</b>	<b>5,116</b>
<b>Total primary government expenses</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>\$ 34,773</b>	<b>\$ 38,209</b>
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
Public safety	\$ 517	\$ 508	\$ 377	\$ 499	\$ 527	\$ 585	\$ 466	\$ 348	\$ 394	\$ 344
Public works	250	231	156	228	204	180	152	191	32	34
Recreation	1,569	1,604	1,545	1,665	1,654	1,472	1,498	1,763	1,808	1,865
Community development	1,754	1,854	2,644	2,501	3,372	1,867	2,954	2,650	3,260	7,431
Admin/Community services	540	543	580	1,166	967	969	1,097	1,061	875	947
Operating grants and contributions:										
Public safety	131	123	136	112	118	108	102	100	112	109
Public works	545	549	535	541	511	479	462	682	829	699
Recreation	5	11	42	9	27	4	-	-	-	-
Community development	212	76	126	141	285	48	56	168	21	59
Admin/Community services	6	6	6	6	6	6	131	64	36	58
Capital grants and contributions										
Public safety	-	-	-	121	4	-	-	-	-	-
Public works	5	588	498	322	923	978	985	711	897	492
Recreation	139	-	-	1	492	10	-	-	-	-
Community development	-	-	-	-	-	24	7	-	3,400	80
Admin/Community services	-	-	-	-	-	89	200	78	76	-
<b>Total governmental activities program revenues</b>	<b>5,673</b>	<b>6,093</b>	<b>6,645</b>	<b>7,312</b>	<b>9,090</b>	<b>6,819</b>	<b>8,110</b>	<b>7,816</b>	<b>11,740</b>	<b>12,118</b>

City of Los Altos  
Changes in Net Position  
Last Ten Fiscal Years

(accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Business-type activities:										
Charges for services:										
Sewer	\$ 3,534	\$ 4,273	\$ 4,264	\$ 4,833	\$ 4,467	\$ 5,804	\$ 5,413	\$ 4,813	\$ 4,503	\$ 5,121
Solid waste	1,155	1,309	1,455	1,471	1,540	1,685	1,657	992	821	879
Storm drain	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	4,689	5,582	5,719	6,304	6,007	7,489	7,070	5,805	5,324	6,000
<b>Total primary government program revenues</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>	<b>\$ 17,064</b>	<b>\$ 18,118</b>
Net (expense)/revenue:										
Governmental activities	\$ (13,572)	\$ (15,318)	\$ (15,154)	\$ (16,656)	\$ (17,764)	\$ (22,661)	\$ (21,171)	\$ (22,214)	\$ (18,093)	\$ (20,975)
Business-type activities	(93)	1,172	948	836	299	917	607	368	384	884
<b>Total primary government net (expense)/revenue</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>\$ (17,709)</b>	<b>\$ (20,091)</b>
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities										
Taxes:										
Property taxes	\$ 6,707	\$ 8,580	\$ 9,767	\$ 10,903	\$ 11,875	\$ 12,759	\$ 13,051	\$ 12,794	\$ 13,302	\$ 14,130
Sales taxes	2,331	2,553	2,662	2,750	2,872	2,697	2,255	2,588	2,746	2,926
Utility users taxes	1,886	1,970	2,101	2,274	2,483	2,530	2,515	2,543	2,548	2,600
Other taxes	3,181	231	235	2,682	2,703	2,147	2,453	2,910	2,868	3,301
Franchise fees	1,012	1,048	1,110	1,164	2,029	1,458	1,437	1,814	1,731	1,770
Sale of Capital Assets-net	-	-	-	-	6,499	-	-	-	(545)	(8)
Interest income	307	495	1,048	1,414	1,353	760	341	275	115	174
Miscellaneous	331	2,831	3,050	323	517	201	286	388	131	382
Transfers	35	(183)	(187)	(197)	(193)	(200)	(239)	(65)	(247)	(232)
Total governmental activities	15,790	17,525	19,786	21,313	30,138	22,352	22,099	23,247	22,649	25,043
Business-type activities										
Interest income	-	-	-	296	284	160	53	71	37	10
Transfers	(35)	183	187	197	193	200	239	65	247	232
Total business-type activities	(35)	183	187	493	477	360	292	136	284	242
<b>Total primary government</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>\$ 22,933</b>	<b>\$ 25,285</b>
<b>Change in Net Position</b>										
Governmental activities	\$ 2,218	\$ 2,207	\$ 4,632	\$ 4,657	\$ 12,374	\$ (309)	\$ 928	\$ 1,033	\$ 4,556	\$ 4,068
Business-type activities	(128)	1,355	1,135	1,329	776	1,277	899	504	668	1,126
<b>Total primary government</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>	<b>\$ 5,224</b>	<b>\$ 5,194</b>

Source:

City of Los Altos Finance Department

Note:

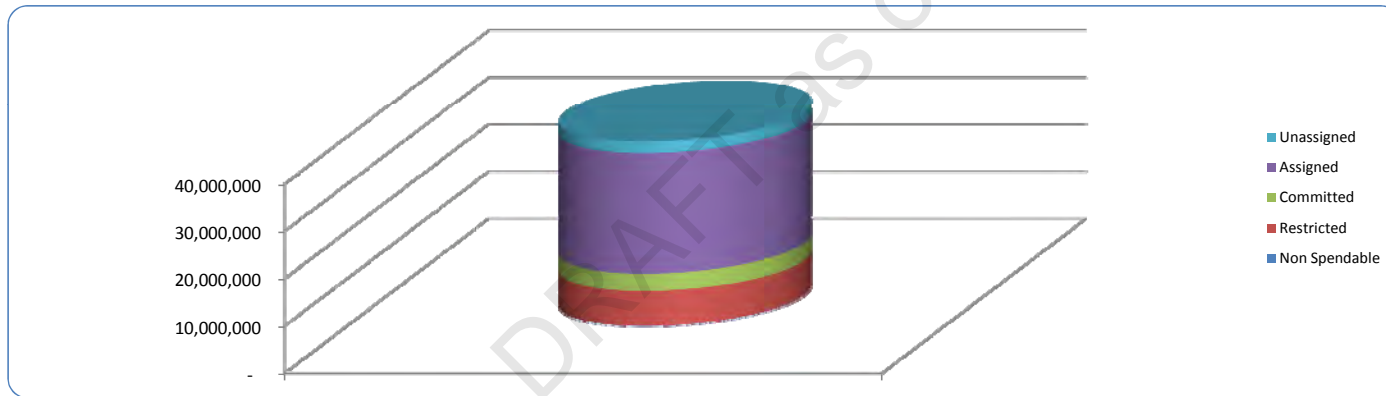
\* - Storm Drain activities were included in Sewer before the fiscal year 2004-05.

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 2011-12)

(Pre GASB 54 Presentation)	Fiscal Year									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>General fund</b>										
Reserved	\$ 5,225	\$ 5,412	\$ 5,872	\$ 131	\$ 228	\$ 39	\$ 143	\$ 48	\$ 46	\$ 49
Unreserved/Unrestricted	420	305	206	6,157	6,492	7,650	6,908	7,836	7,439	8,453
<b>Total general fund</b>	<b>\$ 5,645</b>	<b>\$ 5,717</b>	<b>\$ 6,078</b>	<b>\$ 6,288</b>	<b>\$ 6,720</b>	<b>\$ 7,689</b>	<b>\$ 7,051</b>	<b>\$ 7,884</b>	<b>\$ 7,485</b>	<b>\$ 8,502</b>
<b>All other governmental funds</b>										
Restricted	\$ 12,642	\$ 15,492	\$ 20,591	\$ 4,604	\$ 5,484	\$ 3,472	\$ 3,399	\$ 2,780	\$ 3,926	\$ 7,406
Reserved, reported in:										
Special revenue funds	725	-	-	(21)	1,798	4,120	6,422	6,768	6,911	7,415
Capital projects funds	(780)	(775)	(770)	18,876	21,360	21,814	19,540	16,868	17,213	15,676
Debt service funds	-	(8)	(8)	(8)	(8)	(8)				
<b>Total all other governmental funds</b>	<b>\$ 12,587</b>	<b>\$ 14,709</b>	<b>\$ 19,813</b>	<b>\$ 23,451</b>	<b>\$ 28,634</b>	<b>\$ 29,398</b>	<b>\$ 29,361</b>	<b>\$ 26,416</b>	<b>\$ 28,050</b>	<b>\$ 30,497</b>
<b>Total all governmental funds</b>	<b>\$ 18,232</b>	<b>\$ 20,426</b>	<b>\$ 25,891</b>	<b>\$ 29,739</b>	<b>\$ 35,354</b>	<b>\$ 37,087</b>	<b>\$ 36,412</b>	<b>\$ 34,300</b>	<b>\$ 35,535</b>	<b>\$ 38,999</b>

GASB 54 Presentation:(2012-13)

	2012-13						
	General Fund	Real Prop	CIP	Equip	Facilities	Other Govt Funds	Total
<i>Inventory &amp; Prepaids</i>	\$ (36,728)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (36,728)
<i>Veteran Memorial</i>	(12,000)	-	-	-	-	-	(12,000)
<b>Non Spendable</b>	<b>(48,728)</b>	-	-	-	-	-	<b>(48,728)</b>
<i>Debt Service</i>	-	-	-	-	-	(363,593)	(363,593)
<i>Special Revenue Programs and Projects</i>	-	-	-	-	-	(5,840,616)	(5,840,616)
<i>Continuing CIPS</i>	-	-	-	-	-	(1,201,452)	(1,201,452)
<b>Restricted</b>	-	-	-	-	-	<b>(7,405,661)</b>	<b>(7,405,661)</b>
<i>State Budget Stabilization</i>	-	-	-	-	-	-	-
<i>Continuing CIPS</i>	-	-	(3,046,926)	(583,434)	-	-	(3,630,360)
<b>Committed</b>	-	-	<b>(3,046,926)</b>	<b>(583,434)</b>	-	-	<b>(3,630,360)</b>
<i>Emergency &amp; Operating</i>	(5,525,000)	-	-	-	-	-	(5,525,000)
<i>OPEB</i>	(500,000)	-	-	-	-	-	(500,000)
<i>PERS Reserve</i>	-	-	-	-	-	-	-
<i>Unallocated</i>	-	(7,414,898)	(1,793,115)	(3,086,854)	(7,165,592)	-	(19,460,459)
<b>Assigned</b>	<b>(6,025,000)</b>	<b>(7,414,898)</b>	<b>(1,793,115)</b>	<b>(3,086,854)</b>	<b>(7,165,592)</b>	-	<b>(25,485,459)</b>
<b>Unassigned</b>	<b>(2,428,282)</b>	-	-	-	-	-	<b>(2,428,282)</b>
<b>Unassigned</b>	<b>(2,428,282)</b>	-	-	-	-	-	<b>(2,428,282)</b>
<b>Total Fund Equity</b>	<b>\$ (8,502,010)</b>	<b>\$ (7,414,898)</b>	<b>\$ (4,840,041)</b>	<b>\$ (3,670,288)</b>	<b>\$ (7,165,592)</b>	<b>\$ (7,405,661)</b>	<b>\$ (38,998,490)</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)*

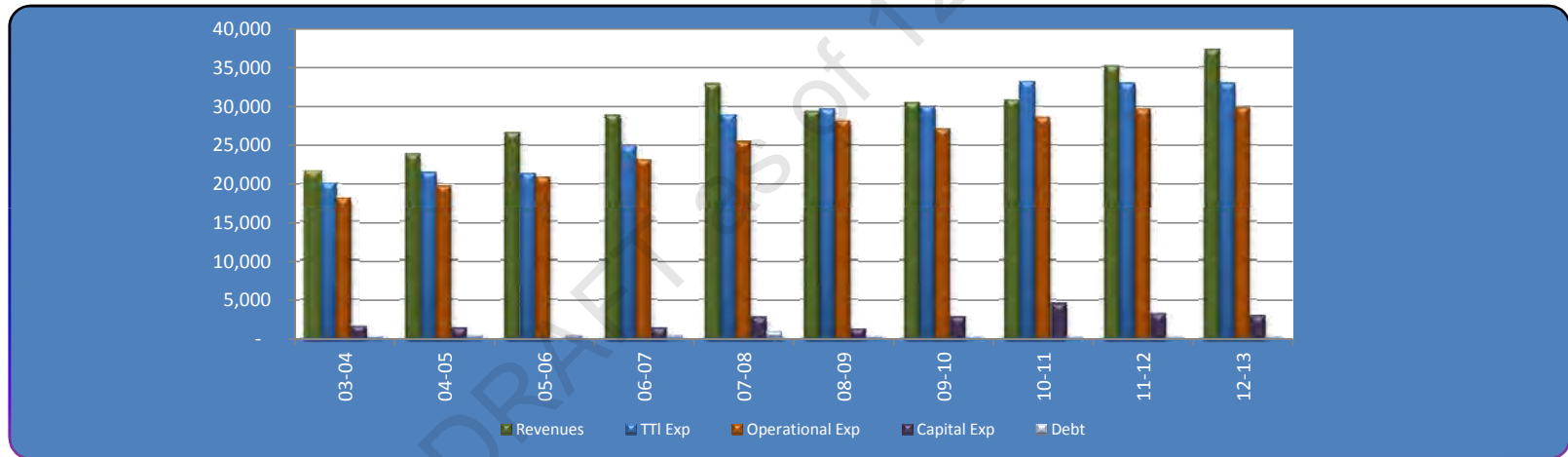
	Fiscal Year									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Revenues</b>										
Taxes	\$ 10,117	\$ 12,263	\$ 13,781	\$ 15,205	\$ 16,566	\$ 17,115	\$ 17,545	\$ 17,714	\$ 18,250	\$ 19,444
License, permits and park-in-lieu	2,170	2,198	2,568	2,522	3,493	2,532	3,025	3,187	3,204	3,312
Intergovernmental	4,790	4,048	4,515	4,323	4,470	4,365	3,680	3,988	4,333	4,513
Grants and donations	392	701	549	359	1,294	305	559	929	4,242	650
Charges for services	2,885	2,997	3,272	3,701	3,673	3,422	3,494	4,020	3,780	4,480
Fines and forfeitures	284	268	201	264	286	329	246	148	231	171
Interest and rentals	609	906	1,338	1,692	1,857	945	504	333	169	135
Other	211	419	395	777	1,284	359	1,394	521	973	4,616
<b>Total revenues</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>35,182</b>	<b>37,320</b>
<b>Expenditures</b>										
General government										
Public Safety										
Police	5,847	6,456	7,047	7,245	7,553	8,283	8,111	8,616	9,588	9,178
Fire Services	2,966	2,972	3,020	3,839	4,664	4,900	5,119	5,259	5,375	5,513
Public works	3,236	3,961	3,775	4,321	4,286	5,038	4,420	4,793	4,826	4,831
Recreation	1,801	1,820	1,952	2,103	2,257	2,443	1,994	2,062	2,429	2,102
Community development	2,040	2,293	2,606	2,922	3,384	3,826	3,770	3,973	3,726	4,553
Administration/Community services	2,206	2,215	2,414	2,658	3,222	3,623	3,600	3,845	3,624	3,655
Capital improvements	1,637	1,348	72	1,374	2,719	1,288	2,784	4,475	3,212	2,916
Debt service										
Principal	145	199	193	193	657	101	85	85	90	95
Interest and fiscal charges	145	158	146	143	138	103	81	80	77	75
<b>Total expenditures</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>32,947</b>	<b>32,918</b>
<b>Excess (deficiency) of revenues over (under) expenditures</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>2,235</b>	<b>4,402</b>
<b>Other financing sources (uses)</b>										
Debt issuance	2,372	-	257	-	-	-	-	-	-	-
Payment to refunded bonded escrow agent	(2,506)	-	-	-	-	-	-	-	-	-
Transfers in	3,938	5,652	6,639	6,153	5,388	2,396	2,781	3,509	1,887	2,443
Transfers out	(3,902)	(5,834)	(6,827)	(6,350)	(5,581)	(2,596)	(3,020)	(3,574)	(2,134)	(2,925)
<b>Total Other financing sources (uses)</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>(247)</b>	<b>(482)</b>



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

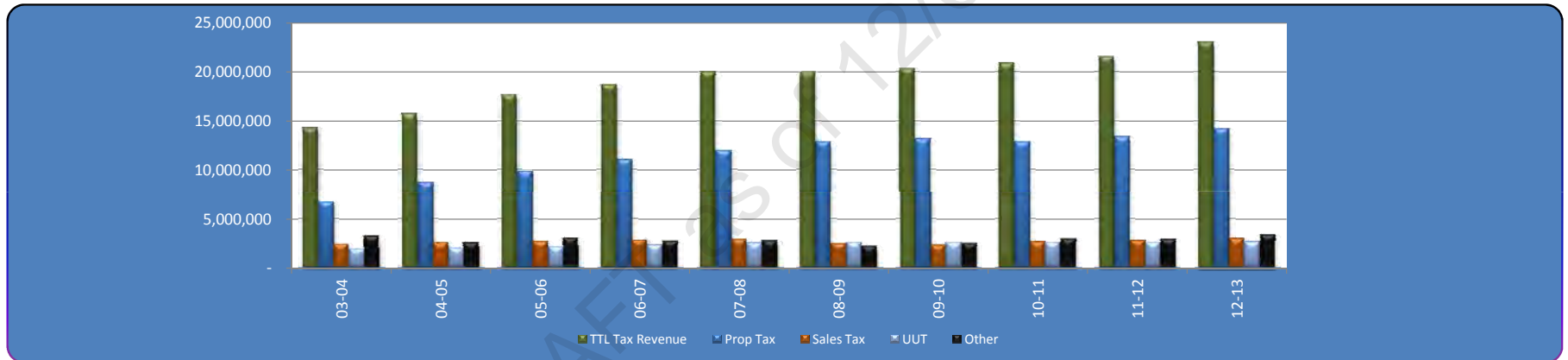
	Fiscal Year									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Special items</b>										
CALPers Side Fund Pay Down	-	-	-	-	-	-	(3,005)	-	(850)	(950)
Sale of capital assets-net	-	-	-	-	1,765	2,167	2,167	300	100	492
<b>Total special items</b>	-	-	-	-	1,765	2,167	(838)	300	(750)	(458)
<b>Net change in fund balances</b>	\$ 1,337	\$ 2,196	\$ 5,463	\$ 3,848	\$ 5,615	\$ 1,734	\$ (594)	\$ (2,113)	\$ 1,238	\$ 3,463
<b>Debt service as a percentage of non-capital expenditures</b>	1.6%	1.8%	1.6%	1.4%	3.0%	0.7%	0.6%	0.6%	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
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
2011-12	13,301,950	2,746,374	442,824	2,547,777	1,782,018	468,006	-	175,499	-	21,464,448
2012-13	<b>14,130,040</b>	<b>2,926,441</b>	<b>519,828</b>	<b>2,600,054</b>	<b>1,946,484</b>	<b>587,422</b>	<b>15,102</b>	<b>247,992</b>		<b>22,973,363</b>



Source:  
 City of Los Altos Finance Department

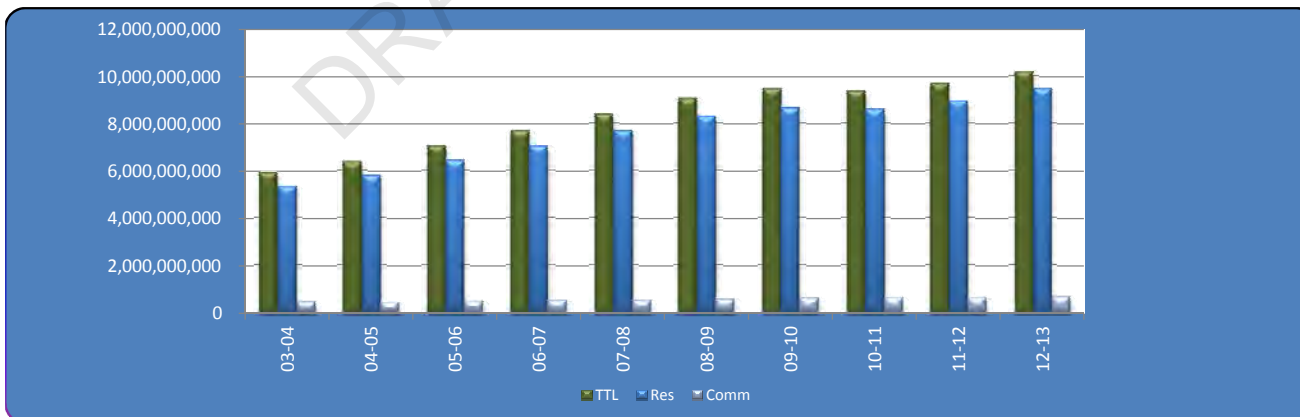
**City of Los Altos**  
**Assessed Value of Taxable Property**  
**Last Ten Fiscal Years**

Fiscal Year	Residential Property	Commercial Property	Other	Net Unsecured	Total Taxable Assessed Value (1)	Total Direct Tax Rate (2)	% Change
2003-04	\$ 5,323,684,512	\$ 434,476,752	\$ 82,641,608	\$ 83,406,442	\$ 5,924,209,314	1%	8.79%
2004-05	5,793,122,535	420,622,052	81,325,037	78,123,781	6,373,193,405	1%	7.58%
2005-06	6,426,969,808	457,811,338	81,562,137	79,379,615	7,045,722,898	1%	10.55%
2006-07	7,015,252,860	495,435,150	83,502,556	82,870,129	7,677,060,695	1%	8.96%
2007-08	7,682,199,728	533,699,456	84,676,730	91,811,067	8,392,386,981	1%	9.32%
2008-09	8,305,988,140	560,724,394	92,700,494	104,778,047	9,064,191,075	1%	8.00%
2009-10	8,664,368,487	601,026,893	71,365,214	114,641,890	9,451,402,484	1%	4.27%
2010-11	8,593,495,093	619,191,247	40,822,574	108,454,967	9,361,963,881	1%	-0.95%
2011-12	8,952,576,593	622,766,264	33,390,275	89,645,375	9,698,378,507	1%	3.59%
2012-13	9,435,595,105	647,992,387	36,465,129	82,124,561	10,202,177,182	1%	5.19%

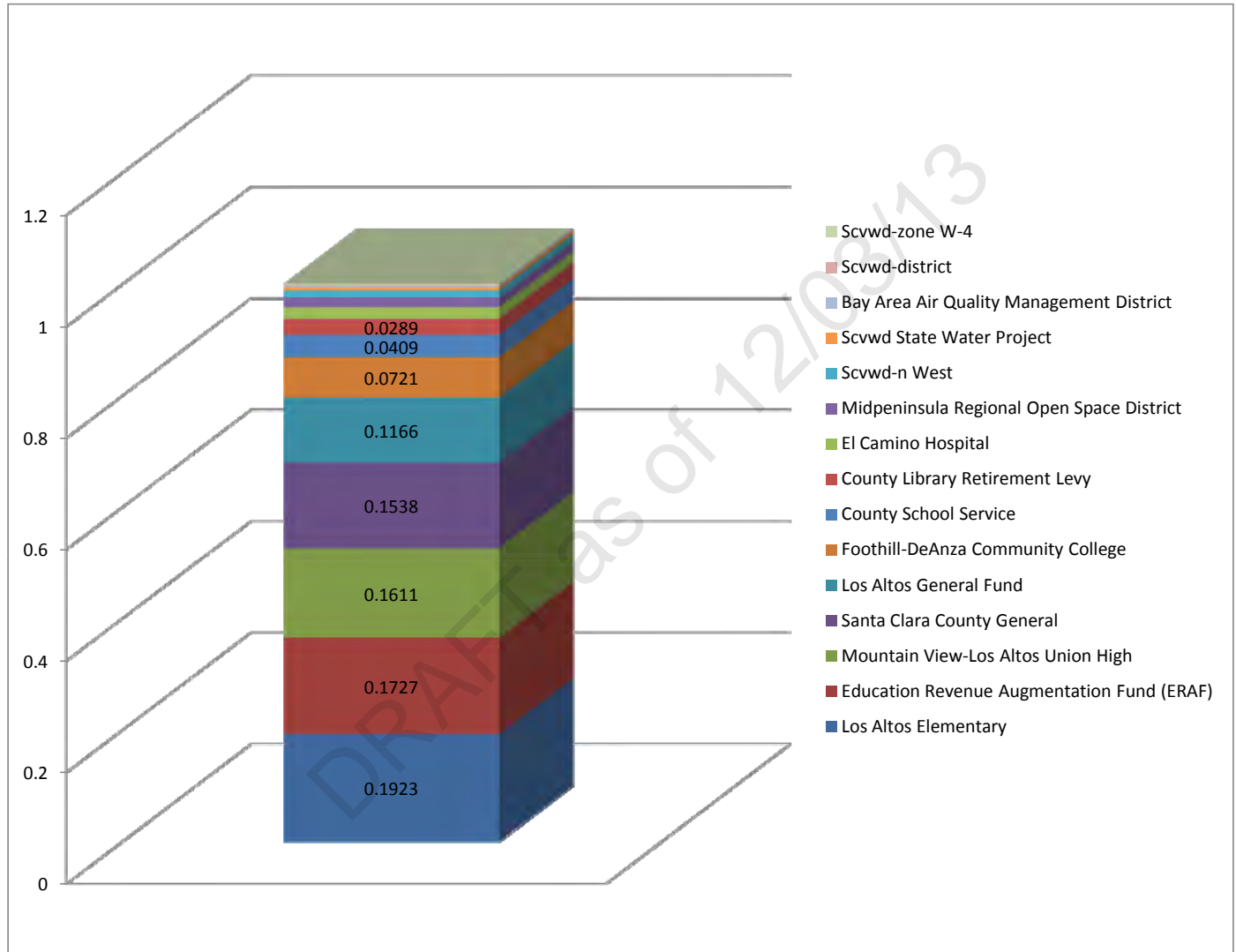
Source:  
HdL Coren & Cone

(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.

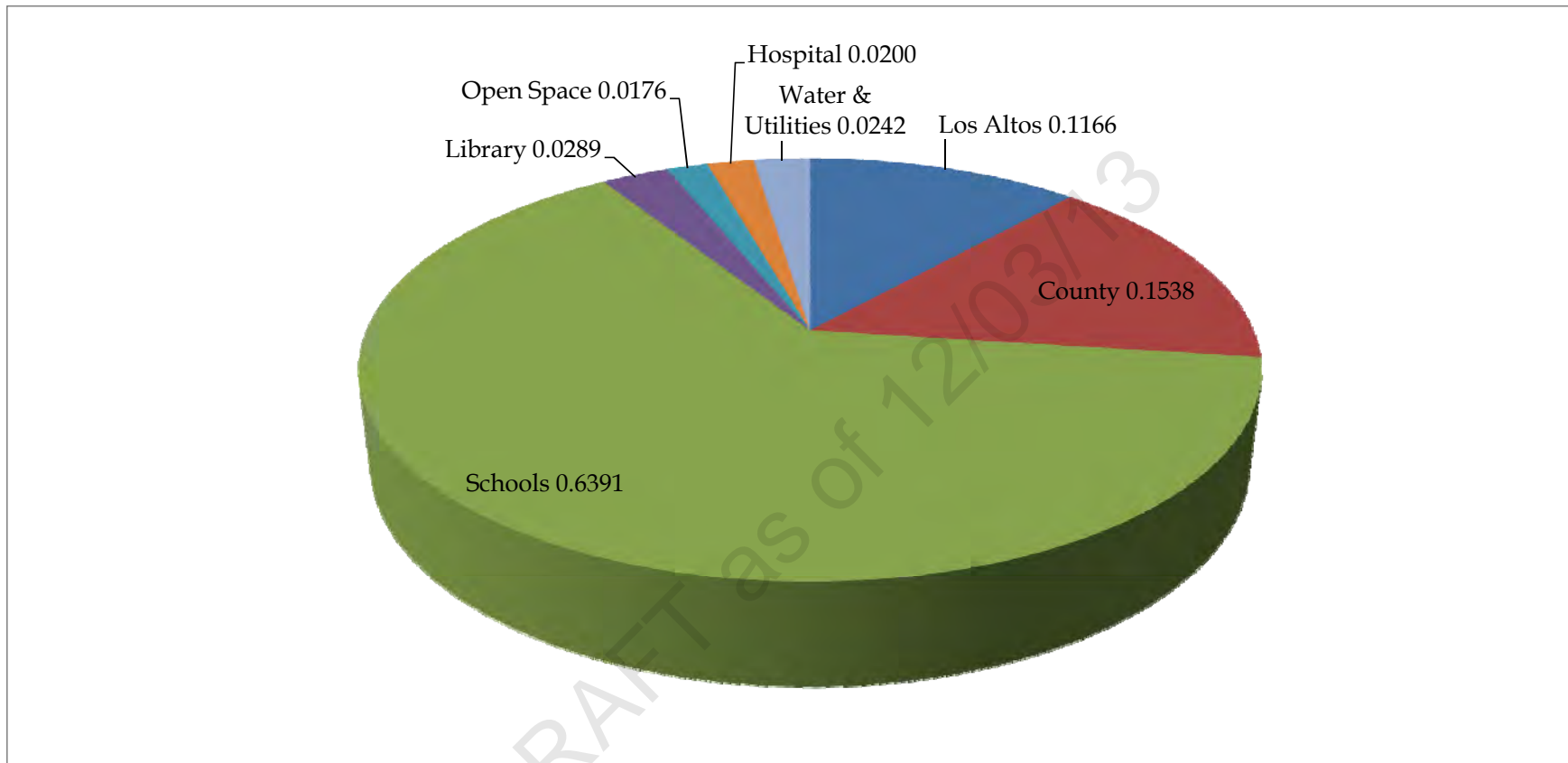


**City of Los Altos  
Property Tax Dollar Breakdown  
June 30, 2013**



Source:  
HdL Coren & Cone

City of Los Altos  
Property Tax Dollars By Recipient Group  
June 30, 2013



Source:  
HdL Coren & Cone

City of Los Altos

Direct and Overlapping Tax Rates

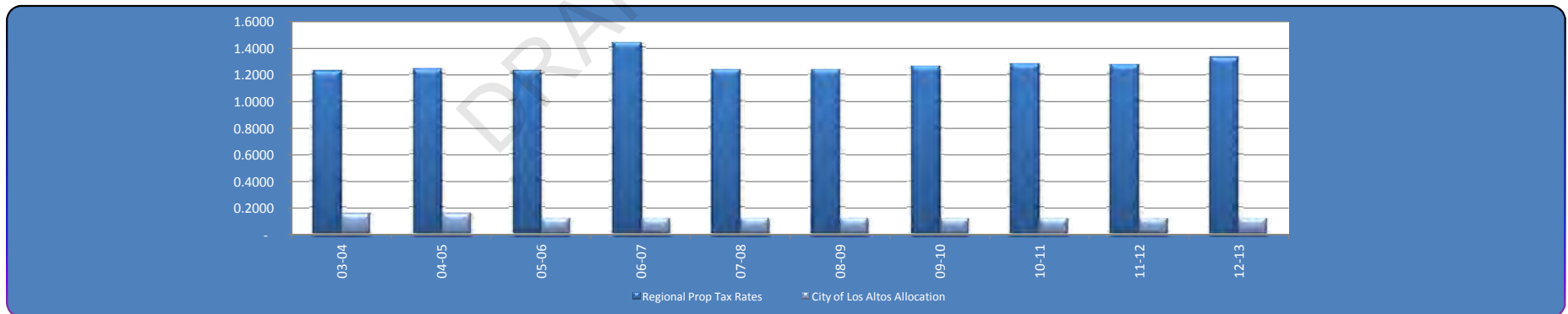
Last Ten Fiscal Years

(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
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
2011-12	1.0000	0.0388	0.0024	0.0595	0.0303	0.0290	-	0.0297	0.0147	0.0415	0.0064	0.0047	0.0129	1.26990
2012-13	1.0000	0.0388	0.0024	0.0579	0.0302	0.0598	0.0300	0.0287	0.0139	0.0390	0.0069	0.0051	0.0129	1.32560

Source:  
HdL Coren & Cone

(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	2012-13			2003-04		
	Total Assessed Value	Rank	% of City's Est. Total Property Tax Revenue	Total Assessed Value	Rank	% of City's Est. Total Property Tax Revenue
St Paul Fire & Marine Insurance Co.	\$ 41,333,262	1	0.41%			
Los Altos Gardens I LP	28,185,439	2	0.28%			
Springwood Apartments LLC	27,543,684	3	0.27%			
Palo Alto Medical Foundation	21,988,706	4	0.22%			
Compass Grand Los Altos LLC	21,839,716	5	0.21%			
KRC Los Altos Limited Partnership	21,232,298	6	0.21%	\$ 18,089,107	5	0.31%
4 Seasons Associates LLC	19,301,940	7	0.19%	21,127,848	4	
Los Altos Hotel Associates LLC	17,143,589	8	0.17%			
Village Court Partners	15,620,965	9	0.15%	13,543,865	6	0.23%
Whole Foods Market California Inc	13,137,942	10	0.13%			
Los Altos Office Associates				55,054,015	1	0.93%
David & Lucile Packard Foundation				25,304,777	2	0.43%
Kenneth T. Namimatsu, Et Al				22,912,365	3	0.39%
Rambus Inc				13,465,880	7	0.23%
Los Altos Woods LLC				10,549,426	8	0.18%
Los Altos -El Camino Associates LLC						0.00%
Cornerstone Properties I LLC				9,239,501	10	0.16%
Steve J. Vidovich				10,056,480	9	0.17%
<b>Total</b>	<b>\$ 227,327,541</b>		<b>2.23%</b>	<b>\$ 199,343,264</b>		<b>3.01%</b>
<b>City Total</b>	<b>10,202,177,182</b>			<b>5,924,209,314</b>		

Source:  
HdL Coren & Cone

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

Fiscal Year	Santa Clara County			
	Overall Secured Tax Levy	Overall Unsecured Tax Levy	Unsecured Tax Collections	Overall % Delinquent Unsecured
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%
2011-12	3,703,148,623	293,002,052	273,640,116	6.61%
2012-13	<b>3,877,675,089</b>	<b>301,164,764</b>	<b>292,131,302</b>	<b>3.00%</b>

**Note:**

The actual tax levy data for the City of Los Altos is not available because the Santa Clara County uses a factor known as the AB8 factors to apportion the 1% portion of the tax levies/collections to each of the jurisdictions within the county. The City's AB8 factors ranges from 0.0029 to 0.0033 for the past 10 years. Additionally, the City and the County adopted the "alternative method of property tax distributions" that authorizes the County to allocate 100% of the secured property tax based on levy instead of collection, and to retain all delinquent penalties and interest.

Source:  
County of Santa Clara



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

Fiscal Year	Governmental Activities			Total	Population (2)	Per Capita	Per Capita Personal Income (2)
	General Obligation Bond	Certificates of Participation (1)	Capital Lease				
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
2011-12	-	1,855,000	-	1,855,000	29,460	63	72,608
2012-13	-	1,760,000	-	1,760,000	29,792	59	74,570

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

Source:

- (1) City of Los Alto Finance Department
- (2) HdL Coren & Cone

City of Los Altos  
 Schedule of Direct and Overlapping Bonded Debt  
 June 30, 2013

**2012-13 Assessed Valuation :** \$ 10,202,177,182

	<b>Total Debt 6/30/2012</b>	<b>% Applicable (1)</b>	<b>Property Tax Payers Share of Debt 6/30/12</b>
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>			
Santa Clara County	\$ 805,800,000	3.306%	\$ 26,639,748
Foothill-De Anza Community College District	621,564,288	9.767%	60,708,184
Fremont Union High School District	299,550,108	4.332%	12,976,511
Mountain View-Los Altos Union High School District	68,522,058	26.278%	18,006,226
Cupertino Union School District	164,416,973	7.205%	11,846,243
Los Altos School District	78,515,560	53.678%	42,145,582
El Camino Hospital District	141,310,000	18.549%	26,211,592
Santa Clara Valley Water District Benefit Assessment District	123,100,000	3.306%	4,069,686
City of Los Altos 1915 Act Bonds (Assessment District Bonds)	796,000	100%	796,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			<u>203,399,772</u>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
Santa Clara County General Fund Obligations	\$ 819,956,840	3.306%	27,107,773
Santa Clara County Pension Obligations	378,994,822	3.306%	12,529,569
Santa Clara County Board of Education Certificates of Participation	10,400,000	3.306%	343,824
Foothill-De Anza Community College District Certificates of Participation	17,225,000	9.767%	1,682,366
Mountain View-Los Altos Union High School District Certificates of Participation	4,605,000	26.28%	1,210,102
<b>City of Los Altos Certificates of Participation</b>	1,760,000	100%	1,760,000
Midpeninsula Regional Park District General Fund Obligations	135,649,717	5.70%	7,732,034
Santa Clara County Vector Control District Certificates of Participation	3,455,000	3.306%	114,222
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>52,479,890</u>
TOTAL DIRECT DEBT			1,760,000
TOTAL OVERLAPPING DEBT			<u>254,119,662</u>
COMBINED TOTAL DEBT			<u>\$ 255,879,662 (2)</u>

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

<u>Ratios to Assessed Valuation:</u>	
Total Direct Debt (\$ 1,760,000)	<b>0.02%</b>
Total Overlapping Tax and Assessment Debt	<b>1.99%</b>
Combined Total Debt	<b>2.51%</b>

Source:  
 California Municipal Statistics, Inc.

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>
2003-04	\$ 5,924,209,314	\$ 888,631,397	\$ -	\$ 888,631,397
2004-05	6,373,193,405	955,979,011	-	955,979,011
2005-06	7,045,722,898	1,056,858,435	-	1,056,858,435
2006-07	7,677,060,695	1,151,559,104	-	1,151,559,104
2007-08	8,392,386,981	1,258,858,047	-	1,258,858,047
2008-09	9,064,191,075	1,359,628,661	-	1,359,628,661
2009-10	9,451,402,484	1,417,710,373	-	1,417,710,373
2010-11	9,361,963,881	1,404,294,582	-	1,404,294,582
2011-12	9,698,378,507	1,454,756,776	-	1,454,756,776
2012-13	<b>10,202,177,182</b>	<b>1,530,326,577</b>	-	<b>1,530,326,577</b>

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 (1)	Per Capita Personal Income (1)	Median Age (1)	% of H School Degree (1)	% of C School Degree (1)
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	0.00%	8,035	0.87%	5.7%	73,414	45.3	98.10%	76.80%
2011-12	29,460	2.07%	8,138	1.28%	4.9%	72,608	45.4	98.50%	78.20%
2012-13	29,792	1.13%	8,198	0.74%	3.2%	74,570	45.8	98.70%	76.70%

Sources:

(1) HdL Coren & Cone

(2) State of California Department of Education

**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

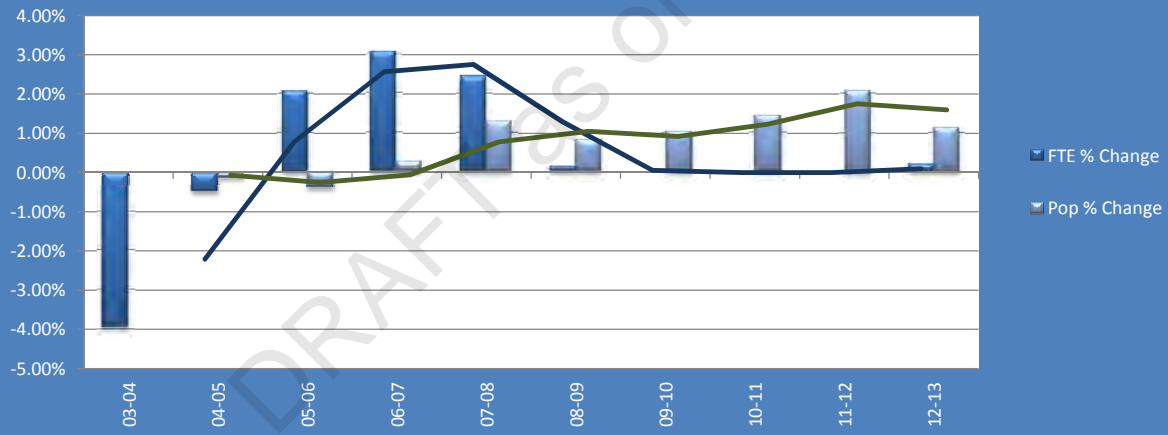
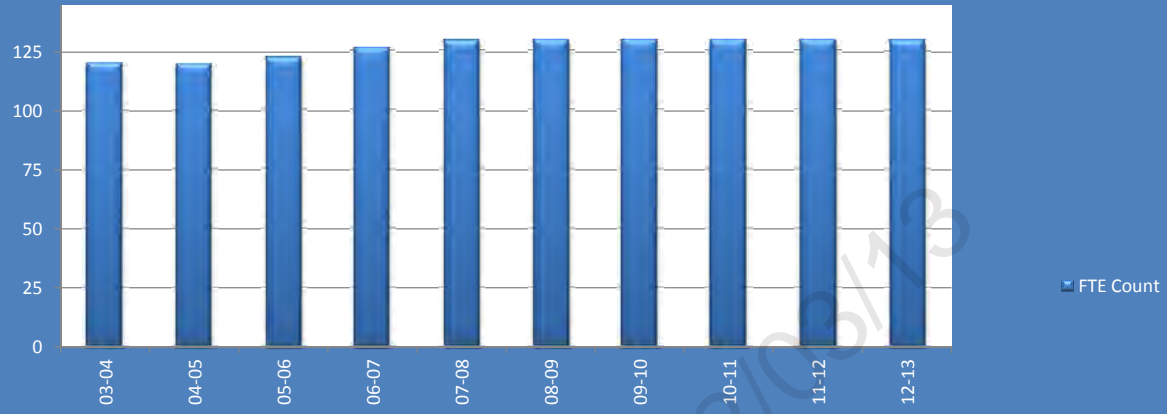
City of Los Altos  
 Full-time Equivalent City Employees by Function/Program  
 Last Ten Fiscal Years

Function/Program	Fiscal Year										
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2010-11	2011-12	2012-13
<i>Public Safety *</i>											
Police Operations	35.50	35.50	35.50	36.50	36.50	36.50	32.00	32.00	32.00	32.00	32.00
Police Traffic Safety	2.00	2.00	2.00	2.00	2.00	2.00	5.00	5.00	5.00	5.00	4.00
Communications	8.50	8.50	8.50	8.50	8.50	8.50	11.00	11.00	11.00	11.00	11.00
Fire (Contract Basis)	-	-	-	-	-	-	-	-	-	-	-
<i>Maintenance Services</i>	27.00	26.50	28.00	29.50	30.00	29.00	29.50	29.50	29.50	29.50	29.50
<i>Recreation</i>	8.25	8.25	8.25	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00
<i>Community Development</i>											
Planning & Building	12.00	12.00	12.00	12.50	13.00	13.00	13.00	13.00	13.00	13.00	14.00
Engineering	7.25	8.00	9.00	9.00	9.00	9.00	8.00	9.00	9.00	9.00	9.00
Economic Development	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.00	1.00	1.00	1.00
<i>Administration</i>											
City Management	3.60	3.50	3.50	4.25	4.10	6.25	5.75	4.75	4.75	4.75	5.00
Administration & Finance	9.00	9.00	9.00	9.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00
<i>Sewer</i>	6.75	5.75	5.75	6.75	6.75	6.75	6.25	6.25	6.25	6.25	6.25
<i>Solid Waste</i>	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<i>Storm Drain</i>	0.25	0.50	0.50	1	1	1	1	1	1	1	1
<b>Total</b>	120.85	120.25	122.75	126.50	129.60	129.75	129.75	129.75	129.75	129.75	130.00

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									
	2003-04	2004-05	2005-06	2006-07	2007-08 *	2008-09 *	2009-10 *	2010-11 *	2011-12 *	2012-13 *
<i>Police:</i>										
Arrests	532	528	383	453	449	630	634	396	301	308
Moving citations issued	4,236	3,193	3,306	3,197	2,435	2,926	1,879	1,437	1,385	1,285
Parking citations issued	828	1,197	1,040	2,295	2,455	2,015	1,531	960	1,938	1,947
Municipal code violations issued	499	249	376	522	552	458	580 (2)	21	25	56
<i>Public Works:</i>										
Crack sealing in lineal feet	18,400	41,500	241,000	55,028	52,000	105,600	53,326	56,984	66,290	98,136
Street sign installed and replaced	3,094	517	578	434	245	206	1,042	117	1,361	511
<i>Recreation:</i>										
Classes/programs	2,078	1,981	2,384	1,890	1,781	1,332	1,604	1,714	1,821	2,675
Facility rentals	500	440	419	589	583	3,154	4,010 (1)	2,462	3,106	2,702
Field/gymnasium permits	20	49	74	77	127	3,529	2,774 (1)	2,415	3,658	3,388
<i>Planning:</i>										
Plan applications submitted	303	259	290	340	331	376	318	335	404	510
<i>Building:</i>										
Permits issued	1,651	1,735	1,871	1,733	1,759	1,602	1,711	1,706	1,690	1,817
Plan checks submitted	322	284	461	335	485	522	455	537	560	636
Inspections	6,447	5,593	7,742	7,307	7,236	6,204	5,788	6,203	7,108	6,631
<i>Sewer:</i>										
Cleaning and flushing in lineal feet	963,683	928,997	1,380,984	810,261	1,100,150	732,162	434,250	596,006	852,453	777,285
<i>Storm Drain:</i>										
Catch basin/storm drain cleaned (measured in storm inlets cleaned)	1,825	2,282	2,111	1,754	1,827	1,459	2,823	3,038	1,583	1,202

Source: City of Los Altos Quarterly Reports.

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

Note:

- (1) Data reflect uses instead of reservation.
- (2) Change in reporting from reported to issued



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

Function/Program	Fiscal Year									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Public Safety</i>										
Police Station	1	1	1	1	1	1	1	1	1	1
Fire Stations	2	2	2	2	2	2	2	2	2	2
<i>Recreation:</i>										
Number of Parks	10	10	10	10	10	10	10	10	10	10
Park Acreage	38	38	38	38	38	38	38	38	38	38
Number of Libraries	2	2	2	2	2	2	2	2	2	2
Number of History Museum	1	1	1	1	1	1	1	1	1	1
<i>Maintenance Services</i>										
Miles of Streets	125	125	125	127	127	127	127	127	127	127
Number of Traffic Signals	14	14	14	13	13	13	13	13	13	13
<i>Sewer:</i>										
Miles of Sewer Mains	141	141	141	141	141	141	141	141	141	141
<i>Storm Drain:</i>										
Miles of Storm Drain Mains	58	58	58	58	58	58	58	58	58	58

Source:  
 City of Los Altos

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

<b>Non City Obligation Debt Special Assessment Debt Service</b>																
Fiscal Year	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
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
2011-12				13,328.36	8,000.00	2,204.00	27,216.28	16,000.00	9,068.00	48,104.31	12,880.00	34,490.00	88,648.95	36,880.00	45,762.00	1.07
2012-13				13,587.58	8,000.00	1,740.00	27,404.86	17,000.00	8,300.25	46,018.12	10,000.00	31,903.76	87,010.56	35,000.00	41,944.01	1.13

Source:  
 City of Los Altos Finance Department

Note : This chart presents Limited Obligation Debt that the City Administers on a trust and Agency Basis. This debt does not represent City Obligations

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