



DATE: December 8, 2014

AGENDA ITEM # 1

TO: Financial Commission

FROM: Kim Juran-Karageorgiou, Administrative Services Director

SUBJECT: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014

RECOMMENDATION:

- A) Receive staff and auditor presentation and discuss the draft CAFR
- B) Recommendation to proceed to present to City Council

BACKGROUND

The City's independent auditor, Maze and Associates, has completed the audit of the City's financial statements and provided their auditor reports for the fiscal year ended June 30, 2014. This year represents the first year for the City's auditor, Maze and Associates. The City has once again prepared its financial statements in the form of a Comprehensive Annual Finance Report for the Year Ended June 30, 2014, which contains three sections:

1. Introductory Section – This section includes the transmittal letter, list of principal officers, and an organization chart
2. Financial Section – This section includes the independent auditor's report, Management's Discussion and Analysis of the fiscal year, the basic financial statements and notes that explain the City's financial position and operating results, and supplementary statements, schedules, and notes that provide additional detailed information to the basic financial statements
3. Statistical Section – This section includes pertinent financial and non-financial statistical data that presents various economic, social, and demographic trends and other information about the City for the past ten years

DISCUSSION

The City has attained an unqualified audit opinion validating the fair and accurate presentation of its financial status as of June 30, 2014. The City continued to demonstrate its strong financial performance this past year, with revenues continuing to show strong recovery coupled with purposeful cost containment. The City also strengthened its reserves, obtaining its goal of a General Fund Reserve of 20% of operating budget, in addition to adding to other key reserves including the Other Post-Employment Benefits (OPEB) Reserve and PERS Reserve.

The Government-Wide Financial Statements provide a combined presentation of all the City's funds broken into two categories, Governmental Activities (General Fund and Special Revenue Funds) and Business-Type Activities (Enterprise Funds). Some highlights include:

- Increase in the City's net position (i.e. equity) of \$10.3 million or 9% over the prior year.
- Total City assets of \$123 million, with \$106 million in governmental activities and \$17 million in business-type activities.
- Total City liabilities decreased by \$1.8 million, reflecting continued commitment to contain and pay down existing liabilities to the extent feasible. Further information on the City's long-term debt can be found in Notes 5 and 6 in the Notes to the Financial Statements.
- Total government-wide revenues of \$47.2 million, a 9% increase from the prior year with approximately \$39.9 million or 84% attributable to Governmental activities and the remaining \$7.3 million or 16% related to Business-Type Activities.
- Total government-wide expenses of \$37 million, a 4% decrease from the prior year. This decrease in expenses is largely attributable to salary savings resulting from staff vacancies during the course of the fiscal year.

The Fund Financial Statements present the City's Major Funds (General Fund, In-Lieu Park, Capital Projects, and Equipment Replacement Funds) and the City's Proprietary Funds (Sewer, Solid Waste, and Storm Drain Fund). Some highlights in the Fund Financial Statements include:

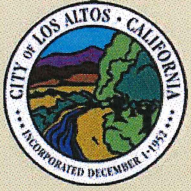
- The General Fund, the primary operating fund of the City, is presented together with the City's Real Property Proceeds Fund and Community Facilities Renewal Fund for the first time in the 2013/14 CAFR. This consolidated presentation is to clarify to the reader of the financial statements that the source of funding is unrestricted from outside funding sources.
- The General Fund realized revenues over expenditures and transfers out of \$5.5 million in 2013/14, of which \$2.8 million is attributable to the sale of property associated with the 400 Main Street Project
- General Fund revenues exceeded the budget by \$2.8 million at year-end, demonstrating continued improvement in the City's general revenue base.
- General Fund expenditures came in under budget by 6% primarily as the result of the continued deferral of the filling of authorized positions in 2013/14 and budget management diligence at the department level
- The In-Lieu Park Fund increased by \$1.3 million during the 2013/14 fiscal year to reach an ending fund balance of just under \$5.9 million
- Sewer Fund revenues increased by \$1.2 million over the prior fiscal year as part of the new sewer rate model adopted in July 2013
- Sewer Fund net position increased by approximately \$1.8 million to bring the ending net position to \$14.4 million

While the CAFR provides favorable news for the City's finances, it is anticipated that the growth in revenues experienced during the 2013/14 fiscal year will taper off as the economy stabilizes.

The Transmittal Letter and Management Discussion and Analysis (MD&A) found in the first two sections of the CAFR, provide a more in-depth review and summary of the City's financial performance. Readers of the CAFR are encouraged to read these documents for a more thorough analysis of the financial statements.

ATTACHMENTS

- 1) Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014



City of Los Altos



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

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**CITY OF LOS ALTOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

**Prepared by
FINANCE DEPARTMENT**

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CITY OF LOS ALTOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

INTRODUCTORY SECTION:

Letter of Transmittal..... i

List of Principal Officers..... x

Organizational Chart xi

GFOA Certificate of Achievement xii

FINANCIAL SECTION:

Independent Auditor’s Report 1

Management’s Discussion and Analysis 5

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position 23

Statement of Activities..... 24

Fund Financial Statements:

Governmental Funds:

Balance Sheet 28

Reconciliation of the Governmental Funds - Balance Sheet with the Statement
of Net Position..... 31

Statement of Revenues, Expenditures, and Changes in Fund Balances 32

Reconciliation of the Net Change in Fund Balances - Total Governmental
Funds with the Statement of Activities..... 34

Proprietary Funds:

Statement of Net Position 36

Statement of Revenues, Expenses and Changes in Fund Net Position 37

Statement of Cash Flows.....38

Fiduciary Funds:

Statement of Fiduciary Net Position40

Notes to Basic Financial Statements41

CITY OF LOS ALTOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

FINANCIAL SECTION (Continued):

Required Supplementary Information:

Schedules of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual:

General Fund	72
In-Lieu Park Land Special Revenue Fund.....	73
Notes to Required Supplementary Information	74

Supplementary Information

Non-major Governmental Funds:

Combining Balance Sheet	80
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	82
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
Vehicle Impound Fund.....	84
Supplemental Law Enforcement Fund	85
Gas Tax Fund	86
Proposition 1B Fund.....	87
Downtown Parking Fund.....	88
Traffic Impact Fee Fund.....	89
Estate Donation Fund	90
TDA Fund.....	91
Debt Service Fund.....	92

Internal Service Fund:

Combining Statement of Net Position.....	94
Combining Statement of Revenues, Expenses and Changes in Net Position.....	96
Combining Statement of Cash Flows	98

Fiduciary Funds:

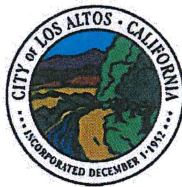
Combining Statements of Changes in Assets and Liabilities – All Agency Funds	102
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CITY OF LOS ALTOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

STATISTICAL SECTION:

Net Position by Component - Last Ten Fiscal Years.....	109
Changes in Net Position - Last Ten Fiscal Years	110
Fund Balances of Governmental Funds - Last Ten Fiscal Years	112
Changes in Fund Balance of Governmental Funds – Last Ten Fiscal Years.....	114
Tax Revenues by Source, Governmental Funds	116
Assessed Value of Taxable Property - Last Ten Fiscal Years	117
Property Tax Dollar Breakdown	118
Property Tax Dollars By Recipient Group.....	119
Direct and Overlapping Tax Rates– Last Ten Fiscal Years	120
Principal Property Taxpayers – Current Year and Ten Years Ago.....	121
Property Tax Levies and Collections – Last Ten Fiscal Years	122
Ratio of Outstanding Debt by Type – Last Ten Fiscal Years.....	123
Schedule of Direct and Overlapping Bonded Debt	124
Legal Debt Margin.....	125
Demographic Statistics - Last Ten Fiscal Years	126
Principal Employers – Current Year and Nine Years Ago.....	127
Full-Time Equivalent City Employees by Function/Program – Last Ten Fiscal Years	128
Operating Indicators by Function/Program – Last Ten Fiscal Years.....	130
Capital Asset Statistics by Function/Program – Last Ten Fiscal Years.....	131
Trust and Agency Debt Administration – Last Ten Fiscal Years	132

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

November 21, 2014

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, 2014 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 2013/14 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:

Homestead Road Safety Improvements	\$1,036,539
Annual Sewer Main Repairs	391,111
Tri-City Safety Public Safety Virtual Consolidation	309,116
Annual Sewer Root Foaming	158,255
Hillview Park and Community Center Project	135,987
IT Initiatives	106,986
Civic Facilities Capital Recovery Project	85,782
Pedestrian Master Plan	66,560
Portola Avenue Sidewalk	55,648
San Antonio Road Streetscape Construction	50,265
Fats, Oils, and Grease Program (FOG)	43,704
Fremont Avenue Bridge Replacement	32,127
ADA Transition Plan	19,418
Commercial Wayfinding	19,129
Climate Action Plan	14,804
Housing Element Update	14,402
Miramonte Ave & Covington Road Traffic Signal	11,019
Annual ADA Accessibility	10,153
Public Arts Projects	10,000

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 transportation safety improvements, sidewalk repairs, development of a Pedestrian Master Plan, 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.

Commercial Wayfinding Sign Program

The City Council was urged by local business associations to develop a cohesive, City-wide Wayfinding Sign Program in order to help guide visitors to key destinations and important resources within the area, such as commercial districts and public parking. A Wayfinding Task Force was formed consisting of representatives from the City, business groups, and business and property owners; the group provided input on the design, sign locations and messages. In June 2013, the City Council approved the design concept and allocated \$165,000 in the 2013/14 Capital Improvement Program (CIP) to fabricate and install the first phase of signs, which will be installed beginning in 2015 along key corridors including El Camino Real, Foothill Expressway, San Antonio Road and El Monte Road.

Downtown Parking Management Plan

Downtown Los Altos has transformed over the past several years and is now a thriving business district full of shops, restaurants and various specialty boutiques. That growth has brought with it an increased demand in prime parking locations. While the public parking lots adequately meet the need of parking demand during non-peak hours, lunchtime bustle puts a damper on many residents' efforts to park downtown. In response, the City Council approved the development of a Downtown Parking Management Plan in July 2012. The Plan was adopted in September 2013, and will serve as a framework for the implementation of parking management and supply strategies. Some short-term solutions have already been implemented including expanding the number of White Dot employee parking stalls and increasing enforcement of parking time limits. The City Council is currently evaluating additional recommendations outlined in the Plan.

The City Council is attuned to the efforts being put forth by the Los Altos Chamber of Commerce, which is working hard to promote the development of downtown business by developing community interest in constructing a public parking structure.

Climate Action Plan

State Assembly Bill 32 (AB 32), the Global Warming Solutions Act, was signed into law in 2006 and directed public agencies in California to support the State-wide target of reducing greenhouse gas (GHG) emissions to 1990 levels by 2020. One way to support AB 32 is through preparation of a climate action plan (CAP). In December 2013, the City Council adopted a Climate Action Plan for Los Altos, which includes a range of incentives, education, and regulations within five focus areas – Transportation, Energy, Resource Conservation, Green Community and Municipal Operations – and serves as a policy framework outlining how the City will achieve the GHG emission reduction target.

Enhanced Safety Technology

The City of Los Altos recently partnered with the cities of Palo Alto and Mountain View to implement new technology which allows all three Police communication centers to combine efforts in a 'virtual consolidation.' This innovative approach to public safety collaboration has merged the Computer Aided Dispatch System of each Police department and is in the process of merging the Records Management System and Field Based Reporting System. By combining forces, residents in all three cities can anticipate quicker response times and increased coverage in the event of disaster. It is anticipated that the upgraded system will be complete in 2015.

Homestead Roadway Improvements

Over \$1 million has been expended on the improvement of streetscape, pathway and road improvements on Homestead Road in south Los Altos. This capital improvement project 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 in 2012/13 as an important step to ensuring the long-term viability of this vital infrastructure. To ensure sufficient revenues were available to fund the identified improvements to the system, the City completed a five-year sewer rate study and adopted new sewer service charges in July 2013. A new billing model was necessary in order to address long-term sewer revenue deficiencies. The previous annual revenues from sewer services charges have not been adequate to fully cover annual operating and maintenance costs, in addition to capital project expenditures.

The main objective in developing the new rate structure was to create a billing plan that is fair and equitable to all sewer users while still providing the level of revenue needed to meet long-term costs. The new hybrid sewer service charge now calls for a base annual charge to all City parcels of \$209, accompanied by a sewer-use fee rate of \$1.66 per service unit. The median single-family parcel generates 110 sewer units, resulting in an annual combined sewer charge of \$391.60.

The new five-year schedule plans for incremental rate increases for both fixed and sewer-use charges. The increases for the average ratepayer equate to approximately 7% annually over the life of the schedule. The additional revenue generated will cover annual operating and maintenance costs and a portion will be applied toward expanding and upgrading the Palo Alto Regional Water Quality Control Plant which serves Los Altos, Los Altos Hills, Mountain View, Palo Alto, East Palo Alto and Stanford.

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 requirements of Government Accounting Standards Board (GASB) Statement No. 54. GASB 54 requires the fund balance of governmental funds to be classified to the extent that the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent, further described in financial note 7 in the CAFR.

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 2013/14, 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. The City continues to maintain adequate funding levels to cover the cost of its actuarial obligations, but these rising cost areas will require continued attention in the coming years.

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 11 of the CAFR and the related liabilities reflected in the statements. As of June 30, 2014, the City's net OPEB

obligation was valued at \$1,204,602, an amount reflected in the government-wide statements. Over the past three budget cycles, the City has earmarked and set aside \$850,000 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 MD&A. This section highlights key financial performance indicators for the City's major funds.

General Fund

The General Fund, the primary operating fund of the City, is presented together with the City's Real Property Proceeds Fund and Community Facilities Renewal Fund for the first time in the 2013/14 CAFR. This consolidated presentation is to clarify to the reader of the financial statements that the source of funding is unrestricted in its use from outside funding sources. The City continues to show the fund balance in both the Real Property Proceeds Fund and Community Facilities Renewal Fund as Assigned for Capital and Equipment as in prior year CAFRs.

The General Fund performed extremely well realizing operating revenues over expenditures of \$7.4 million, of which \$2.8 million is attributable to the sale of property associated with the 400 Main Street project. This remaining surplus results from the City's continuing commitment to cautious financial planning, conservative budget estimates and dedicated departmental stewardship. Continued improvement in the City's revenue base resulted in revenues exceeding 2013/14 budget by \$2.8 million. At year end, the total General Fund balance equaled \$28.6 million with an unassigned fund balance of \$1.4 million after commitments and assignments of \$27.2 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) and California Public Employee Retirement System (PERS) retirement costs as directed per Council's discretion.

Considering the transfer and use of reserve activity listed below, the final General Fund balance still increases by \$5.5 million. This non-operating and transfer activity is summarized as follows:

- \$1.2 million transfer out of operating surplus reserves to the Capital Projects Fund
- \$152,000 transfer out to fund Storm Drain Fund activities
- \$300,000 transfer out to fund equipment replacements
- \$167,000 transfer out for general debt service payments
- \$190,000 transfer in from the Gas Tax Fund for supporting engineering operations
- \$92,000 transfer in from public safety grant funds
- \$26,000 transfer in from safety vehicle impound fees

The recovery of the General Fund revenue stream indicates that the City has emerged from the recent economic downturn and that greater stability in future revenues can be anticipated. Most notably, property tax trends continue to show encouraging growth with 2014 realizing 12% gains in addition to the 6% gain in the 2012/13 fiscal year. A table of year-to-year comparisons of key General Fund revenues follows:

<i>Revenue (billions)</i>	<i>2014 Actual</i>	<i>2013 Actual</i>	<i>Variance \$</i>	<i>Variance %</i>
<i>Property Tax</i>	\$15.86	\$14.13	\$1.73	12.24%
<i>Sales Tax</i>	2.81	2.93	(0.12)	-4.10%
<i>Hotel Tax</i>	2.17	1.95	0.22	11.28%
<i>Utility Users Tax</i>	2.6	2.6	0.00	0.00%
<i>Other Taxes</i>	1.33	1.12	0.21	18.75%
<i>Franchise Fees</i>	1.9	1.77	0.13	7.34%
<i>Interest</i>	0.09	0.08	0.01	12.50%
<i>Recreation</i>	1.95	1.86	0.09	4.84%
<i>License and Permits</i>	3.8	3.24	0.56	17.28%
<i>Other</i>	2.9	1.6	1.30	81.25%

General Fund revenues have increased robustly by 15% in total compared to the 2012/13 fiscal year, and by 6% when adjusted for the one-time revenue from the sale of 400 Main Street. Revenues came in at 108% 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 dropped off by 4% as anticipated during the closure and remodel of a major retailer during the 2013/14 fiscal year. Tourism continues its recovery as indicated by the hotel tax gains of over 11% following a 9% increase last year. Interest income continues to fall and gains in this area will be modest at best as interest rates remain at or near all-time lows. Utility users and Real Estate transfer tax continued to perform well meeting their budget estimates. License and permit fees continued to show strong growth with residential remodel and rebuilding activity maintaining a strong pace. Recreation programs generated revenues of 4.8% above last year banner levels. Franchise Fees also showed a 7% growth over the prior year, rounding out a year in which all but one of the City's 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 the continued deferral of the filling of additional authorized positions in 2013/14 and continued budget management diligence at the department level. Compared to last year, expenses increased by \$458K or 1% mostly driven by labor, benefits and professional service costs.

Even with the welcome signs of strength noted above, 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 \$2.8 million, ending the year with a total Fund balance of \$4.15 million. 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.

Given the significant private developments in Los Altos, the Traffic Impact and Park in-Lieu Funds have grown substantially with balances of \$2 million and \$5.9 million respectively. Lastly, the Equipment Replacement Fund finished the year with a balance of \$3.5 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 \$4.1 million while Enterprise funds ended the year with a combined net position of \$16.8 million.

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

ECONOMIC TRENDS

Recent forecast have indicated that the State economy will continue to show strong signs of growth, with a particularly strong economic forecast in the Silicon Valley. Consumer spending is anticipated to increase and the local housing market is expected to continue to be strong into 2015. As we begin preparation for the upcoming two-year FY 2015/17 budget cycle, we remain watchful of long-term financial issues affecting municipalities such as rising pension and healthcare costs.

INDEPENDENT AUDIT

The public accounting firm of Maze and Associates was selected this year as a new firm to perform the annual independent audit as part of the City's rotation practice. The independent 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, 2013. This was the eighth 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.

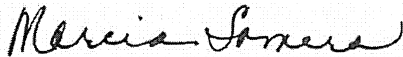
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

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 Jocelyn Misola. 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 Maze and Associates, 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



Kim Juran-Karageorgiou
Administrative Services Director

City of Los Altos
List of Principal Officials
As of June 30, 2014

ELECTED OFFICIALS

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

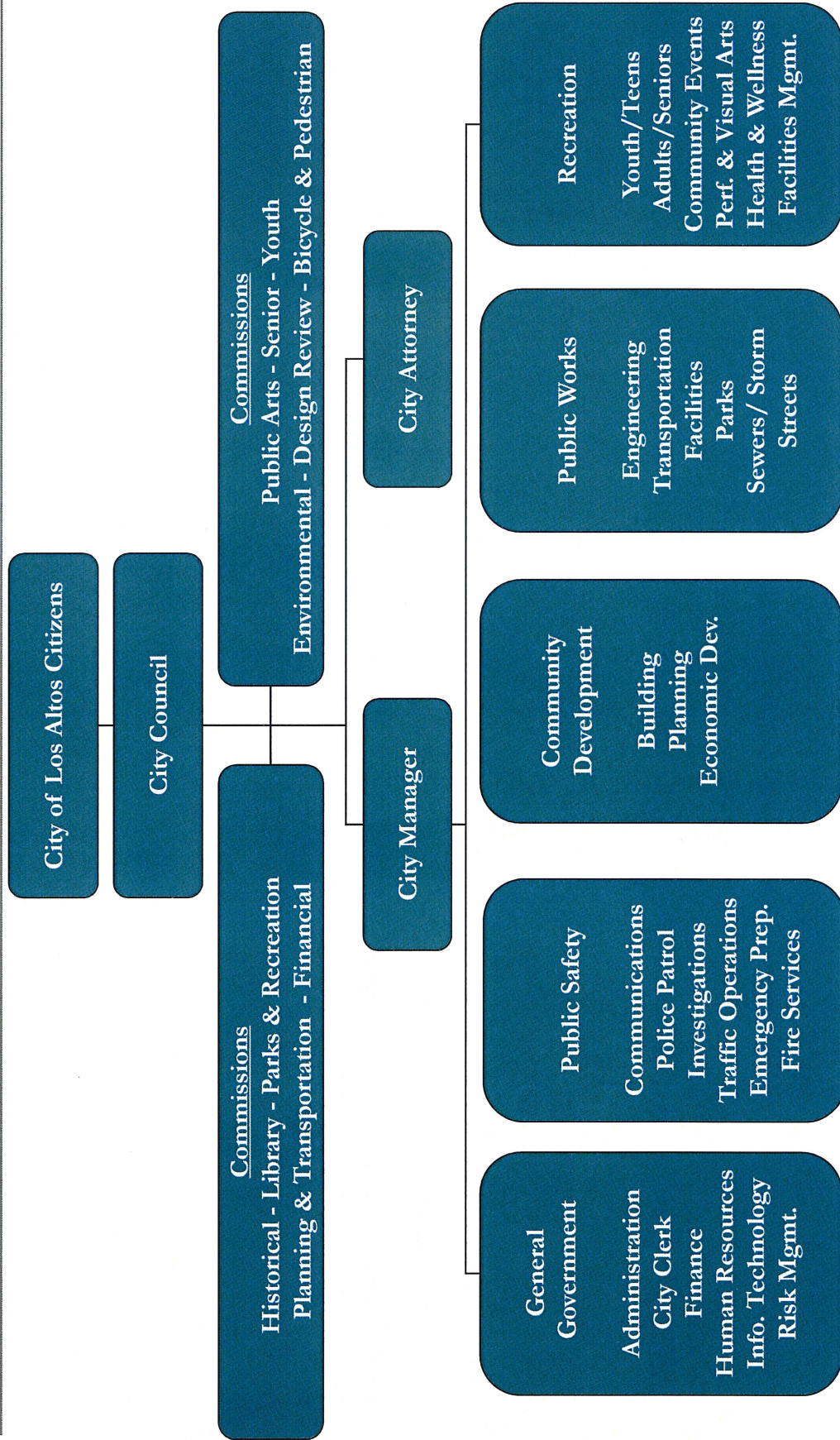
APPOINTED OFFICIALS

City Manager	Marcia Somers
City Attorney	Jolie Houston

EXECUTIVE TEAM

Assistant City Manager /Community Development ..	James Walgren
Assistant City Manager	J Logan
Chief of Police	Tuck Younis
Admin Services Director	Kim Juran-Karageorgiou
Public Works Director	Jim Gustafson
Recreation Director	Vacant

City of Los Altos Organizational Chart June 30, 2014



A Great Place to Live & Raise a Family



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, 2013

Executive Director/CEO

INTRODUCTORY SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof listed as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014 that affected the format and nomenclature of the financial statements:

Statements 65 – *Items Previously Reported as Assets and Liabilities*. See Note 10 to the financial statements for relevant disclosures.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information for the General Fund and Major Special Revenue Funds 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Supplemental Information, and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **BFS Opinion Date**, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Pleasant Hill, California
Opinion Date

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City of Los Altos
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

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, 2014. Readers are encouraged to consider this information in conjunction with the executive summary provided in the letter of transmittal that can be found on pages i to ix of this report.

FINANCIAL HIGHLIGHTS

The City ended its fiscal year on a government-wide basis with total revenues of \$47.2M, a 9% increase from the prior year, and expenses of \$36.9, a decrease of 4%. The results represent combined government and business operations, with an overall increase in net position of \$10.3 million due to an improved revenue forecast along with contained expenditures in the governmental activities. These favorable fiscal results have continued to strengthen the City's reserves and allow the City to continue proactive capital project plans.

Operational revenue gains were noted in property, hotel occupancy, and business license and taxes as well public works and recreation programming. As expected, community development fees decreased in 2014 from the prior year amount which included revenues from several significant landmark developments that began construction in 2013. No revenue declines of note were observed beyond the anticipated drop in interest income. Sewer revenues increased as part of a multi-year rate increase program to facilitate future operational and capital needs.

The decrease in Government-wide expenses is the result of continued focus on cost control and additional hiring deferrals as the City recovered from the economic downturn of 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.

The City has made significant progress on many capital improvement initiatives, which include ADA accessibility improvements, the resurfacing and restriping of City streets, and streetscape improvements in the City's downtown. The City has also 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 position (excess of assets over liabilities) equaled \$112M, an increase of \$10.3M, or 9%. Approximately 78% of this increase is attributable to governmental activities and the remaining 22% comes from business-type activities. These assets represent the City's total net holdings and are not necessarily unrestricted depending upon the source of the original funding.
- Unrestricted net position equals \$35.7 million, a decrease of \$2 million, or 5%. Governmental unrestricted net position totaled \$27.6M at year end, a decrease of \$2.3M, while business activities related unrestricted assets totaled \$8.1M, an increase of \$3.3M. The decrease in unrestricted governmental net position results from an increase in the amount of funds committed for special programs and capital improvement projects. It is important to note that unrestricted net position, 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 position of \$95.5M, an increase of \$8.1 million, or 9%. The increase in government assets arises from positive operating results, sale of capital assets (land) and cost containment.
- Business activities reported ending net position of \$16.8M, an increase of \$2.2 M or 14% due to positive operating results in the Sewer and Solid Waste Funds with partial offsets of Storm Drain activity losses.
- On a combined basis, restricted net position amounted to \$17.6M vs. \$7.4M last year and represents the extent to which funds are categorically constrained.

Fund Level View

- The General Fund realized an operating surplus of \$7.4M or \$5.5M above the prior year. Nearly 37% of this surplus is attributable to the receipt of one-time funds from the sale of property.
- General Fund revenues, excluding transfers, increased significantly over prior year actuals by \$4.7M or 15% to \$36M. Current year results also exceeded budget estimates by 8%. Related expenditures increased by \$458,000 to \$28.6M, or 1.6%, a pace of growth nearly 50% below the prior year trend.
- Total governmental fund balances equaled \$46.2M at fiscal year-end, a strong increase of \$7.3M, or 19%, due to increased tax dollars, one-time funds from the sale of property, focused cost savings efforts, and 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 totaled approximately \$2.9M. The level of capital reinvestment in Los Altos reflects a sustained focus on the maintenance of streets, facilities, traffic calming efforts and safety. As a result, the Capital Improvements Projects Fund

balance decreased by \$688,000 net of incoming grant and special purpose revenues to end the year at \$4.2M.

- The in-lieu Park Fund ended the year with a fund balance of \$5.9M and displaying strong growth of \$1.3M given the continuing level of private development advanced in the past year.
- The Equipment Replacement Fund balance decreased by \$201,000 to \$3.5M 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 position of \$1.8M. Sewer revenues of \$6.3M were 24% higher than in 2013 as a result of a multi-year rate increase program focused on significant capital investments in the City's sewer infrastructure. Operating expenses remained almost the same as the prior year at \$4.6M. A review of maintenance expenses reflects continued attention to system maintenance.
- As 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 had minimal changes from the prior year, with an increase of \$2,900 in the Workers Compensation Fund and a \$32,000 decrease in the Liability Fund. The Workers' Compensation Fund ended the year with an unrestricted net position of \$735,000, an increase of \$523,600. The General Liability Fund ended the year with unrestricted net position of \$519,500, an increase of \$197,500. Both funds cover their actuarial valuations, which coupled with a proactive risk management program, make the City well positioned to address claim liabilities.
- Other Non-major Governmental Funds ended the year with a total combined fund balance of \$4.1M, an increase of \$1.3M or 47%.

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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net

position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, maintenance and public works services, planning, building, engineering and recreation. The City's business-type activities include water, wastewater, storm water and parking.

The government-wide financial statements can be found on pages 23 to 25 of this report.

Reporting on the City's Most Significant Funds

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

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

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

The City maintains 24 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Project Fund, Equipment Replacement Fund, Real Property Proceeds Fund and the Community Facilities Renewal Fund, all of which are considered to be major funds. Data from the other 19

governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in the fund financial statements section of this report.

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

The basic governmental fund financial statements can be found on pages 28 to 34 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 36 to 38 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 41 to 70 of this report.

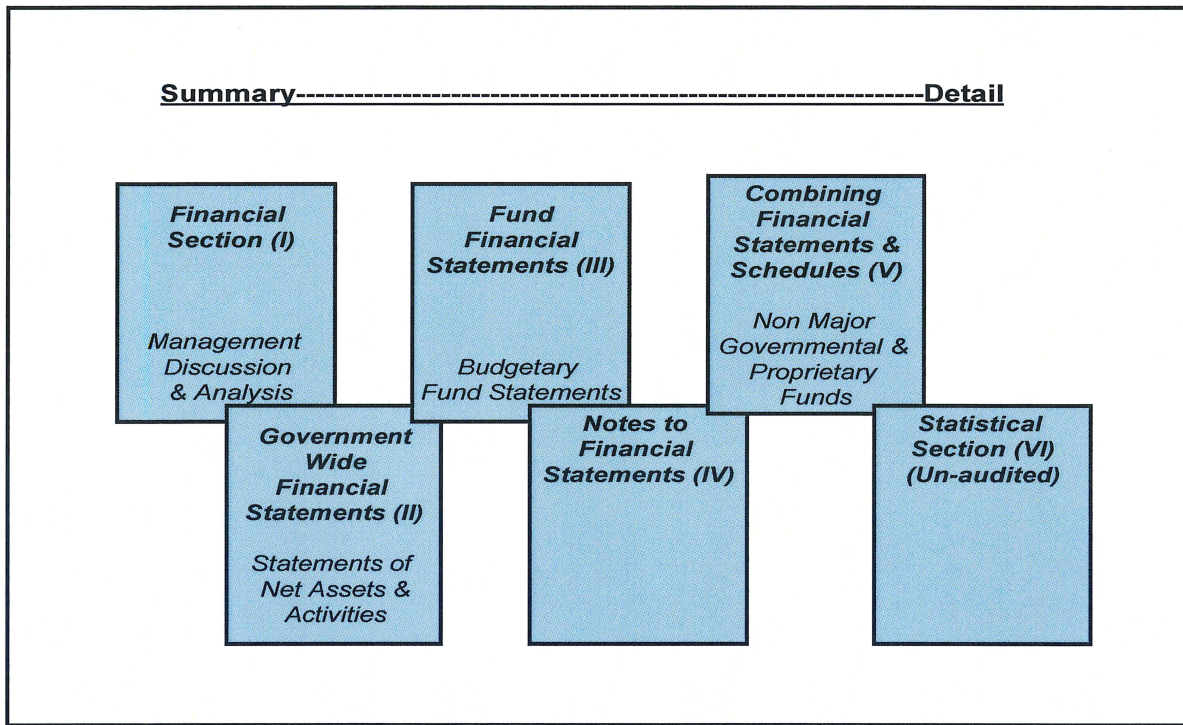
Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budget-to-actual financial comparisons for the General Fund. The City has elected to present this information within the 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 position and changes in net position at the City-wide level as presented in the statement of net position and statement of activities which are summarized below as of June 30, 2014. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. On a combined basis, the City experienced an increase of \$10.2M or 10% in net position. A summary is noted below:

City of Los Altos Net position

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Cash and Investments	\$ 52,467,447	\$ 46,350,260	\$ 7,835,171	\$ 7,923,383
Other Assets	1,240,888	1,256,034	721,296	353,919
Capital Assets	51,829,474	51,767,330	8,717,527	6,773,419
Total Assets	\$ 105,537,809	\$ 99,373,624	\$ 17,273,994	\$ 15,050,721
Bond Debt	1,665,000	1,760,000		-
Other Liabilities	8,469,163	10,202,786	469,571	434,467
Total Liabilities	\$ 10,134,163	\$ 11,962,786	\$ 469,571	\$ 434,467
Net Position				
Net Investment in Capital Assets	50,164,474	50,102,330	8,717,527	6,773,419
Restricted	17,629,321	7,405,661		
Unrestricted	27,623,571	29,902,812	8,086,896	7,842,871
Total Net Position	\$ 95,417,366	\$ 87,410,803	\$ 16,804,423	\$ 14,616,290

Investment in capital assets makes up the largest portion of the City's net position, over fifty percent (52%). 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 position, sixteen percent (16%), represent resources subject to external spending restrictions. The remaining thirty-two (32%) of net position 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 11%, a factor of favorable operations, cost savings and collection of substantial one-time developments fees, which include nearly \$2 million in in-lieu park and traffic impact fees and \$3M from the sale of property.
- Net position equaled \$112M, an increase of \$10.2M or 10%, due to the resource flow activity noted above and the capitalization of completed projects.
- Substantial capital improvements, approximating \$2.9M, 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 position of \$16.8M at year end, a \$2.2M, or 15%, increase. The Sewer Master Plan has been completed along with a multi-year rate adjustment program to provide resources to address sewer infrastructure rehabilitation. 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 \$2.7M, or 7%, while total expenditures decreased by 4% or \$1.2M. Including all sources and uses, governmental net position increased by \$8.0M, or 9%, ending the year with a total fund balance of \$95.4M.

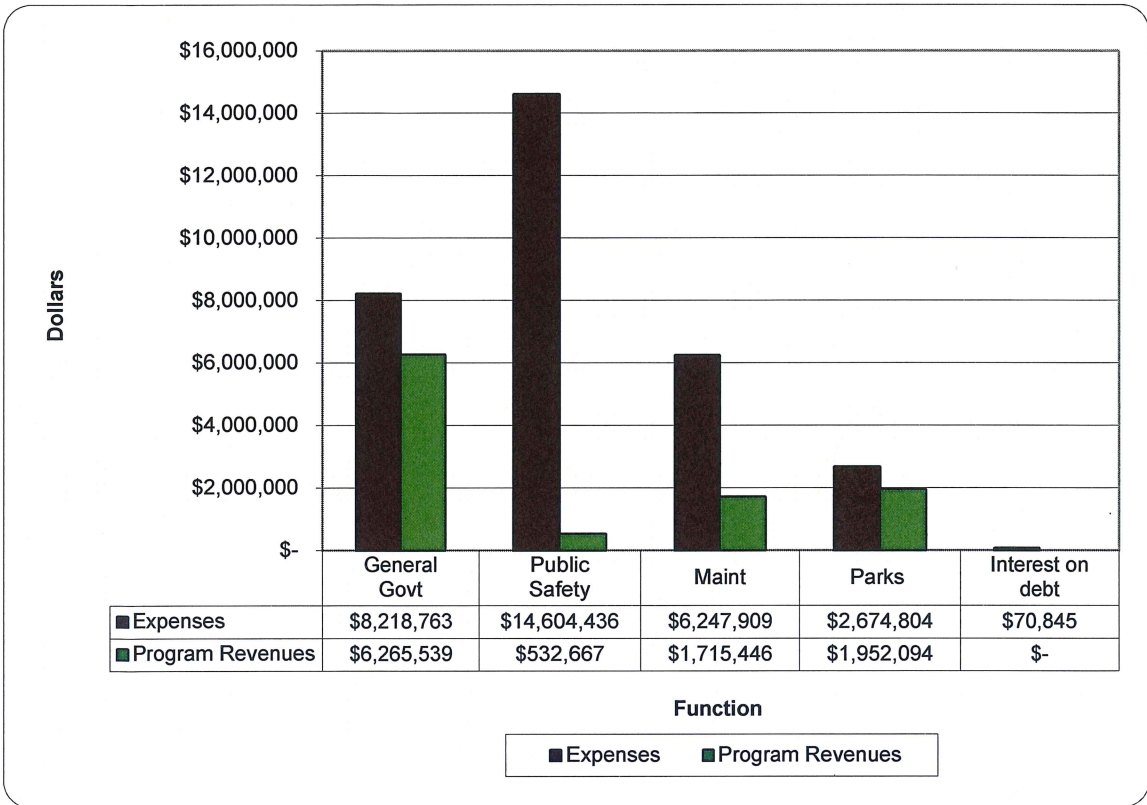
- Property tax continues to be the City's single largest source of revenue representing about 38% of general government-wide revenues. Property tax returned to a growth trend increasing by \$1.4M, or 10%.
- Charges for services, making up 21% of government revenues, decreased as expected as community development fees decreased from the prior year amount which included revenues from several significant landmark developments that began construction in 2013. This revenue category was again bolstered by gains in recreation programming and continuing strong levels in residential remodel and rebuilding activity. Both community development and recreation services continue to capitalize on their cost recovery goals.
- Other major taxes showed stability with an increase of \$258,000, or 2%, despite a 4% decrease in sales tax, which was anticipated during the closure and remodel of a major retailer in the City during the fiscal year. This decrease was offset by an 11% increase in hotel occupancy tax, and a 26% in building development tax.
- Interest revenues came in under budget and below prior year actuals by \$75,000 given continued historically low rates in line with the current Federal Reserve posture.
- Government expenses, including allocated capital maintenance costs, decreased by \$1.2 million or 4%. This decrease is the result of continued focus on cost control and additional hiring deferrals as the City recovered from the economic downturn of 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. 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:

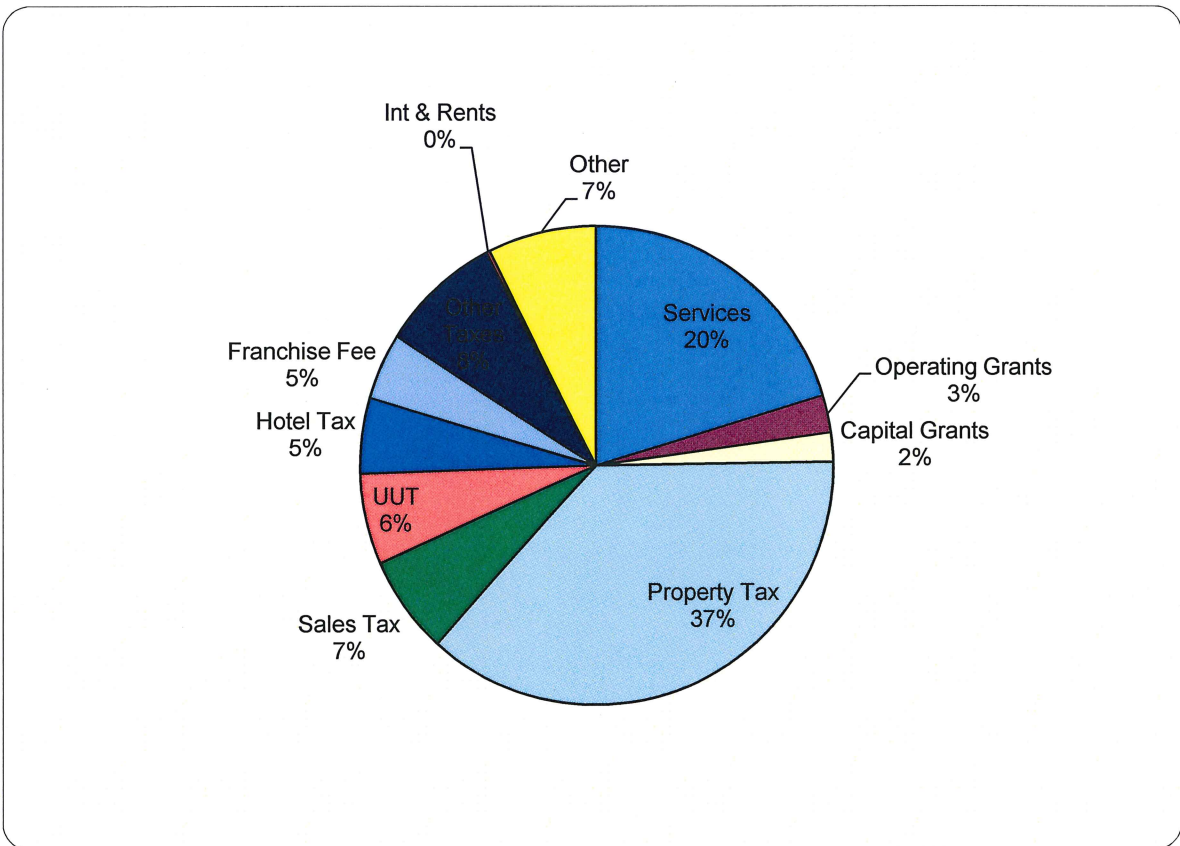
**City of Los Altos Changes in Net position
Fiscal Year Ending June 30, 2014**

	Government		Business	
	2014	2013	2014	2013
Revenues				
Program Revenue				
Charges for Services	\$ 8,566,404	\$ 10,620,376	\$ 7,112,752	\$ 5,999,417
Operating Grants and Contributions	1,066,009	925,841	-	-
Capital Grants and Contributions	833,333	572,305	-	-
General Revenue				
Property Tax	15,586,329	14,130,040	-	-
Sales Tax	2,809,489	2,926,441	-	-
Utility User Tax	2,600,034	2,600,054	-	-
Other Taxes	3,541,706	3,301,726	-	-
Franchise Fees	1,904,717	1,769,516	-	-
Interest Income	98,586	173,514	-	9,844
Sale of Capital Assets	2,846,263	(7,767)	-	-
Miscellaneous	212,019	381,715	28,066	-
Total Revenues	40,064,889	37,393,761	7,140,818	6,009,261
Expenses				
Public Safety	14,884,049	15,108,658	-	-
Public Works	6,452,958	5,536,748	-	-
Recreation	2,656,492	2,099,856	-	-
Community Development	3,803,963	4,579,416	-	-
Admin/Community Services	4,037,950	5,652,479	-	-
Interest on Long-Term Debt	70,845	95,159	-	-
Sewer	-	-	4,573,711	4,529,242
Solid Waste	-	-	366,102	354,735
Storm Drain	-	-	164,941	231,910
Total Expenses	31,906,257	33,072,316	5,104,754	5,115,887
Excess (Deficiency) before transfers	8,158,632	4,321,445	2,036,064	893,374
Transfers	(152,069)	(231,933)	152,069	231,933
Change in Net Assets	8,006,563	4,089,512	2,188,133	1,125,307
Net Assets - Beginning of Year	87,410,803	83,321,291	14,616,290	13,490,983
Net Assets - End of Year	\$ 95,417,366	\$ 87,410,803	\$ 16,804,423	\$ 14,616,290

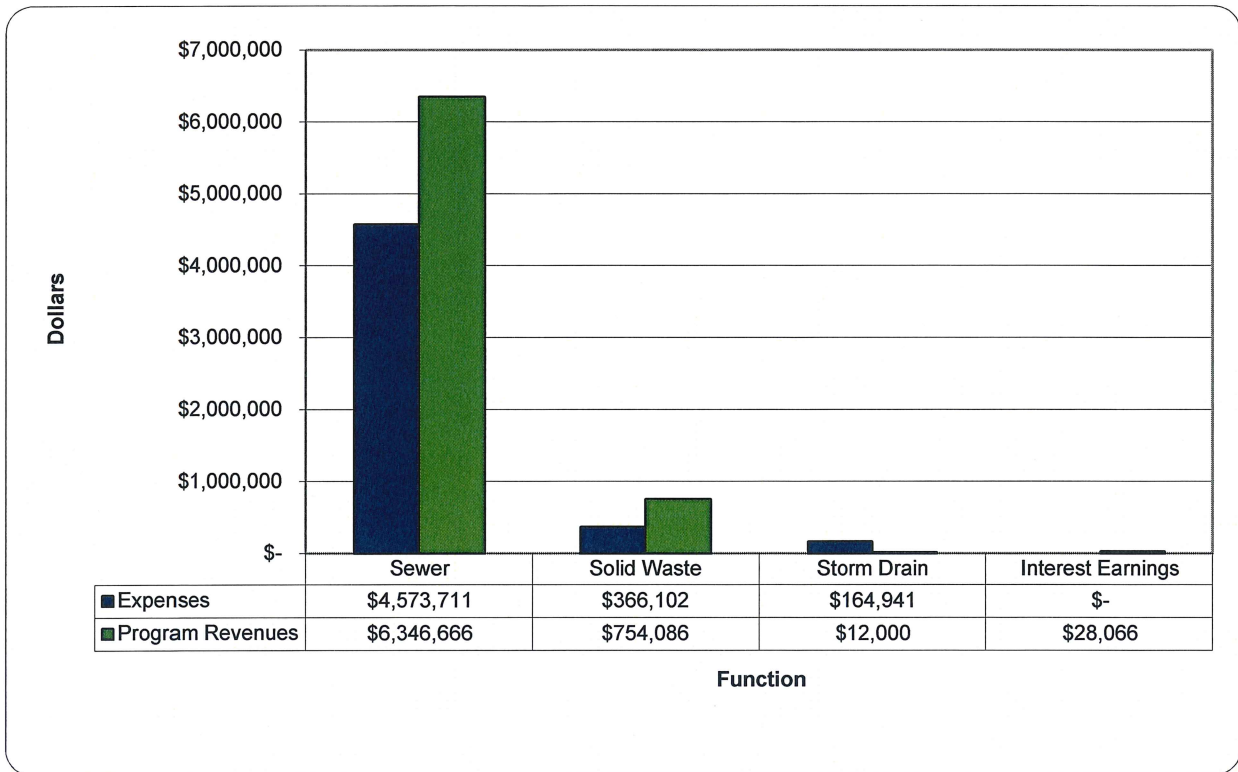
Program Expenses and Revenues - Governmental Activities



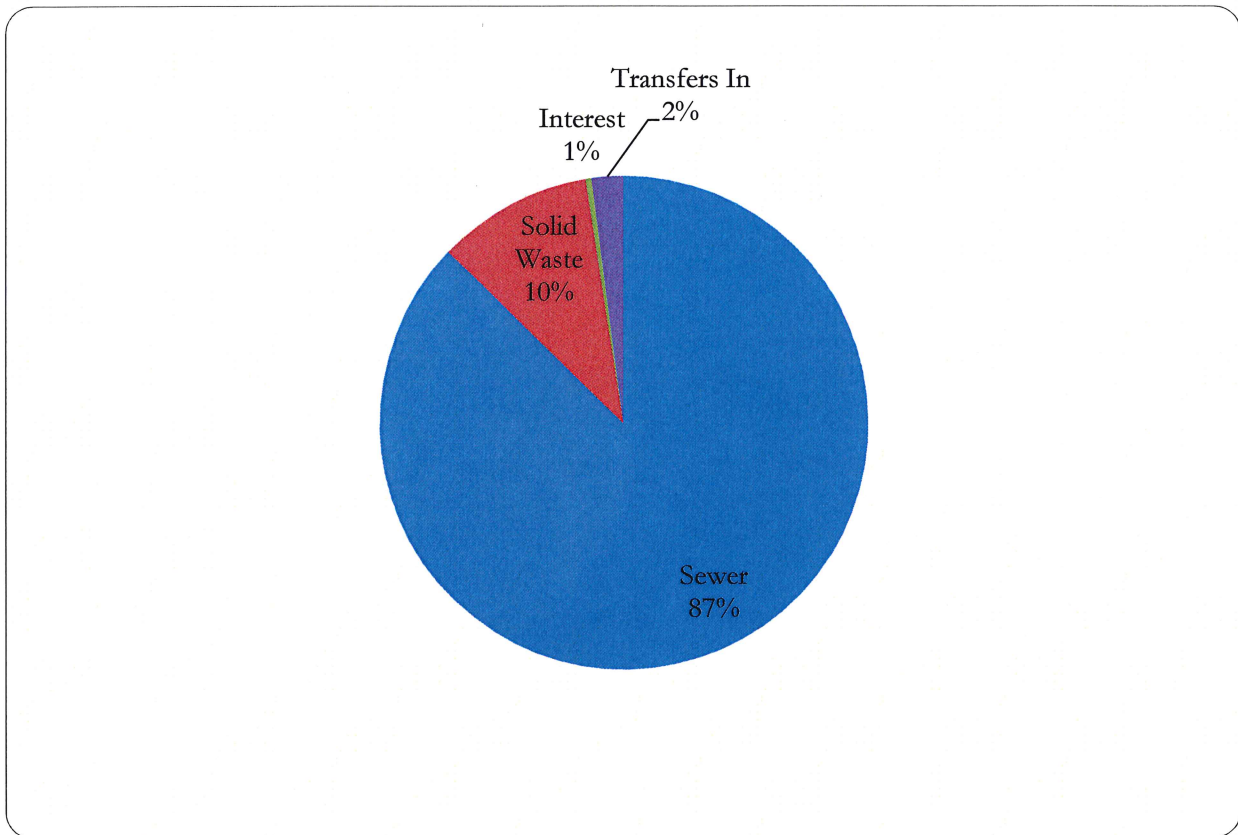
Government Revenues - All Sources



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 15% of the total net position. Net position from business-type activities increased by \$2.2M, or 15%, primarily due to favorable operating results in the sewer fund.

- 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 24% as the result of a multi-year rate increase program set in 2013/14 to address future capital investment.
- Sewer expenditures remained consistent with the prior year, increasing by \$45,000. Net position increased by \$1.8M to bring the year end net position to \$14.4M.
- Revenue for solid waste collections decreased by \$124,000 due to a recent cost allocation plan that changed the level of administrative fee support. Expenditures also decreased accordingly. Total net position in the fund increased by \$397,500 leaving a total fund balance of \$2.4M.
- The General Fund contributed to the Storm Drain Fund to augment annual expenses. For FY 2013/14 the transfer equaled \$152,000 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 GASB 54.

The City's governmental funds reported a combined ending fund balance of \$46.2M, an increase of \$7.3M or 19%. Of the total combined balance, 9% remains as unassigned and without commitment.

The City has taken the prudent path of defining and assigning established key fund balance reserves as called out in adopted financial policies and projected in fiscal forecasts. These key reserves are as defined as follows:

<i>General Fund Contingency Reserves</i>	<i>June 30, 2014</i>
<i>Emergency Operating</i>	\$6,405,000
<i>General Fund Capital and Equipment</i>	\$18,555,888
<i>Unreserved Fund Balance</i>	1,432,915
<i>Total General Fund Available Funds</i>	\$26,393,803

The emergency and operating reserves, components of the General Fund, are safeguards in the event of an economic or financial crisis. The City's policy is to maintain this reserve at a level of 20% of the City's annual operating budget.

The City has set aside \$850,000, an increase of \$350,000 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.

The City has also set aside a PERS Stabilization Fund to address anticipated future increases in the City's retirement liability. As of June 30, 2014, this initial set-aside totaled \$600,000.

Overall favorable operating results have led to a total General Fund balance of \$28.6M, after transfers, and an unassigned fund balance of \$1.4M. 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>June 30, 2014</i>
<i>Capital Projects Fund</i>	\$4,151,992
<i>Equipment Replacement</i>	3,468,845
<i>Park in Lieu Fees</i>	5,871,964
<i>Total</i>	\$13,492,801

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 \$5.9 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 2013/14, general government capital project spending approximated \$2.9M, 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 position at the end of the year in the Sewer Fund was at \$5.7M including approved capital projects. The Storm Drain Fund balance remains dependent on the General Fund while the Solid Waste Fund increased to \$2.4M. 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 2013/14 the City paid approximately \$36,100 in sewer fees and \$300,200 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 \$51.8M and those of business-type activities totaled \$8.7M. Assets increased by \$2.0M 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, 2014

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2014 Total</i>	<i>2013 Total</i>
<i>Land</i>	\$10,711,785	0	\$10,711,785	\$11,539,449
<i>Work in Progress</i>	2,150,227	31,195	2,181,422	4,454,874
<i>Buildings</i>	13,128,271	8,490,154	21,618,425	19,738,665
<i>Improvements</i>	3,455,668	0	3,455,668	3,594,511
<i>Machinery & Equip</i>	1,123,508	196,178	1,319,686	1,293,318
<i>Infrastructure</i>	21,349,515	0	21,349,515	17,919,932
<i>Total Assets</i>	\$51,918,974	\$8,717,527	\$60,636,501	\$58,540,749

Debt Administration: At the end of the current fiscal year, City bond and assessment debt decreased by approximately \$95,000. The total outstanding bond debt balance at year-end is approximately \$1.7M 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 \$1.6M, for general and business activities, a factor of accumulated balances at year-end.

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

Long-Term Debt as of June 30, 2014

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2014 Total</i>	<i>2013 Total</i>
<i>Certificate of Participation</i>	\$1,665,000	\$0	\$1,665,000	\$1,760,000
<i>Compensated Absences</i>	1,547,238	46,618	1,593,856	1,601,039
<i>Total</i>	\$3,212,238	\$46,618	\$3,258,856	\$3,329,891

The City also carries a year-end net Post-Retirement Health obligation (OPEB) of \$1,204,602. 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 2013/14 General Fund budget, adopted as part of the biennial plan, equaled \$29.7M and changed modestly by \$584,000 to \$30.3M during the year. 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 2013/14 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 deferred hiring of several vacant personnel positions continued as the City's revenues recovered from the economic downturn. The City is also evaluating 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. The City has also been successful in achieving its operational goal of a 20% reserve as endorsed in 2008/09 by the City Council. The City continues to fund its OPEB reserve along with a PERS reserve to offset the impact of future increases in retirement costs. The City has also set aside funds for future capital investments in technology initiatives.
- The budget projects an increase of 2% in property tax receipts, noting continual improvement in property values. 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 1% range. Utilizing the most recent data and regional and national trends, key City tax revenues including sales tax, hotel occupancy tax, and motor vehicle license fees are anticipated to continue prior year growth with modest increases.

- Planning and building activity has shown significant development strength. Anticipating a drop off in one-time development activity has influenced a 13% 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 6 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 which was fully paid down in FY 2012/13. 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 2011/12, 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 currently at \$850,000 during the 2014/15 fiscal year.

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 Administrative Services Director, 1 North San Antonio Road, Los Altos, CA 94022.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**

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CITY OF LOS ALTOS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments (Note 2)	\$52,295,430	\$7,835,171	\$60,130,601
Accounts receivable	1,206,432	721,296	1,927,728
Interest receivable	25,625		25,625
Prepaid items and inventory (Note 1H)	22,551		22,551
Total current assets	<u>53,550,038</u>	<u>8,556,467</u>	<u>62,106,505</u>
Noncurrent assets:			
Restricted cash and investments (Note 2)	172,017		172,017
Capital assets (Note 4):			
Non-depreciable	12,772,512	31,195	12,803,707
Depreciable, net of accumulated depreciation	39,056,962	8,686,332	47,743,294
Total noncurrent assets	<u>52,001,491</u>	<u>8,717,527</u>	<u>60,719,018</u>
Total Assets	<u>105,551,529</u>	<u>17,273,994</u>	<u>122,825,523</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,863,611	328,135	2,191,746
Interest payable	11,153		11,153
Accrued liabilities	528,031	16,519	544,550
Other payable	144,645		144,645
Compensated absences payable, due in one year (Note 6)	395,570	11,655	407,225
Claims and judgements payable, due in one year (Note 8)	657,438		657,438
Long-term debt, due in one year (Note 5)	100,000		100,000
Total current liabilities	<u>3,700,448</u>	<u>356,309</u>	<u>4,056,757</u>
Noncurrent liabilities:			
Compensated absences payable, due in more than one year (Note 6)	1,151,668	34,963	1,186,631
Net OPEB obligation (Note 11)	1,126,303	78,299	1,204,602
Claims and judgments payable, due in more than one year (Note 8)	2,590,744		2,590,744
Long-term debt, due in more than one year (Note 5)	1,565,000		1,565,000
Total noncurrent liabilities	<u>6,433,715</u>	<u>113,262</u>	<u>6,546,977</u>
Total Liabilities	<u>10,134,163</u>	<u>469,571</u>	<u>10,603,734</u>
NET POSITION (Note 7)			
Net investments in capital assets	50,164,474	8,717,527	58,882,001
Restricted for:			
Debt service	364,208		364,208
Special revenue programs	9,644,274		9,644,274
Other purpose and projects	7,620,839		7,620,839
Total Restricted Net Position	<u>17,629,321</u>		<u>17,629,321</u>
Unrestricted	<u>27,623,571</u>	<u>8,086,896</u>	<u>35,710,467</u>
Total Net Position	<u>\$95,417,366</u>	<u>\$16,804,423</u>	<u>112,221,789</u>

See accompanying notes to financial statements

CITY OF LOS ALTOS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental Activities:					
Public safety	\$14,884,049	\$416,958	\$115,709		\$532,667
Public works	6,452,958	59,794	908,503	\$747,149	1,715,446
Recreation	2,656,492	1,952,094			1,952,094
Community development	4,037,950	5,195,785	35,797	3,144	5,234,726
Admin / community services	3,803,963	941,773	6,000	83,040	1,030,813
Interest on long-term debt	70,845				
Total Governmental Activities	<u>31,906,257</u>	<u>8,566,404</u>	<u>1,066,009</u>	<u>833,333</u>	<u>10,465,746</u>
Business-type Activities:					
Sewer	4,573,711	6,346,666			6,346,666
Solid waste	366,102	754,086			754,086
Storm drain	164,941	12,000			12,000
Total Business-type Activities	<u>5,104,754</u>	<u>7,112,752</u>			<u>7,112,752</u>
Total primary government	<u>\$37,011,011</u>	<u>\$15,679,156</u>	<u>\$1,066,009</u>	<u>\$833,333</u>	<u>\$17,578,498</u>
General revenues:					
Taxes:					
Property taxes					
Sales and use taxes					
Utility users' tax					
Other taxes					
Franchise fees					
Total taxes					
Interest income					
Miscellaneous					
Gain on disposal of capital assets					
Transfers, net					
Total general revenues and transfers					
Change in Net Position					
Net Position-Beginning					
Net Position-Ending					

See accompanying notes to financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
(\$14,351,382)		(\$14,351,382)
(4,737,512)		(4,737,512)
(704,398)		(704,398)
1,196,776		1,196,776
(2,773,150)		(2,773,150)
(70,845)		(70,845)
<u>(21,440,511)</u>		<u>(21,440,511)</u>
	\$1,772,955	1,772,955
	387,984	387,984
	(152,941)	(152,941)
	<u>2,007,998</u>	<u>2,007,998</u>
<u>(21,440,511)</u>	<u>2,007,998</u>	<u>(19,432,513)</u>
15,586,329		15,586,329
2,809,489		2,809,489
2,600,034		2,600,034
3,541,706		3,541,706
1,904,717		1,904,717
<u>26,442,275</u>		<u>26,442,275</u>
98,586		98,586
212,019	28,066	240,085
2,846,263		2,846,263
(152,069)	152,069	
<u>29,447,074</u>	<u>180,135</u>	<u>29,627,209</u>
8,006,563	2,188,133	10,194,696
<u>87,410,803</u>	<u>14,616,290</u>	<u>102,027,093</u>
<u>\$95,417,366</u>	<u>\$16,804,423</u>	<u>\$112,221,789</u>

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FUND FINANCIAL STATEMENTS

The funds described below were determined to be Major Funds by the City in fiscal 2014. Individual non-major funds may be found in the Supplemental 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. The General Fund also includes the Real Property Proceeds Funds, which accounts for the proceeds from the sale of real property and the Community Facilities Renewal Fund, which accounts for the revenues and expenditures related to the community facilities renewal efforts.

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.

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.

CITY OF LOS ALTOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General	In-Lieu Park Land Fund	Capital Projects Fund	Equipment Replacement Fund
ASSETS				
Cash and investments (Note 2)	\$29,571,120	\$5,871,964	\$4,408,173	\$3,479,705
Restricted cash and investments (Note 2)				
Receivables, net of allowance for uncollectibles:				
Accounts	1,146,058		34,867	
Interest	25,625			
Prepays (Note 1H)	14,155			
Inventory	8,396			
	<u>30,765,354</u>	<u>5,871,964</u>	<u>4,443,040</u>	<u>3,479,705</u>
Total Assets				
LIABILITIES				
Accounts payable	\$1,464,324		\$291,046	\$10,860
Accrued liabilities	528,031			
Other payable	144,645			
	<u>2,137,000</u>		<u>291,046</u>	<u>10,860</u>
Total Liabilities				
FUND BALANCES				
Fund balance (Note 7):				
Nonspendable	34,551			
Restricted		\$5,871,964		
Committed				
Assigned	27,160,888		4,151,994	3,468,845
Unassigned	1,432,915			
	<u>28,628,354</u>	<u>5,871,964</u>	<u>4,151,994</u>	<u>3,468,845</u>
Total Fund Balances				
	<u>\$30,765,354</u>	<u>\$5,871,964</u>	<u>\$4,443,040</u>	<u>\$3,479,705</u>
Total Liabilities and Fund Balances				

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$3,940,600	\$47,271,562
172,017	172,017
24,804	1,205,729
	25,625
	14,155
	<u>8,396</u>
<u>\$4,137,421</u>	<u>\$48,697,484</u>
\$903	\$1,767,133
	528,031
	<u>144,645</u>
<u>903</u>	<u>2,439,809</u>
	34,551
4,136,518	10,008,482
	34,781,727
	<u>1,432,915</u>
<u>4,136,518</u>	<u>46,257,675</u>
<u>\$4,137,421</u>	<u>\$48,697,484</u>

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CITY OF LOS ALTOS
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET POSITION
 JUNE 30, 2014

Fund balances of governmental funds \$46,257,675

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 51,829,474

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.

(11,153)

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

Long-term liabilities - current portion (100,000)

Long-term liabilities - noncurrent portion (1,565,000)

Net OPEB obligation (1,126,303)

Compensated absences - current portion (395,570)

Compensated absences - noncurrent portion (1,151,668)

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.

1,679,911

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$95,417,366

See accompanying notes to financial statements

CITY OF LOS ALTOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	In-Lieu Park Land Fund	Capital Projects Fund	Equipment Replacement Fund
REVENUES				
Property tax	\$15,586,329			
Sales tax	2,809,489			
Utility users	2,600,034			
Other tax	3,554,345			
Licenses, permits and fees	3,798,251			
Intergovernmental		\$1,260,000		
Grants and donations	24,042		\$728,180	
Charges for services	4,378,177		193,965	
Fines and forfeitures	187,938			
Interest and rentals	113,827	21,574		
Other	2,962,596		21,998	
Total Revenues	36,015,028	1,281,574	944,143	
EXPENDITURES				
General government				
Public safety	14,604,892			
Public works	4,352,933			
Recreation	2,186,361			
Community development	3,840,949			
Admin / community development	3,551,716			
Capital improvements	100,744		2,880,575	\$501,443
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	28,637,595		2,880,575	501,443
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,377,433	1,281,574	(1,936,432)	(501,443)
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 3)	403,444		1,248,383	300,000
Transfers (out) (Note 3)	(2,234,983)			
Total Other Financing Sources (Uses)	(1,831,539)		1,248,383	300,000
NET CHANGE IN FUND BALANCES	5,545,894	1,281,574	(688,049)	(201,443)
BEGINNING FUND BALANCES	23,082,460	4,590,390	4,840,043	3,670,288
ENDING FUND BALANCES	\$28,628,354	\$5,871,964	\$4,151,994	\$3,468,845

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	\$15,586,329
	2,809,489
	2,600,034
	3,554,345
\$732,848	4,531,099
1,001,086	2,261,086
35,797	788,019
	4,572,142
26,420	214,358
23,209	158,610
4,784	2,989,378
1,824,144	40,064,889
	14,604,892
	4,352,933
	2,186,361
44,090	3,885,039
	3,551,716
9,727	3,492,489
95,000	95,000
71,686	71,686
220,503	32,240,116
1,603,641	7,824,773
167,300	2,119,127
(449,697)	(2,684,680)
(282,397)	(565,553)
1,321,244	7,259,220
2,815,274	38,998,455
\$4,136,518	\$46,257,675

CITY OF LOS ALTOS
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balances of governmental funds \$7,259,220

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

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 2,043,228

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. (1,981,084)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payment	95,000
Expense of cost of issuance that were previously capitalized	(60,283)

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	7,272
Interest payable	841
Net OPEB obligation	(132,360)

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. 774,729

Changes in net position of governmental activities \$8,006,563

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The City reported all of its Enterprise Funds as major funds in fiscal 2014.

SEWER

To account for the operation (including waste water treatment) of the City's sewer treatment activities, a self-supporting activity which provides services on a user charge basis.

SOLID WASTE

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

STORM DRAIN

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

CITY OF LOS ALTOS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds	
	Sewer	Solid Waste	Storm Drain		Totals
ASSETS					
Current Assets:					
Cash and investments (Note 2)	\$5,475,341	\$2,359,830		\$7,835,171	\$5,023,868
Accounts receivable	644,443	64,853	\$12,000	721,296	703
Total Current Assets	<u>6,119,784</u>	<u>2,424,683</u>	<u>12,000</u>	<u>8,556,467</u>	<u>5,024,571</u>
Non-Current Assets:					
Capital assets (Note 4):					
Nondepreciable	31,195			31,195	
Depreciable	18,272,651		1,969,221	20,241,872	
Less accumulated depreciation	<u>(9,586,319)</u>		<u>(1,969,221)</u>	<u>(11,555,540)</u>	
Total capital assets, net	<u>8,717,527</u>			<u>8,717,527</u>	
Total non-current Assets	<u>8,717,527</u>			<u>8,717,527</u>	
Total Assets	<u>14,837,311</u>	<u>2,424,683</u>	<u>12,000</u>	<u>17,273,994</u>	<u>5,024,571</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	314,964	13,171		328,135	96,478
Accrued liabilities	14,646	1,047	826	16,519	
Compensated absences (Note 6)	11,655			11,655	
Claims and judgements (Note 8)					657,438
Total Current Liabilities	<u>341,265</u>	<u>14,218</u>	<u>826</u>	<u>356,309</u>	<u>753,916</u>
Long-Term Liabilities					
Compensated absences (Note 6)	34,963			34,963	
Net OPEB obligation (Note 11)	60,230	6,023	12,046	78,299	
Claims and judgements (Note 8)					2,590,744
Total Noncurrent Liabilities	<u>95,193</u>	<u>6,023</u>	<u>12,046</u>	<u>113,262</u>	<u>2,590,744</u>
Total Liabilities	<u>436,458</u>	<u>20,241</u>	<u>12,872</u>	<u>469,571</u>	<u>3,344,660</u>
NET POSITION (Note 7)					
Net investment in capital assets	8,717,527			8,717,527	
Unrestricted (deficit)	<u>5,683,326</u>	<u>2,404,442</u>	<u>(872)</u>	<u>8,086,896</u>	<u>1,679,911</u>
Total Net Position	<u>\$14,400,853</u>	<u>\$2,404,442</u>	<u>(\$872)</u>	<u>\$16,804,423</u>	<u>\$1,679,911</u>

See accompanying notes to financial statements

CITY OF LOS ALTOS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds	
	Sewer	Solid Waste	Storm Drain		Totals
OPERATING REVENUES					
Charges for services	\$6,346,666	\$754,086	\$12,000	\$7,112,752	\$1,413,910
Total Operating Revenues	<u>6,346,666</u>	<u>754,086</u>	<u>12,000</u>	<u>7,112,752</u>	<u>1,413,910</u>
OPERATING EXPENSES					
Outside services	2,621,747	291,095	85,786	2,998,628	12,657
Employee services	821,594	61,696	79,155	962,445	585,722
Repairs and maintenance	785,875			785,875	428,032
Claims reimbursement					26,254
Insurance	45,632	13,311		58,943	
Depreciation	298,863			298,863	
Total Cost of Sales and Operating Expenses	<u>4,573,711</u>	<u>366,102</u>	<u>164,941</u>	<u>5,104,754</u>	<u>1,052,665</u>
Operating Income (Loss)	<u>1,772,955</u>	<u>387,984</u>	<u>(152,941)</u>	<u>2,007,998</u>	<u>361,245</u>
NONOPERATING REVENUES					
Interest	18,545	9,521		28,066	
Total Nonoperating Revenues	<u>18,545</u>	<u>9,521</u>		<u>28,066</u>	
Income (Loss) Before Transfers	<u>1,791,500</u>	<u>397,505</u>	<u>(152,941)</u>	<u>2,036,064</u>	<u>361,245</u>
Transfers in (Note 3)			152,069	152,069	413,484
Net Transfers			<u>152,069</u>	<u>152,069</u>	<u>413,484</u>
Change in Net Position	1,791,500	397,505	(872)	2,188,133	774,729
BEGINNING NET POSITION	<u>12,609,353</u>	<u>2,006,937</u>		<u>14,616,290</u>	<u>905,182</u>
ENDING NET POSITION (DEFICIT)	<u>\$14,400,853</u>	<u>\$2,404,442</u>	<u>(\$872)</u>	<u>\$16,804,423</u>	<u>\$1,679,911</u>

See accompanying notes to financial statements

CITY OF BENICIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer	Solid Waste	Storm Drain	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$6,047,961	\$697,414		\$6,745,375	
Cash received from other funds					\$1,414,260
Cash payments to suppliers for goods and services	(3,450,174)	(314,398)	(\$85,786)	(3,850,358)	
Cash payment employees for services	(780,694)	(57,267)	(82,468)	(920,429)	
Cash payments to claimants					(579,356)
Insurance premiums and settlements					(496,265)
Cash Flows from (used for) Operating Activities	1,817,093	325,749	(168,254)	1,974,588	338,639
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in			152,069	152,069	413,484
Cash Flows from (used for) Noncapital Financing Activities			152,069	152,069	413,484
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(2,242,971)			(2,242,971)	
Cash Flows (used for) Capital and Related Financing Activities	(2,242,971)			(2,242,971)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	18,545	9,521		28,066	
Cash Flows from Investing Activities	18,545	9,521		28,066	
Net Cash Flows	(407,333)	335,270	(16,185)	(88,248)	752,123
Cash and investments at beginning of period, as restated	5,882,674	2,024,560	16,185	7,923,419	4,271,745
Cash and investments at end of period	\$5,475,341	\$2,359,830		\$7,835,171	\$5,023,868
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:					
Operating income (loss)	\$1,772,955	\$387,984	(\$152,941)	\$2,007,998	\$361,245
Adjustments to reconcile operating income to cash flows from operating activities:					
Depreciation	298,863			298,863	
Change in assets and liabilities:					
Receivables, net	(298,705)	(56,672)	(12,000)	(367,377)	350
Accounts payable and other accrued expenses	3,080	(9,992)		(6,912)	6,366
Compensated absences	90		(12,681)	(12,591)	
OPEB liabilities	40,810	4,429	9,368	54,607	
Claims and judgments					(29,322)
Cash Flows from (used for) Operating Activities	\$1,817,093	\$325,749	(\$168,254)	\$1,974,588	\$338,639

See accompanying notes to financial statements

FIDUCIARY FUNDS

AGENCY FUND

Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations. It is used to account for assets held in an agency capacity for others and therefore cannot be used to support the City's programs.

CITY OF LOS ALTOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 2)	\$2,476,765
Restricted cash and investments (Note 2)	39,788
Accounts receivable	<u>1,184</u>
Total Assets	<u><u>\$2,517,737</u></u>
LIABILITIES	
Accounts payable	\$240,793
Due to others	<u>2,276,944</u>
Total Liabilities	<u><u>\$2,517,737</u></u>

See accompanying notes to financial statements

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Background

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:

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

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 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
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 inflow of resources arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues 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 revenue is recognized.

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

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position. 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: 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 and Avalon Drive 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.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reported the following major governmental funds in the accompanying financial statements:

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. The General Fund also includes the Real Property Proceeds Funds, which accounts for the proceeds from sale of real property and the Community Facilities Renewal Fund, which accounts for the revenues and expenditures related to the community facilities renewal efforts.

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.

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.

The City reported all of its enterprise funds as major funds in the accompanying financial statements:

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 services activity.

Storm Drain Fund – Accounts for operation of the City’s urban runoff and storm drain activities.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *New Accounting Pronouncements*

During fiscal year 2013/14, the City implemented GASB Statement No. 65, *Financial Reporting of Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement does not have a material effect on the financial statements.

E. *Recognition of Interest Payable*

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.

F. *Use of Restricted and Unrestricted Net Position*

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

G. *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 pooled 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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventories

Inventory, mainly consisting of 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.

I. 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.

J. 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.

K. 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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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
Machinery and Equipment	3-10 years
Infrastructure	30-100 years

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.

M. 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 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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

N. *Unearned Revenue*

Government-wide Financial Statements: In the Government-wide Financial Statements, unearned revenue is recognized for transactions for which revenue has not yet been earned.

O. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

P. *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.

Q. *Combined Funds*

During fiscal year 2013/14, the City combined the Real Property Proceeds Funds and Community Facilities Renewal Fund into the General Fund.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash Deposits

The City's cash and investments at June 30, 2014 are presented as follows:

Cash and investments	\$60,130,601
Restricted cash and investments	172,017
Fiduciary funds:	
Cash and investments	2,476,765
Restricted cash and investments	<u>39,788</u>
Total cash and investments	<u><u>\$62,819,171</u></u>

Cash and investments consist of the following as of June 30, 2014:

Cash on hand		\$2,170
Deposits with financial institutions		4,717,909
Investments:		
Liquid investments	\$36,603,005	
Managed investments	<u>21,496,087</u>	<u>58,099,092</u>
Total cash and investments		<u><u>\$62,819,171</u></u>

B. Authorized 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, with the limitations as they relate to interest rate risk, credit risk, and concentration of credit risk:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Investment Fund	N/A	N/A	\$50 million
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	15%	5%
Repurchase Agreements	180 days	20%	10%
U.S. Treasury Bills, Notes and Bonds	5 years	N/A	N/A
U.S. Government-Sponsored Enterprise Agencies	5 years	N/A	20%
Medium-Term Corporate Notes	3 years	15%	5%

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 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, 2014, are shown below:

Investment Type	One Year or Less	Two Years	Three Years	Total
Money Market	\$211,805			\$211,805
Government Sponsored Enterprise Agencies:				
Federal Home Loan Bank Bonds (FHLB)		\$1,196,653		1,196,653
Federal Home Loan Mortgage Corporate Notes (FHLMC)		2,501,078		2,501,078
Federal National Mortgage Association Notes (FNMA)		2,405,009		2,405,009
Federal Farm Credit Bank (FFCB)	1,001,743	2,857,518		3,859,261
U.S. Treasury Notes	3,322,312	3,203,617	\$2,578,383	9,104,312
Corporate Notes		1,454,785	763,184	2,217,969
Local Agency Investment Funds (LAIF)	36,603,005			36,603,005
Total investments	\$41,138,865	\$13,618,660	\$3,341,567	58,099,092
Demand Deposits and Cash on Hand				4,720,079
Total cash and investments				\$62,819,171

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, 2014, 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	4,717,909
Money Market	Aaa	AAAm	211,805
Securities of Government Sponsored Enterprise Agencies:			
Federal Home Loan Bank Bonds (FHLB)	Aaa	AA+	1,196,653
Federal Home Loan Mortgage Corporate Notes (FHLMC)	Aaa	AA+	2,501,078
Federal National Mortgage Association Notes (FNMA)	Aaa	AA+	2,405,009
Federal Farm Credit Bank (FFCB)	Aaa	AA+	3,859,261
U.S. Treasury Notes	Aaa	AA+	9,104,312
Corporate Notes:			
General Electric Corp.	Aa3	AA+	653,224
WalMart Stores, Inc.	Aa2	AA	801,561
3M Corp Notes	Aa2	AA-	763,184
Local Agency Investment Funds (LAIF)	Not Rated	Not Rated	36,603,005
Total Investments			\$62,819,171

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

As of June 30, 2014, the City's bank balance was \$5,186,143 and the corresponding carrying book balance was \$4,717,909. Of the bank balance, \$250,000 was covered by federal depository insurance and \$4,936,143 was collateralized.

Custodial Credit Risk – Investments: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Investment in State Investment Pool: The City is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool as reported in the accompanying financial statements is based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

As of June 30, 2014, the City held \$36,603,005 in LAIF. The LAIF fair value factor of 1.00029875 was used to calculate the fair value of the investments in LAIF and average maturity of 232 days.

NOTE 3 – INTERFUND TRANSACTIONS

A. Transfers

Transfers between funds during the fiscal year ended June 30, 2014 were as follows:

Fund Making Transfer	Fund Receiving Transfers	Amount	
General Fund	Capital Projects	\$1,202,130	(A)
	Equipment Replacement Fund	300,000	(B)
	Storm Drain Fund	152,069	(D)
	Internal Service Funds	413,484	(C)
	Non-Major Governmental Funds	167,300	(C)
Non-Major Governmental Funds	General Fund	403,444	(E) (F)
	Capital Projects	46,253	(A)
		<u>\$2,684,680</u>	

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 3 – INTERFUND TRANSACTIONS (Continued)

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' Compensation 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

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.

NOTE 4 – CAPITAL ASSETS

A. Government-wide Financial Statements

At June 30, 2014, the City's capital assets consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Nondepreciable assets:			
Construction in progress	\$2,150,227	\$31,195	\$2,181,422
Land	10,711,785		10,711,785
Total nondepreciable assets	<u>12,862,012</u>	<u>31,195</u>	<u>12,893,207</u>
Depreciable assets:			
Buildings	21,637,868	17,453,176	39,091,044
Improvements	5,079,055		5,079,055
Machinery and equipment	4,683,216	819,475	5,502,691
Infrastructure	29,781,213	1,969,221	31,750,434
Total depreciable assets	61,181,352	20,241,872	81,423,224
Less accumulated depreciation	<u>(22,124,390)</u>	<u>(11,555,540)</u>	<u>(33,679,930)</u>
Total depreciable assets, net	<u>39,056,962</u>	<u>8,686,332</u>	<u>47,743,294</u>
Total capital assets	<u>\$51,918,974</u>	<u>\$8,717,527</u>	<u>\$60,636,501</u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 4 – CAPITAL ASSETS (Continued)

The following is a summary of capital assets for governmental activities for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Governmental Activities:					
Capital assets, not depreciated:					
Land	\$11,539,449	\$89,500	(\$917,164)		\$10,711,785
Construction in Progress	4,075,554	634,783		(\$2,560,110)	2,150,227
Total capital assets, not depreciated	<u>15,615,003</u>	<u>724,283</u>	<u>(917,164)</u>	<u>(2,560,110)</u>	<u>12,862,012</u>
Buildings	21,637,868				21,637,868
Improvements	5,079,055				5,079,055
Machinery and Equipment	4,231,706	613,797	(162,287)		4,683,216
Infrastructure	25,495,035	1,726,068		2,560,110	29,781,213
Total cost of depreciable assets	<u>56,443,664</u>	<u>2,339,865</u>	<u>(162,287)</u>	<u>2,560,110</u>	<u>61,181,352</u>
Less accumulated depreciation:					
Buildings	(8,055,098)	(454,499)			(8,509,597)
Improvements	(1,484,544)	(138,843)			(1,623,387)
Machinery and Equipment	(3,176,592)	(531,147)	148,031		(3,559,708)
Infrastructure	(7,575,103)	(856,595)			(8,431,698)
Total accumulated depreciation	<u>(20,291,337)</u>	<u>(1,981,084)</u>	<u>148,031</u>		<u>(22,124,390)</u>
Net depreciable assets	<u>36,152,327</u>	<u>358,781</u>	<u>(14,256)</u>	<u>2,560,110</u>	<u>39,056,962</u>
Governmental Activity Capital Assets, Net	<u>\$51,767,330</u>	<u>\$1,083,064</u>	<u>(\$931,420)</u>		<u>\$51,918,974</u>

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2014 are as follows:

Department	Total
Public safety	\$360,789
Public works	963,556
Community / cultural services	488,443
Community development	11,316
General government	156,980
Total depreciation expense	<u>\$1,981,084</u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 4 – CAPITAL ASSETS (Continued)

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

	Balance June 30, 2013	Additions	Transfers	Balance June 30, 2014
Business-Type Activities:				
Capital assets, not depreciated:				
Construction in Progress	\$379,320	\$31,195	(\$379,320)	\$31,195
Total capital assets, not depreciated:	379,320	31,195	(379,320)	31,195
Capital assets, being depreciated:				
Buildings	14,862,080	2,211,776	379,320	17,453,176
Infrastructure	1,969,221			1,969,221
Machinery and Equipment	819,475			819,475
Total cost of depreciable assets	17,650,776	2,211,776	379,320	20,241,872
Less accumulated depreciation:				
Buildings	(8,706,185)	(256,837)		(8,963,022)
Infrastructure	(1,969,221)			(1,969,221)
Machinery and Equipment	(581,271)	(42,026)		(623,297)
Total accumulated depreciation	(11,256,677)	(298,863)		(11,555,540)
Net depreciable assets	6,394,099	1,912,913	379,320	8,686,332
Business-type Activity Capital Assets, Net	\$6,773,419	\$1,944,108		\$8,717,527

Depreciation expense for business-type activities related to the Sewer Fund amounted to \$298,863 for the year ended June 30, 2014.

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
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 5 – LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Debt

Summary of changes in governmental activities long-term debt for the year ended June 30, 2014 is as follows:

	Balance at June 30, 2013	Retirements	Balance at June 30, 2014	Due Within One Year	Due in More Than One Year
Certificate of participation	\$1,760,000	(\$95,000)	\$1,665,000	\$100,000	\$1,565,000

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.

At June 30, 2014, future debt service requirements for the 2004 Refunding were as follows:

Year ending June 30	Principal	Interest	Total
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	120,000	51,880	171,880
2020 - 2024	655,000	184,800	839,800
2025 - 2027	470,000	40,587	510,587
Total	<u>\$1,665,000</u>	<u>\$523,705</u>	<u>\$2,188,705</u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

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.

	Balance June 30, 2013	Retirements	Balance June 30, 2014	Due Within One Year	Due in More Than One Year
Raymundo Curb and Gutter	\$170,000	(\$18,000)	\$152,000	\$19,000	\$133,000
Avalon Drive Curb and Gutter	26,000	(8,000)	18,000	9,000	9,000
Blue Oak Lane	600,000	(10,000)	590,000	15,000	575,000
Total	<u>\$796,000</u>	<u>(\$36,000)</u>	<u>\$760,000</u>	<u>\$43,000</u>	<u>\$717,000</u>

Raymundo and Avalon Special Assessment Districts: The Raymundo Curb and Gutter Assessment District Improvement Bond were issued on August 3, 2005 to provide financing for the street improvements in that District. The Avalon Drive Curb and Gutter Assessment District Improvement Bond were 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
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 6 – COMPENSATED ABSENCES PAYABLE

The City’s compensated absences at June 30, 2014, were as follows:

	Governmental Activities	Business-type Activities	Total
Balance at July 1, 2013	\$1,554,510	\$46,528	\$1,601,038
Additions	901,050	41,456	942,506
Payments	(908,322)	(41,366)	(949,688)
Balance at June 30, 2014	<u>\$1,547,238</u>	<u>\$46,618</u>	<u>\$1,593,856</u>
Current Portion	<u>\$395,570</u>	<u>\$11,655</u>	<u>\$407,225</u>
Long Term Portion	<u>\$1,151,668</u>	<u>\$34,963</u>	<u>\$1,186,631</u>

NOTE 7 – NET POSITION AND 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 formal action includes committing funds through budget adoption or by resolution. 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. Emergency and Operating Reserve

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 fiscal year 2013/14, 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 downturn or extraordinary need. The City achieved its reserve goal of 20% during fiscal year 2013/14.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 7 – NET POSITION AND FUND BALANCES (Continued)

C. Classifications

In the Government-wide Financial Statements, net position are classified in the following categories:

Net Investment in Capital Assets – 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 Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position.”

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, 2014, 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
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 7 – NET POSITION AND FUND BALANCES (Continued)

D. Policies

Order of Use

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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 7 – NET POSITION AND FUND BALANCES (Continued)

E. Fund Balances

Fund balances for all the major and non-major governmental funds as of June 30, 2014 were distributed as follows:

Fund Balance Classifications	General	In Lieu Park Land	Capital Projects	Equipment Replacements	Nonmajor Funds	Total
Nonspendables:						
Inventory and prepaids	\$22,551					\$22,551
Veteran memorial	12,000					12,000
Total Nonspendable Fund Balances	34,551					34,551
Restricted for:						
Debt service					\$364,208	364,208
Special revenue programs and projects		\$5,871,964			3,772,310	9,644,274
Total Restricted Fund Balances		5,871,964			4,136,518	10,008,482
Assigned to:						
Emergency and operating	6,405,000					6,405,000
OPEB	850,000					850,000
PERS reserve	600,000					600,000
Technology reserve	750,000					750,000
Capital projects	18,555,888		\$4,151,994	\$3,468,845		26,176,727
Total Assigned Fund Balances	27,160,888		4,151,994	3,468,845		34,781,727
Unassigned	1,432,915					1,432,915
Total Unassigned Fund Balances	1,432,915					1,432,915
Total Fund Balances	\$28,628,354	\$5,871,964	\$4,151,994	\$3,468,845	\$4,136,518	\$46,257,675

F. OPEB Reserves

A review of the City's fund balance assignments will reveal that as of June 30, 2014, \$850,000 in General Fund reserves have been assigned in recognition of existing Post-Retirement Health Actuarial Obligations noted above.

G. Capital Projects Reserves

As of June 30, 2014 the City had set-aside \$18,555,888 for the acquisition and construction of major capital projects and plans that are financed by resources other than proprietary funds. This amount includes \$10,140,295 from the City's Real Property Proceeds Fund and \$8,415,593 in the City's Community Facilities Renewal Fund, which are presented with the General Fund in the financial statements. While these funds are not restricted by outside funding sources, the fund balance is assigned for future capital projects to be determined by the City Council.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 8 – 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, 2014, the City contributed \$312,149 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, 2014. During the year, the City contributed \$119,835 for current year coverage.

As of June 30, 2014, \$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 95630.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 8 – 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,		
	2014	2013	2012
Unpaid claims, beginning of year	\$3,277,504	\$2,638,744	\$2,407,519
Incurred claims and changes in estimates	666,678	1,047,139	744,540
Claim payments	<u>(696,000)</u>	<u>(408,379)</u>	<u>(513,315)</u>
Unpaid claims, end of year	<u>\$3,248,182</u>	<u>\$3,277,504</u>	<u>\$2,638,744</u>
Current Portion	<u>\$657,438</u>	<u>\$669,896</u>	<u>\$549,740</u>
Long Term Portion	<u>\$2,590,744</u>	<u>\$2,607,608</u>	<u>\$2,089,004</u>

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 fiscal year 2014-15. The fiscal year 2013/14 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 \$657,438.

NOTE 9 – SELF-FUNDED REIMBURSEMENT DENTAL PLAN

The City provides a self-funded reimbursement based dental plan. The City’s contribution for this plan is accounted for in the Dental Reimbursement Fund. The City contributed \$75 per month for each fulltime budgeted position. The funds accumulated are used to reimburse full-time salaried employees and their dependents, as well as council members for covered dental claims. There are no administrative charges for this plan. The Dental Reimbursement Fund maintains a positive fund balance of \$148,979 with contributions and reimbursements for the past five fiscal years as follows:

Fiscal year ended June 30,	Contribution Amount	Reimbursement Amount
2010	\$92,213	\$111,342
2011	90,506	106,000
2012	112,254	109,632
2013	114,264	104,711
2014	<u>110,284</u>	<u>119,137</u>
Total	<u>\$519,521</u>	<u>\$550,822</u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 9 – SELF-FUNDED REIMBURSEMENT DENTAL PLAN (Continued)

The dental plan year commences January 1st 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%.

NOTE 10 – PENSION PLAN

A. 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.

B. 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 2012, 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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 10 – PENSION PLAN (Continued)

The Plans' provisions and benefits in effect at June 30, 2014, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	Tier 3
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55	60	62
Monthly benefit factors, as a % of annual salary	2.0 - 2.7%	1.092-1.65%	2%
Required employee contribution rates	8%	7.00%	6.25%
Required employer contribution rates	15.685%	8.049%	6.25%

	Safety		
	Tier 1	Tier 2	Tier 3
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	55	57
Monthly benefit factors, as a % of annual salary	3%	2.4-3%	2.7%
Required employee contribution rates	9%	9%	11.50%
Required employer contribution rates	26.149%	20.774%	11.50%

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 \$987,762 for the year ended June 30, 2014, as compared to \$659,375 in the prior year.

As required by State law, effective July 1, 2005, the City's Safety and Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERs to join a new State-wide pool. One of the conditions of entry to these pools was that the City true-up any unfunded liability in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERs. The City satisfied its safety plan's liability by making a lump sum contribution of \$152,275 in July 2013, while its miscellaneous plan had already been fully paid off in fiscal year 2013.

C. Annual Pension Cost

For FY 2013/14, the City's annual required employer contributions pension was equal to \$2,010,664 and presented along with other historical contributions as listed below.

Fiscal Year Ending	Annual Pension Cost (APC)		Percentage of APC Contributed	Net Pension Obligation
	Miscellaneous	Safety		
June 30, 2012	\$1,189,791	\$890,770	100%	\$0
June 30, 2013	1,111,913	911,888	100%	0
June 30, 2014	1,074,649	936,015	100%	0

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 10 – PENSION PLAN (Continued)

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, 2013
Actuarial Cost Method Entry	Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

D. Funding Progress

The information presented below related to the State-wide pools as a whole, of which the City is one of the participating employers.

Miscellaneous - Tier 1

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011	\$2,486,708,579	\$1,981,073,089	\$505,635,490	79.7%	\$427,300,410	118.3%
2012	2,680,181,441	2,178,799,790	501,381,651	81.3%	417,600,034	120.1%

Miscellaneous - Tier 2

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011	\$682,375,804	\$639,237,247	\$43,138,557	93.7%	\$193,877,169	22.3%
2012	736,231,913	701,224,211	35,007,702	95.2%	208,517,122	16.8%

Safety - Tier 1

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011	\$10,951,745,049	\$9,135,654,246	\$1,816,090,803	83.4%	\$949,833,090	191.2%
2012	11,724,021,480	9,854,787,710	1,869,233,770	84.1%	947,734,809	197.2%

Safety - Tier 2

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011	\$2,061,923,933	\$1,759,286,797	\$302,637,136	85.3%	\$225,026,216	134.5%
2012	2,183,549,942	1,896,139,291	287,410,651	86.8%	232,078,083	123.8%

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. 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 financial reports.

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. In fiscal 2013/14, the City’s contribution averaged \$119 per month. The City does not provide contributions for retiree dental, vision or life insurance benefits.

B. 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 \$37,344 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

As of June 30, 2014, \$850,000 has been set aside in the General Fund as a reserve with future budgets projected to make increased annual contributions thereafter.

C. 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 (ARC)	\$285,000
Interest on Net OPEB Obligation	42,000
Adjustment to annual required contribution	<u>(79,000)</u>
Annual OPEB cost	248,000
Contributions made	<u>(37,344)</u>
(Decrease) increase in net OPEB obligation	210,656
Net OPEB Asset at June 30, 2013	<u>993,946</u>
Net OPEB Obligation (Asset) at June 30, 2014	<u><u>\$1,204,602</u></u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 11– OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2013/14 and the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2012	\$220,000	\$30,578	14%	\$793,457
June 30, 2013	234,000	33,511	14%	993,946
June 30, 2014	248,000	37,344	15%	1,204,602

D. Funding 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)	Entry Age Actuarial Liability (B)	Unfunded (Overfunded) Actuarial Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
6/30/2009	\$0	\$1,662	\$1,662	0.00%	\$10,884	15.27%
6/30/2011	0	2,136	2,136	0.00%	10,369	20.60%

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.

E. 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), a 3% general inflation rate, a 3.25% projected salary increases, and a medical trend of declining annual increases from 8.5% in 2014 to 5.0% for years starting 2012 for non-Medicare and 8.9% in 2014 to 5.0% for years starting 2012 for Medicare. 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 January 2009.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 12 – CONTINGENCIES

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

The City participates in several Federal and State grant programs. These programs are subject to the audits by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act as amended and applicable State requirements. In addition, these programs are subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 13 – OTHER INFORMATION

A. *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.

City of Palo Alto Regional Water Quality Control Plant: The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant. It was 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 agreement provides that the City will purchase capacity for 50 years. The City of Palo Alto acts as administrator and bills each member its share of the operating costs. The audited financial statements can be obtained by contacting the City of Palo Alto at P.O. Box 10250, Palo Alto, CA 94303.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 13 – OTHER INFORMATION (Continued)

North County Library Authority (NCLA): The NCLA, formed in 1985 by a joint exercise of powers agreement between the City and the Town of Los Altos Hills, provides library services for member residents. The NCLA was created to provide financing for capital improvements and additional services by the public libraries serving the area. Although the City owns the libraries and their sites, the County of Santa Clara (County) is responsible for all library operations. However, since 1985, the NCLA has levied a voter approved special parcel tax to compensate for service reductions due to cutbacks by the County. The special tax has been collected by the County, transferred to the City, on behalf of NCLA, and then transferred back to the County for the specifically requested services provided by the libraries within the NCLA’s service area. The City performs administrative and accounting services for NCLA. In 1991, the NCLA issued Special Tax Bonds in the amount of \$3,645,000. The Special Tax Bonds were repaid 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.

Community Health Awareness Council (CHAC): CHAC was organized as a joint powers agency between the City of Los Altos, City of Mountain View, Town of Los Altos Hills, Los Altos School District, Mountain View Whisman School District, and Mountain View-Los Altos High School District. CHAC provides prevention and intervention services concentrating on positive alternatives to health abuse and self-destructive behaviors within the communities served. The audited financial statements can be obtained by contacting CHAC at P.O. Box 335, Mountain View, California, 94042.

NOTE 14 – OTHER COMMITMENTS

A summary of remaining authorized CIP project balances at June 30, 2014 for all City funds by service area are as follows:

Construction in progress:	
Streets & Roadways	\$3,677,510
Pedestrian Safety	1,795,252
Infrastructure & Facilities	769,491
Parks	930,955
Sewer	1,813,523
Technology	482,089
Community Development	219,299
Total	\$9,688,119

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 15 – SUBSEQUENT EVENTS

A. Los Altos Sewer Billing

At June 30, 2014 the City had a receivable of \$644,442 in the Sewer Fund due to two outstanding receivables. Approximately \$127,000 was reimbursement owed to the City by outside parties for sewer work performed by the City, of which \$80,500 was received outside of the City's accrual period. The remaining \$517,000 is for amounts due to the City from the Town of Los Altos Hills for sewer conveyance and treatment. This receivable resulted from ongoing discussions between the two agencies over the amount due to the City. Subsequent to the City's accrual period, the City received payment from the Town of Los Altos Hills totaling \$242,784 to be applied towards the outstanding receivable. At this time, the City believes that approximately \$200,000 of the amount outstanding will need to be written down during fiscal year 2014/15. Staff continues to work with the Town of Los Altos Hills to finalize the exact amount and reach a resolution, which is anticipated to occur during fiscal year 2014/15.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LOS ALTOS
GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax	\$14,497,582	\$14,497,582	\$15,586,329	\$1,088,747
Sales tax	2,615,600	2,615,600	2,809,489	193,889
Utility users	2,629,800	2,629,800	2,600,034	(29,766)
Other tax	2,561,400	2,847,100	3,554,345	707,245
Licenses, permits and fees	2,488,200	3,216,300	3,798,251	581,951
Grants and donations			24,042	24,042
Charges for services	3,543,300	3,877,100	4,378,177	501,077
Fines and forfeitures	112,900	190,800	187,938	(2,862)
Interest and rentals	361,800	429,900	113,827	(316,073)
Other	1,642,600	2,893,400	2,962,596	69,196
Total revenues	30,453,182	33,197,582	36,015,028	2,817,446
Expenditures:				
General government:				
Public Safety	15,134,650	15,205,295	14,604,892	600,403
Public Works	5,581,250	4,693,153	4,352,933	340,220
Recreation	2,164,960	2,204,310	2,186,361	17,949
Community development	3,015,520	4,066,960	3,840,949	226,011
Admin/community services	3,842,970	4,153,740	3,551,716	602,024
Capital improvements			100,744	(100,744)
Total expenditures	29,739,350	30,323,458	28,637,595	1,685,863
Excess of revenues over expenditures	713,832	2,874,124	7,377,433	4,503,309
Other financing sources (uses):				
Transfers in	316,900	316,900	403,444	86,544
Transfers out	(1,024,775)	(1,024,775)	(2,234,983)	(1,210,208)
Total Other Financing Sources (Uses)	(707,875)	(707,875)	(1,831,539)	(1,123,664)
Net change in fund balance	\$5,957	\$2,166,249	5,545,894	\$3,379,645
Fund balance at beginning of year			23,082,460	
Fund balance at end of year			\$28,628,354	

CITY OF LOS ALTOS
 IN-LIEU PARK LAND SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Interest and rentals	\$5,000	\$5,000	\$21,574	\$16,574
Intergovernmental	360,000	360,000	1,260,000	900,000
Total Revenues	365,000	365,000	1,281,574	916,574
EXCESS OF REVENUES OVER EXPENDITURES	365,000	365,000	1,281,574	916,574
NET CHANGE IN FUND BALANCE	\$365,000	\$365,000	1,281,574	\$916,574
Beginning fund balance			4,590,390	
Ending fund balance			\$5,871,964	

CITY OF LOS ALTOS
Note to Required Supplementary Information
For the Year Ended June 30, 2014

1. *Budget and Budgetary Accounting*

The City adopts a budget annually for General Fund, Special Revenue Funds, except for the Storm Drain Deposits Fund, and Debt Service Fund 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 amount 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.

OTHER SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

VEHICLE IMPOUND FUND

To account for revenues collected from arrest and towing fees that are dedicated for public safety purposes.

SUPPLEMENTAL LAW ENFORCEMENT FUND

To account for revenues from the Citizen's Option for Public Safety Program in support of additional front-line law enforcement services.

GAS TAX FUNDS

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

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

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.

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CITY OF LOS ALTOS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014

SPECIAL REVENUE FUNDS

	<u>Vehicle Impound</u>	<u>Supplemental Law Enforcement</u>	<u>Gas tax</u>	<u>Proposition 1B</u>	<u>Storm Drain Deposits</u>
ASSETS					
Cash and investments		\$25,000	\$1,356,615	\$40,213	\$56,086
Restricted cash and investments					
Receivables, net of allowance for uncollectibles:					
Accounts		25,000			
Total Assets		<u>\$50,000</u>	<u>\$1,356,615</u>	<u>\$40,213</u>	<u>\$56,086</u>
LIABILITIES					
Accounts payable					
Total Liabilities					
FUND BALANCES					
Restricted:					
Debt service					
Special revenue programs and projects		\$50,000	\$1,356,615	\$40,213	\$56,086
Total Fund Balances (Deficits)		<u>50,000</u>	<u>1,356,615</u>	<u>40,213</u>	<u>56,086</u>
Total Liabilities and Fund Balances		<u>\$50,000</u>	<u>\$1,356,615</u>	<u>\$40,213</u>	<u>\$56,086</u>

SPECIAL REVENUE FUNDS					DEBT SERVICE FUND	
Community Development Block Grant	Downtown Parking	Traffic Impact Fee	Estate Donation	TDA	General	Total Non-major Governmental Funds
\$66,737	\$178,134	\$1,999,042	\$13,104	\$13,478	\$192,191 172,017	\$3,940,600 172,017
	(196)					24,804
<u>\$66,737</u>	<u>\$177,938</u>	<u>\$1,999,042</u>	<u>\$13,104</u>	<u>\$13,478</u>	<u>\$364,208</u>	<u>\$4,137,421</u>
\$645	\$258					\$903
<u>645</u>	<u>258</u>					<u>903</u>
\$66,092	\$177,680	\$1,999,042	\$13,104	\$13,478	\$364,208	364,208 3,772,310
<u>66,092</u>	<u>177,680</u>	<u>1,999,042</u>	<u>13,104</u>	<u>13,478</u>	<u>364,208</u>	<u>4,136,518</u>
<u>\$66,737</u>	<u>\$177,938</u>	<u>\$1,999,042</u>	<u>\$13,104</u>	<u>\$13,478</u>	<u>\$364,208</u>	<u>\$4,137,421</u>

CITY OF LOS ALTOS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS			
	Vehicle Impound	Supplemental Law Enforcement	Gas tax	Proposition 1B
REVENUES				
Licenses, permits and fees				
Intergovernmental		\$91,667	\$909,419	
Grants and donations				
Fines and forfeitures	\$26,420			
Interest and rentals			5,084	\$115
Other				
Total Revenues	26,420	91,667	914,503	115
EXPENDITURES				
Current:				
Community development				
Capital improvements				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	26,420	91,667	914,503	115
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)	(26,420)	(91,667)	(234,569)	
Total Other Financing Sources (Uses)	(26,420)	(91,667)	(234,569)	
NET CHANGE IN FUND BALANCES			679,934	115
BEGINNING FUND BALANCES (DEFICITS)		50,000	676,681	40,098
ENDING FUND BALANCES (DEFICITS)		\$50,000	\$1,356,615	\$40,213

SPECIAL REVENUE FUNDS						DEBT SERVICE FUND	Total Non-major Governmental Funds
Storm Drain Deposits	Community Development Block Grant	Downtown Parking	Traffic Impact Fee	Estate Donation	TDA	General	
		\$40,440	\$692,408				\$732,848
	\$35,797						1,001,086
		9,872	8,084	\$54			35,797
		4,784					26,420
							23,209
							4,784
	35,797	55,096	700,492	54			1,824,144
		44,090					44,090
	9,727						9,727
						\$95,000	95,000
						71,686	71,686
	9,727	44,090				166,686	220,503
	26,070	11,006	700,492	54		(166,686)	1,603,641
						167,300	167,300
			(97,041)				(449,697)
			(97,041)			167,300	(282,397)
	26,070	11,006	603,451	54		614	1,321,244
\$56,086	40,022	166,674	1,395,591	13,050	\$13,478	363,594	2,815,274
\$56,086	\$66,092	\$177,680	\$1,999,042	\$13,104	\$13,478	\$364,208	\$4,136,518

CITY OF LOS ALTOS
VEHICLE IMPOUND FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Fines and forfeitures	<u>\$26,900</u>	<u>\$26,420</u>	<u>(\$480)</u>
Total Revenues	<u>26,900</u>	<u>26,420</u>	<u>(480)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>26,900</u>	<u>26,420</u>	<u>(480)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u> </u>	<u>(26,420)</u>	<u>(26,420)</u>
Total other financing sources (uses)	<u> </u>	<u>(26,420)</u>	<u>(26,420)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$26,900</u></u>		<u><u>(\$26,900)</u></u>
Beginning fund balance		<u> </u>	
Ending fund balance		<u><u> </u></u>	

CITY OF LOS ALTOS
 SUPPLEMENTAL LAW ENFORCEMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Intergovernmental	<u>\$100,000</u>	<u>\$91,667</u>	<u>(\$8,333)</u>
Total Revenues	<u>100,000</u>	<u>91,667</u>	<u>(8,333)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>100,000</u>	<u>91,667</u>	<u>(8,333)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u> </u>	<u>(91,667)</u>	<u>(91,667)</u>
Total other financing sources (uses)	<u> </u>	<u>(91,667)</u>	<u>(91,667)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$100,000</u></u>		<u><u>(\$100,000)</u></u>
Beginning fund balance		<u>50,000</u>	
Ending fund balance		<u><u>\$50,000</u></u>	

CITY OF LOS ALTOS
 GAS TAX FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Intergovernmental	\$591,000	\$909,419	\$318,419
Interest and rentals	4,800	5,084	284
	<u>595,800</u>	<u>914,503</u>	<u>318,703</u>
Total Revenues			
EXCESS OF REVENUES OVER EXPENDITURES	<u>595,800</u>	<u>914,503</u>	<u>318,703</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)		(234,569)	(234,569)
		<u>(234,569)</u>	<u>(234,569)</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCE	<u>\$595,800</u>	679,934	<u>\$84,134</u>
Beginning fund balance		<u>676,681</u>	
Ending fund balance		<u>\$1,356,615</u>	

CITY OF LOS ALTOS
 PROPOSITION 1B FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Interest and rentals	<u>\$1,600</u>	<u>\$115</u>	<u>(\$1,485)</u>
Total Revenues	<u>1,600</u>	<u>115</u>	<u>(1,485)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,600</u>	<u>115</u>	<u>(1,485)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$1,600</u></u>	<u>115</u>	<u><u>(\$1,485)</u></u>
Beginning fund balance		<u>40,098</u>	
Ending fund balance		<u><u>\$40,213</u></u>	

CITY OF LOS ALTOS
DOWNTOWN PARKING FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Licenses, permits and fees	\$27,900	\$40,440	\$12,540
Interest and rentals	9,400	9,872	472
Other		4,784	4,784
	<u>37,300</u>	<u>55,096</u>	<u>17,796</u>
EXPENDITURES			
Current:			
Community development	<u>50,000</u>	<u>44,090</u>	<u>5,910</u>
Total Expenses	<u>50,000</u>	<u>44,090</u>	<u>5,910</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(12,700)</u>	<u>11,006</u>	<u>23,706</u>
NET CHANGE IN FUND BALANCE	<u>(\$12,700)</u>	<u>11,006</u>	<u>\$23,706</u>
Beginning fund balance		<u>166,674</u>	
Ending fund balance		<u>\$177,680</u>	

CITY OF LOS ALTOS
 TRAFFIC IMPACT FEE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Licenses, permits and fees	\$710,100	\$692,408	(\$17,692)
Interest and rentals	4,200	8,084	3,884
Total Revenues	<u>714,300</u>	<u>700,492</u>	<u>(13,808)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>714,300</u>	<u>700,492</u>	<u>(13,808)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)		<u>(97,041)</u>	<u>(97,041)</u>
Total other financing sources (uses)		<u>(97,041)</u>	<u>(97,041)</u>
NET CHANGE IN FUND BALANCE	<u>\$714,300</u>	603,451	<u>(\$110,849)</u>
Beginning fund balance		<u>1,395,591</u>	
Ending fund balance		<u>\$1,999,042</u>	

CITY OF LOS ALTOS
 ESTATE DONATION FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Interest	<u>\$100</u>	<u>\$54</u>	<u>(\$46)</u>
Total Revenues	<u>100</u>	<u>54</u>	<u>(46)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>100</u>	<u>54</u>	<u>(46)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$100</u></u>	<u>54</u>	<u><u>(\$46)</u></u>
Beginning fund balance		<u>13,050</u>	
Ending fund balance		<u><u>\$13,104</u></u>	

CITY OF LOS ALTOS
TDA FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Grants and donations	\$132,149		(\$132,149)
Total expenditures	<u>132,149</u>		<u>(132,149)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(132,149)</u>		<u>(132,149)</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$132,149)</u></u>		<u><u>(\$132,149)</u></u>
Beginning fund balance		<u>\$13,478</u>	
Ending fund balance		<u><u>\$13,478</u></u>	

CITY OF LOS ALTOS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES			
Debt service:			
Principal	\$95,000	\$95,000	
Interest	<u>74,810</u>	<u>71,686</u>	<u>\$3,124</u>
Total expenditures	<u>169,810</u>	<u>166,686</u>	<u>3,124</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(169,810)</u>	<u>(166,686)</u>	<u>3,124</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>167,300</u>	<u>167,300</u>	
Total other financing sources (uses)	<u>167,300</u>	<u>167,300</u>	
NET CHANGE IN FUND BALANCE	<u><u>(\$2,510)</u></u>	614	<u><u>\$3,124</u></u>
Beginning fund balance		<u>363,594</u>	
Ending fund balance		<u><u>\$364,208</u></u>	

INTERNAL SERVICE FUNDS

INSURANCE FUND

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.

CITY OF LOS ALTOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Dental Reimbursement</u>	<u>Unemployment Insurance</u>	<u>Workers' Compensation Insurance</u>
ASSETS			
Current Assets:			
Cash and investments	\$154,233	\$276,183	\$3,755,676
Accounts receivable			703
	<u>154,233</u>	<u>276,183</u>	<u>3,756,379</u>
Total Assets			
LIABILITIES			
Current Liabilities:			
Accounts payable	5,254		41,315
Claims and judgements - current portion			549,338
Noncurrent Liabilities:			
Claims and judgements - noncurrent portion			<u>2,430,555</u>
	<u>5,254</u>		<u>3,021,208</u>
Total Liabilities			
NET POSITION			
Unrestricted	<u>148,979</u>	<u>276,183</u>	<u>735,171</u>
	<u>\$148,979</u>	<u>\$276,183</u>	<u>\$735,171</u>
Total Net Position			

<u>Liability Insurance</u>	<u>Total</u>
\$837,776	\$5,023,868 703
<u>837,776</u>	<u>5,024,571</u>
49,909	96,478
108,100	657,438
<u>160,189</u>	<u>2,590,744</u>
<u>318,198</u>	<u>3,344,660</u>
<u>519,578</u>	<u>1,679,911</u>
<u><u>\$519,578</u></u>	<u><u>\$1,679,911</u></u>

CITY OF LOS ALTOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Dental Reimbursement</u>	<u>Unemployment Insurance</u>	<u>Workers' Compensation Insurance</u>
OPERATING REVENUES			
Charges for services	<u>\$110,284</u>	<u>\$75,353</u>	<u>\$697,774</u>
Total Operating Revenues	<u>110,284</u>	<u>75,353</u>	<u>697,774</u>
OPERATING EXPENSES			
Outside services			
Claims reimbursement	119,137	13,008	443,058
Insurance			118,291
Administration			26,254
Total Operating Expenses	<u>119,137</u>	<u>13,008</u>	<u>587,603</u>
Operating Income (Loss)	<u>(8,853)</u>	<u>62,345</u>	<u>110,171</u>
Transfers:			
Transfers in			<u>413,484</u>
Change in Net Position	(8,853)	62,345	523,655
BEGINNING NET POSITION (DEFICITS)	<u>157,832</u>	<u>213,838</u>	<u>211,516</u>
ENDING NET POSITION (DEFICITS)	<u><u>\$148,979</u></u>	<u><u>\$276,183</u></u>	<u><u>\$735,171</u></u>

<u>Liability Insurance</u>	<u>Total</u>
<u>\$530,499</u>	<u>\$1,413,910</u>
<u>530,499</u>	<u>1,413,910</u>
12,657	12,657
10,519	585,722
309,741	428,032
<u> </u>	<u>26,254</u>
<u>332,917</u>	<u>1,052,665</u>
<u>197,582</u>	<u>361,245</u>
<u> </u>	<u>413,484</u>
197,582	774,729
<u>321,996</u>	<u>905,182</u>
<u><u>\$519,578</u></u>	<u><u>\$1,679,911</u></u>

CITY OF LOS ALTOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Dental Reimbursement</u>	<u>Unemployment Insurance</u>	<u>Workers' Compensation Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$110,284	\$75,353	\$698,124
Cash payments to claimants	(121,623)	(13,008)	(435,311)
Insurance premiums and settlements			(141,601)
	<u>(11,339)</u>	<u>62,345</u>	<u>121,212</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in			413,484
			<u>413,484</u>
	(11,339)	62,345	534,696
Cash and investments at beginning of period	<u>165,572</u>	<u>213,838</u>	<u>3,220,980</u>
Cash and investments at end of period	<u>\$154,233</u>	<u>\$276,183</u>	<u>\$3,755,676</u>
Reconciliation of operating income (loss) to net cash flows			
from operating activities:			
Operating income (loss)	(\$8,853)	\$62,345	\$110,171
Adjustments to reconcile operating income to net cash flows			
from operating activities:			
Change in assets and liabilities:			
Accounts receivable			\$350
Accounts payable	(2,486)		7,747
Claims and judgments payable			2,944
Cash Flows from Operating Activities	<u>(\$11,339)</u>	<u>\$62,345</u>	<u>\$121,212</u>

<u>Liability Insurance</u>	<u>Total</u>
\$530,499	\$1,414,260
(9,414)	(579,356)
<u>(354,664)</u>	<u>(496,265)</u>
166,421	338,639
	<u>413,484</u>
	<u>413,484</u>
166,421	752,123
<u>671,355</u>	<u>4,271,745</u>
<u>\$837,776</u>	<u>\$5,023,868</u>
\$197,582	\$361,245
	350
1,105	6,366
<u>(32,266)</u>	<u>(29,322)</u>
<u>\$166,421</u>	<u>\$338,639</u>

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FIDUCIARY FUNDS

AGENCY FUNDS**NORTH COUNTY LIBRARY AUTHORITY**

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

AVALON DRIVE CURB AND GUTTER

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

RAYMUNDO CURB AND GUTTER

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

BLUE OAK LANE SEWER

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

CITY OF LOS ALTOS
 AGENCY FUNDS
 COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
<hr/> <u>North County Library Authority</u> <hr/>				
<u>Assets</u>				
Cash and investments	\$1,811,700	\$5,510,292	\$4,953,673	\$2,368,319
Accounts receivable	418	885	418	885
Total assets	<u>\$1,812,118</u>	<u>\$5,511,177</u>	<u>\$4,954,091</u>	<u>\$2,369,204</u>
<u>Liabilities</u>				
Accounts payable	\$212,400	\$514,830	\$486,437	\$240,793
Due to others	1,599,718	4,996,347	4,467,654	2,128,411
Total liabilities	<u>\$1,812,118</u>	<u>\$5,511,177</u>	<u>\$4,954,091</u>	<u>\$2,369,204</u>
<hr/> <u>Avalon Drive Curb Gutter</u> <hr/>				
<u>Assets</u>				
Cash and investments	\$47,598	\$10,437	\$20,323	\$37,712
Total assets	<u>\$47,598</u>	<u>\$10,437</u>	<u>\$20,323</u>	<u>\$37,712</u>
<u>Liabilities</u>				
Accounts payable		\$10,140	\$10,140	
Due to others	\$47,598	297	10,183	\$37,712
Total liabilities	<u>\$47,598</u>	<u>\$10,437</u>	<u>\$20,323</u>	<u>\$37,712</u>
<hr/> <u>Raymundo Curb and Gutter</u> <hr/>				
<u>Assets</u>				
Cash and investments	\$46,238	\$56,770	\$58,818	\$44,190
Accounts receivable		130		130
Total assets	<u>\$46,238</u>	<u>\$56,900</u>	<u>\$58,818</u>	<u>\$44,320</u>
<u>Liabilities</u>				
Accounts payable		\$29,392	\$29,392	
Due to others	\$46,238	27,508	29,426	\$44,320
Total liabilities	<u>\$46,238</u>	<u>\$56,900</u>	<u>\$58,818</u>	<u>\$44,320</u>

CITY OF LOS ALTOS
 AGENCY FUNDS
 COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2014

Blue Oak Lane Sewer	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
<u>Assets</u>				
Cash and investments	\$22,381	\$50,428	\$46,265	\$26,544
Restricted cash and investments	39,782	6		39,788
Accounts receivable		169		169
Total assets	<u>\$62,163</u>	<u>\$50,603</u>	<u>\$46,265</u>	<u>\$66,501</u>
<u>Liabilities</u>				
Accounts payable		\$46,265	\$46,265	
Due to others	\$62,163	4,338		\$66,501
Total liabilities	<u>\$62,163</u>	<u>\$50,603</u>	<u>\$46,265</u>	<u>\$66,501</u>
<hr/>				
Totals - All Agency Funds				
<u>Assets</u>				
Cash and investments	\$1,927,917	\$5,627,927	\$5,079,079	\$2,476,765
Restricted cash and investments	39,782	6		39,788
Accounts receivable	418	1,184	418	1,184
Total assets	<u>\$1,968,117</u>	<u>\$5,629,117</u>	<u>\$5,079,497</u>	<u>\$2,517,737</u>
<u>Liabilities</u>				
Accounts payable	\$212,400	\$600,627	\$572,234	\$240,793
Due to others	1,755,717	5,028,490	\$4,507,263	2,276,944
Total liabilities	<u>\$1,968,117</u>	<u>\$5,629,117</u>	<u>\$5,079,497</u>	<u>\$2,517,737</u>

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STATISTICAL SECTION

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STATISTICAL SECTION

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. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend 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 Balances of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

1. Tax Revenues by Source, Governmental Funds
2. Assessed Value of Taxable Property
3. Property Tax Dollar by Break Down
4. Property Tax Dollars by Recipient Group
5. Direct and Overlapping Tax Rates
6. Principal Property Taxpayers
7. Property Tax Levies and Collections

Debt Capacity

These 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. Ratios of Outstanding Debt by Type
2. Schedule of Direct and Overlapping Bonded Debt
3. Legal Debt Margin

Demographic and Economic Information

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

1. Demographic Statistics
2. Principal Employers

Operating Information

These schedules contain service and infrastructure 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 Employees by Function/Program
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program
4. Trust and Agency Debt Administration

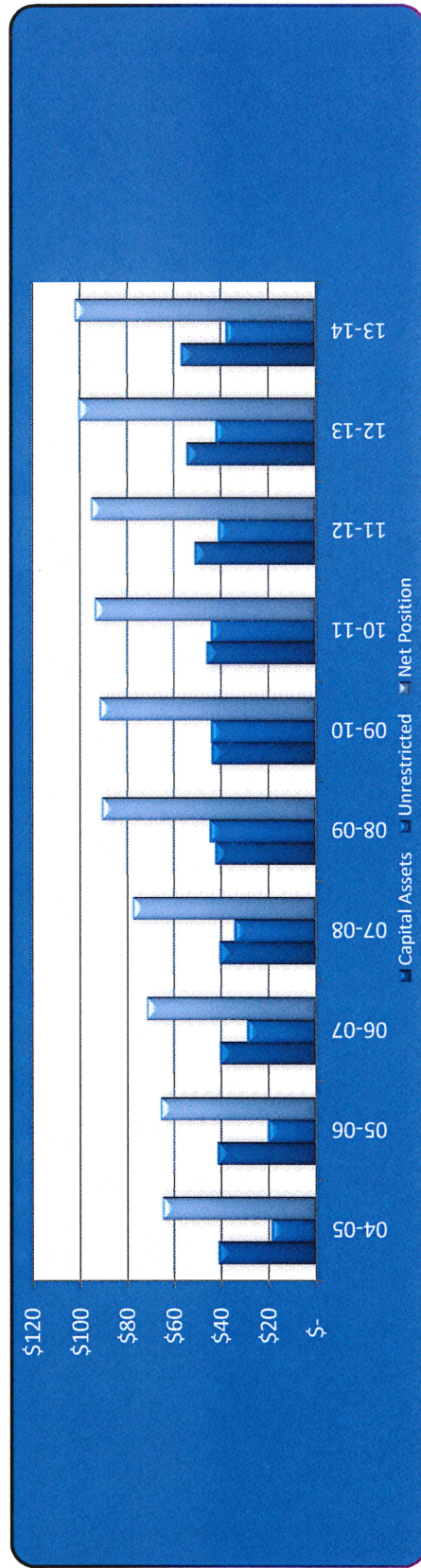
Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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

	Fiscal Year									
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Governmental activities										
Net investment in capital assets	\$39,023	\$37,877	\$38,186	\$40,251	\$40,684	\$42,596	\$46,011	\$48,511	\$50,102	\$50,164
Restricted	3,792	2,403	2,709	3,366	3,477	3,411	3,057	3,926	7,406	17,629
Unrestricted	16,178	23,343	27,386	37,038	36,184	35,476	33,448	34,634	29,883	27,624
Total governmental activities net position	\$58,993	\$63,623	\$68,281	\$80,655	\$80,345	\$81,483	\$82,516	\$87,071	\$87,391	\$95,417
Business-type activities										
Net investment in capital assets	\$2,510	\$2,527	\$2,388	\$2,219	\$3,316	\$3,552	\$5,197	\$5,952	\$6,773	\$8,718
Unrestricted	4,228	5,511	6,977	7,922	8,102	8,766	7,625	7,539	7,843	8,087
Total business-type activities net position	\$6,738	\$8,038	\$9,365	\$10,141	\$11,418	\$12,318	\$12,822	\$13,491	\$14,616	\$16,805
Primary government										
Net investment in capital assets	\$41,533	\$40,404	\$40,574	\$42,470	\$44,000	\$46,148	\$51,208	\$54,463	\$56,875	\$58,882
Restricted	3,792	2,403	2,709	3,366	3,477	3,411	3,057	3,926	7,406	17,629
Unrestricted	20,406	28,854	34,363	44,960	44,286	44,242	41,073	42,173	37,726	35,711
Total primary government net position	\$65,731	\$71,661	\$77,646	\$90,796	\$91,763	\$93,801	\$95,338	\$100,562	\$102,007	\$112,222



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									
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Expenses										
Governmental activities:										
Public safety	\$9,856	\$9,913	\$11,033	\$12,415	\$13,563	\$13,812	\$14,101	\$14,797	\$15,144	\$14,884
Public works	4,498	4,224	4,799	4,886	5,318	5,170	5,451	5,157	5,557	6,453
Recreation	2,212	2,405	2,460	2,650	2,889	2,460	2,503	2,193	2,108	2,656
Community development	2,383	2,604	2,875	3,448	3,913	3,962	4,052	3,583	4,514	4,038
Admin/Community services	2,313	2,502	2,655	3,317	3,765	3,794	3,837	4,034	5,675	3,804
Interest on long-term activities	149	151	146	138	32	83	86	69	95	71
Total governmental activities expenses	21,411	21,799	23,968	26,854	29,480	29,281	30,030	29,833	33,093	31,906
Business-type activities:										
Sewer	3,167	3,324	3,712	3,886	4,810	4,438	4,520	4,386	4,529	4,574
Solid waste	1,125	1,264	1,575	1,609	1,574	1,826	717	341	355	366
Storm drain	118	183	181	213	188	199	200	213	232	165
Total Business-type activities expenses	4,410	4,771	5,468	5,708	6,572	6,463	5,437	4,940	5,116	5,105
Total primary government expenses	\$25,821	\$26,570	\$29,436	\$32,562	\$36,052	\$35,744	\$35,467	\$34,773	\$38,209	\$37,011
Program Revenues										
Governmental activities:										
Charges for services:										
Public safety	\$508	\$377	\$499	\$527	\$585	\$466	\$348	\$394	\$344	\$417
Public works	231	156	228	204	180	152	191	32	34	60
Recreation	1,604	1,545	1,665	1,654	1,472	1,498	1,763	1,808	1,865	1,952
Community development	1,854	2,644	2,501	3,372	1,867	2,954	2,650	3,260	7,431	5,196
Admin/Community services	543	580	1,166	967	969	1,097	1,061	875	947	942
Operating grants and contributions:										
Public safety	123	136	112	118	108	102	100	112	109	116
Public works	549	535	541	511	479	462	682	829	699	909
Recreation	11	42	9	27	4	0	0	0	0	0
Community development	76	126	141	285	48	56	168	21	59	36
Admin/Community services	6	6	6	6	6	131	64	36	58	6
Capital grants and contributions										
Public safety	0	0	121	4	0	0	0	0	0	0
Public works	588	498	322	923	978	985	711	897	492	747
Recreation	0	0	1	492	10	0	0	0	0	0
Community development	0	0	0	0	24	7	0	3,400	80	3
Admin/Community services	0	0	0	0	89	200	78	76	0	83
Total governmental activities program revenues	6,093	6,645	7,312	9,090	6,819	8,110	7,816	11,740	12,118	10,467

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

(accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year									
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Business-type activities:										
Charges for services:										
Sewer	4,273	4,264	4,833	4,467	5,804	5,413	4,813	4,503	5,121	6,347
Solid waste	1,309	1,455	1,471	1,540	1,685	1,657	992	821	879	754
Storm drain	0	0	0	0	0	0	0	0	0	12
Total business-type activities program revenues	5,582	5,719	6,304	6,007	7,489	7,070	5,805	5,324	6,000	7,113
Total primary government program revenues	\$11,675	\$12,364	\$13,616	\$15,097	\$14,308	\$15,180	\$13,621	\$17,064	\$18,118	\$17,580
Net (expense)/revenue:										
Governmental activities	(\$15,318)	(\$15,154)	(\$16,656)	(\$17,764)	(\$22,661)	(\$21,171)	(\$22,214)	(\$18,093)	(\$20,975)	(\$21,439)
Business-type activities	1,172	948	836	299	917	607	368	384	884	2,008
Total primary government net (expense)/revenue	(\$14,146)	(\$14,206)	(\$15,820)	(\$17,465)	(\$21,744)	(\$20,564)	(\$21,846)	(\$17,709)	(\$20,091)	(\$19,431)
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes:										
Property taxes	\$8,580	\$9,767	\$10,903	\$11,875	\$12,759	\$13,051	\$12,794	\$13,302	\$14,130	\$15,586
Sales taxes	2,553	2,662	2,750	2,872	2,697	2,255	2,588	2,746	2,926	2,809
Utility users taxes	1,970	2,101	2,274	2,483	2,530	2,515	2,543	2,548	2,600	2,600
Other taxes	231	235	2,682	2,703	2,147	2,453	2,910	2,868	3,301	3,542
Franchise fees	1,048	1,110	1,164	2,029	1,458	1,437	1,814	1,731	1,770	1,905
Sale of Capital Assets-net	0	0	0	6,499	0	0	0	(545)	(8)	2,846
Interest income	495	1,048	1,414	1,353	760	341	275	115	174	99
Miscellaneous	2,831	3,050	323	517	201	286	388	131	382	212
Transfers	(183)	(187)	(197)	(193)	(200)	(239)	(65)	(247)	(232)	(152)
Total governmental activities	17,525	19,786	21,313	30,138	22,352	22,099	23,247	22,649	25,043	29,447
Business-type activities	0	0	296	284	160	53	71	37	10	
Interest income										
Miscellaneous	183	187	197	193	200	239	65	247	232	28
Transfers	183	187	493	477	360	292	136	284	242	180
Total business-type activities	\$17,708	\$19,973	\$21,806	\$30,615	\$22,712	\$22,391	\$23,383	\$22,933	\$25,285	\$29,627
Total primary government										
Change in Net Position										
Governmental activities	\$2,207	\$4,632	\$4,657	\$12,374	(\$309)	\$928	\$1,033	\$4,556	\$4,068	\$8,008
Business-type activities	1,355	1,135	1,329	776	1,277	899	504	668	1,126	2,188
Total primary government	\$3,562	\$5,767	\$5,986	\$13,150	\$968	\$1,827	\$1,537	\$5,224	\$5,194	\$10,196

Source:
 City of Los Altos Finance Department

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

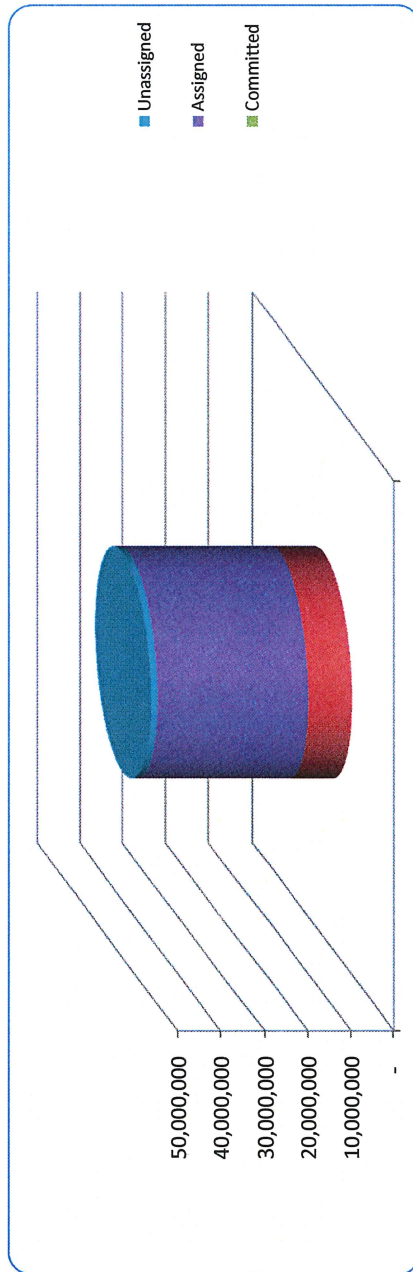
City of Los Altos
Fund Balances - Governmental Funds

Last Ten Fiscal Years
(modified accrual basis of accounting; amounts expressed in thousands)
(Pre GASB 54 Presentation - For Years Before 2011-12)

	Fiscal Year									
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 *
(Pre GASB 54 Presentation)										
General fund										
Reserved	\$5,412	\$5,872	\$131	\$228	\$39	\$143	\$48	\$46	\$49	\$27,195
Unreserved/Unrestricted	305	206	6,157	6,492	7,650	6,908	7,836	7,439	8,453	1,433
Total general fund	\$5,717	\$6,078	\$6,288	\$6,720	\$7,689	\$7,051	\$7,884	\$7,485	\$8,502	\$28,628
All other governmental funds										
Restricted	\$15,492	\$20,591	\$4,604	\$5,484	\$3,472	\$3,399	\$2,780	\$3,926	\$7,406	\$364
Reserved, reported in:										
Special revenue funds	0	0	(21)	1,798	4,120	6,422	6,768	6,911	7,415	9,644
Capital projects funds	(775)	(770)	18,876	21,360	21,814	19,540	16,868	17,213	15,676	7,621
Debt service funds	(8)	(8)	(8)	(8)	(8)					
Total all other governmental funds	\$14,709	\$19,813	\$23,451	\$28,634	\$29,398	\$29,361	\$26,416	\$28,050	\$30,497	\$17,629
Total all governmental funds	\$20,426	\$25,891	\$29,739	\$35,354	\$37,087	\$36,412	\$34,300	\$35,535	\$38,999	\$46,257

* The General Fund is presented together with the City's Real Property Proceeds Fund and Community Facilities Renewal Fund for the first time in 2013/14. In prior years, the amounts in these funds were presented with All Other Governmental Funds. This change in presentation results in a substantial shift in resources from All Other Governmental Funds Restricted and Reserved for Capital project funds in 2012/13 and prior years to the General Fund Reserved Fund Balance in 2013/14.

2013-14					
<i>GASB 54 Presentation:(2013-14)</i>					
General Fund	In Lieu Park Land	Capital Projects	Equipment Replacement	Other Govt Funds	Total
Inventory & Prepays					(\$22,551)
Veteran Memorial					(12,000)
Non Spendable	0	0	0	0	(34,551)
Debt Service				(\$364,208)	(364,208)
Special Revenue Programs and Projects	(\$5,871,964)			(3,772,310)	(9,644,274)
Restricted	0	0	0	(4,136,518)	(10,008,482)
Emergency & Operating	(6,405,000)				(6,405,000)
OPEB	(850,000)				(850,000)
PERS Reserve	(600,000)				(600,000)
Technology reserve	(750,000)				(750,000)
Capital Projects		(\$4,151,994)	(\$3,468,845)		(26,176,727)
Assigned	0	(4,151,994)	(3,468,845)	0	(34,781,727)
Unassigned	(1,432,915)				(1,432,915)
Total Fund Equity	(\$28,628,354)	(\$5,871,964)	(\$4,151,994)	(\$3,468,845)	(\$46,257,675)



Source: City of Los Altos Finance Department

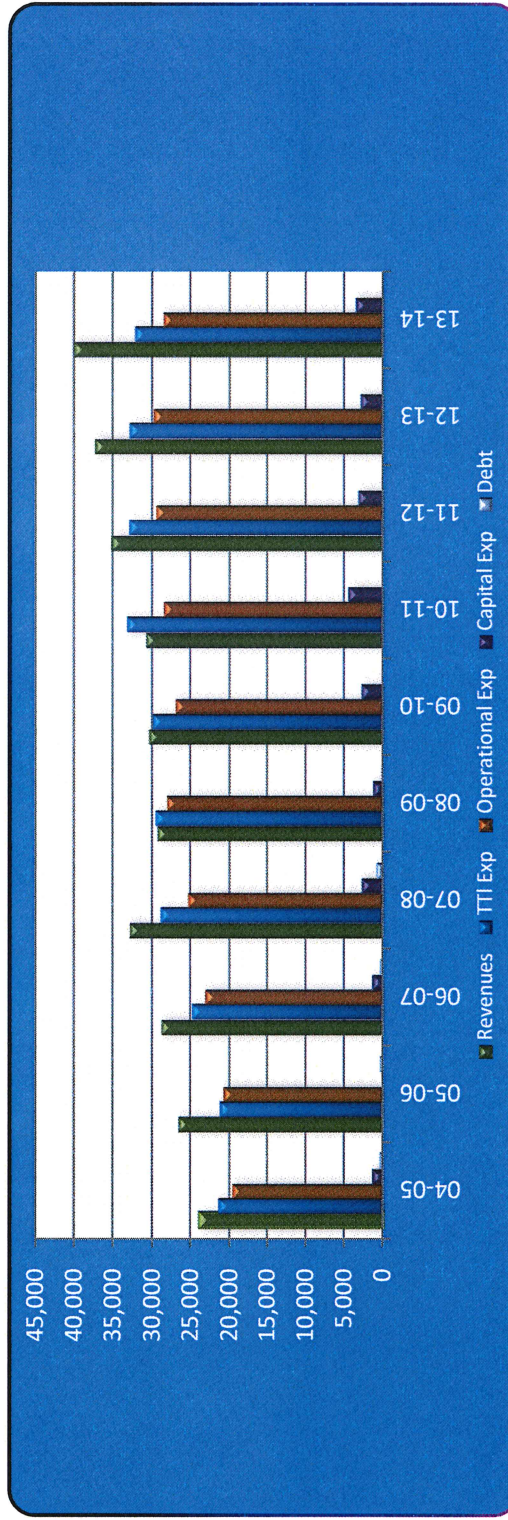
City of Los Altos
 Changes in Fund Balances - Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting; amounts expressed in thousands)

	Fiscal Year									
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Revenues										
Taxes	\$12,263	\$13,781	\$15,205	\$16,566	\$17,115	\$17,545	\$17,714	\$18,250	\$19,444	\$21,950
License, permits and park-in-lieu	2,198	2,568	2,522	3,493	2,532	3,025	3,187	3,204	3,312	4,531
Intergovernmental	4,048	4,515	4,323	4,470	4,365	3,680	3,988	4,333	4,513	4,861
Grants and donations	701	549	359	1,294	305	559	929	4,242	650	788
Charges for services	2,997	3,272	3,701	3,673	3,422	3,494	4,020	3,780	4,480	4,572
Fines and forfeitures	268	201	264	286	329	246	148	231	171	214
Interest and rentals	906	1,338	1,692	1,857	945	504	333	169	135	159
Other	419	395	777	1,284	359	1,394	521	973	4,616	2,989
Total revenues	23,800	26,619	28,843	32,923	29,372	30,447	30,840	35,182	37,321	40,064
Expenditures										
General government										
Public Safety										
Police	6,456	7,047	7,245	7,553	8,283	8,111	8,616	9,588	9,178	14,605
Fire Services	2,972	3,020	3,839	4,664	4,900	5,119	5,259	5,375	5,513	
Public works	3,961	3,775	4,321	4,286	5,038	4,420	4,793	4,826	4,831	4,353
Recreation	1,820	1,952	2,103	2,257	2,443	1,994	2,062	2,429	2,102	2,186
Community development	2,293	2,606	2,922	3,384	3,826	3,770	3,973	3,726	4,553	3,885
Administration/Community services	2,215	2,414	2,658	3,222	3,623	3,600	3,845	3,624	3,655	3,552
Capital improvements	1,348	72	1,374	2,719	1,288	2,784	4,475	3,212	2,916	3,492
Debt service										
Principal	199	193	193	657	101	85	85	90	95	95
Interest and fiscal charges	158	146	143	138	103	81	80	77	75	72
Total expenditures	21,422	21,225	24,798	28,880	29,605	29,964	33,188	32,947	32,918	32,240
Excess (deficiency) of revenues over (under) expenditures	2,378	5,394	4,045	4,043	(233)	483	(2,348)	2,235	4,402	7,824
Other financing sources (uses)										
Debt issuance	0	257	0	0	0	0	0	0	0	0
Transfers in	5,652	6,639	6,153	5,388	2,396	2,781	3,509	1,887	2,443	2,119
Transfers out	(5,834)	(6,827)	(6,350)	(5,581)	(2,596)	(3,020)	(3,574)	(2,134)	(2,925)	(2,685)
Total Other financing sources (uses)	(182)	69	(197)	(193)	(200)	(239)	(65)	(247)	(482)	(566)

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

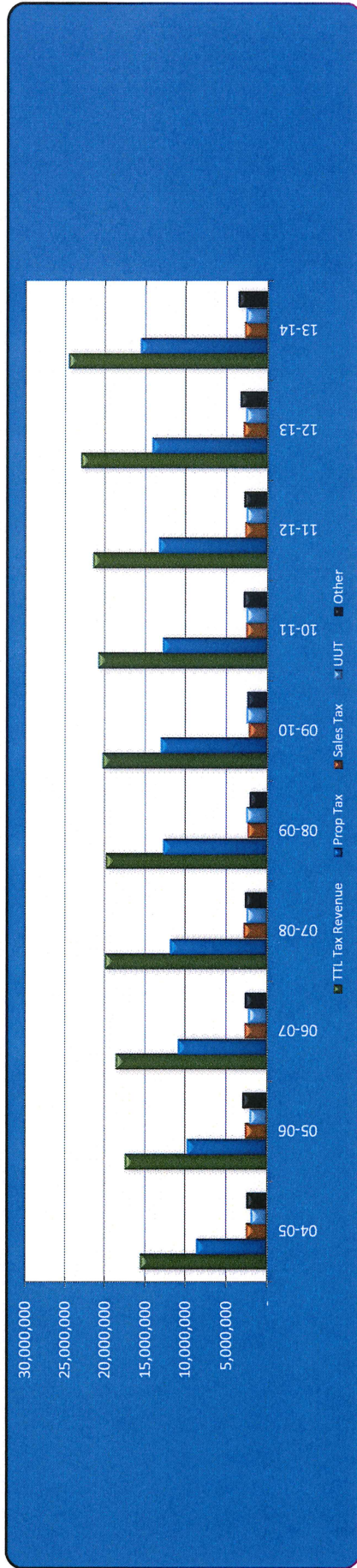
	Fiscal Year									
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Special items										
CALPers Side Fund Pay Down	0	0	0	0	0	(3,005)	0	(850)	(950)	
Sale of capital assets-net	0	0	0	1,765	2,167	2,167	300	100	492	
Total special items	0	0	0	1,765	2,167	(838)	300	(750)	(458)	0
Net change in fund balances	\$2,196	\$5,463	\$3,848	\$5,615	\$1,734	(\$594)	(\$2,113)	\$1,238	\$3,463	\$7,258
Debt service as a percentage of non-capital expenditures	1.8%	1.6%	1.4%	3.0%	0.7%	0.6%	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
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	14,130,040	2,926,441	519,828	2,600,054	1,946,484	587,422	15,102	247,992	-	22,973,363
2013-14	15,586,329	2,809,489	475,298	2,600,034	2,168,556	583,581	12,639	314,271	-	24,550,197



Source:
 City of Los Altos Finance Department

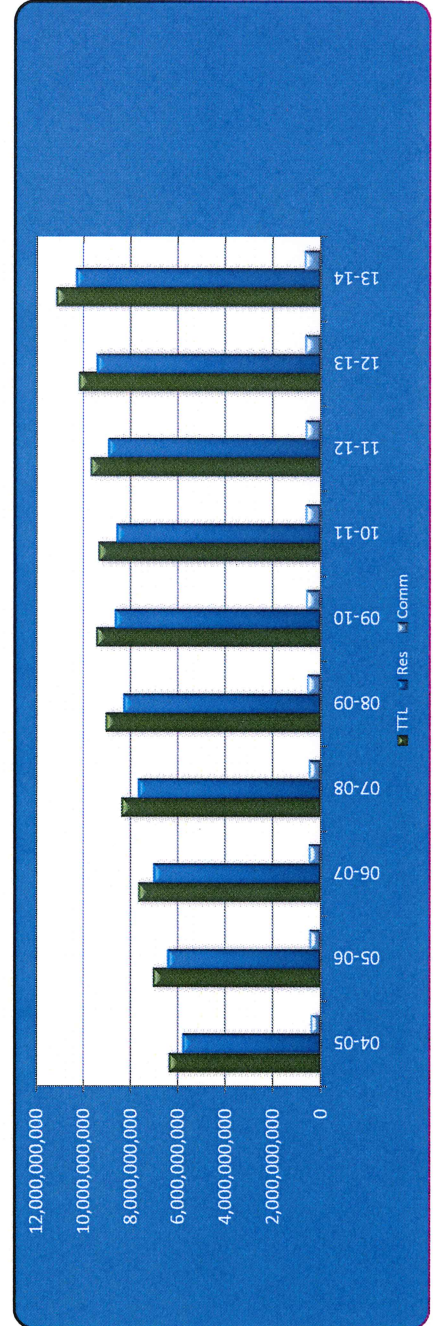
City of Los Altos
 Assessed Value of Taxable Property
 Last Ten Fiscal Years

Fiscal Year	Residential Property	Commercial Property	Other	Net Unsecured	Total Taxable Assessed Value (1)	Total Direct Tax Rate (2)	% Change
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%
2013-14	10,318,249,580	676,782,575	67,152,550	97,506,301	11,159,691,006	1%	9.39%

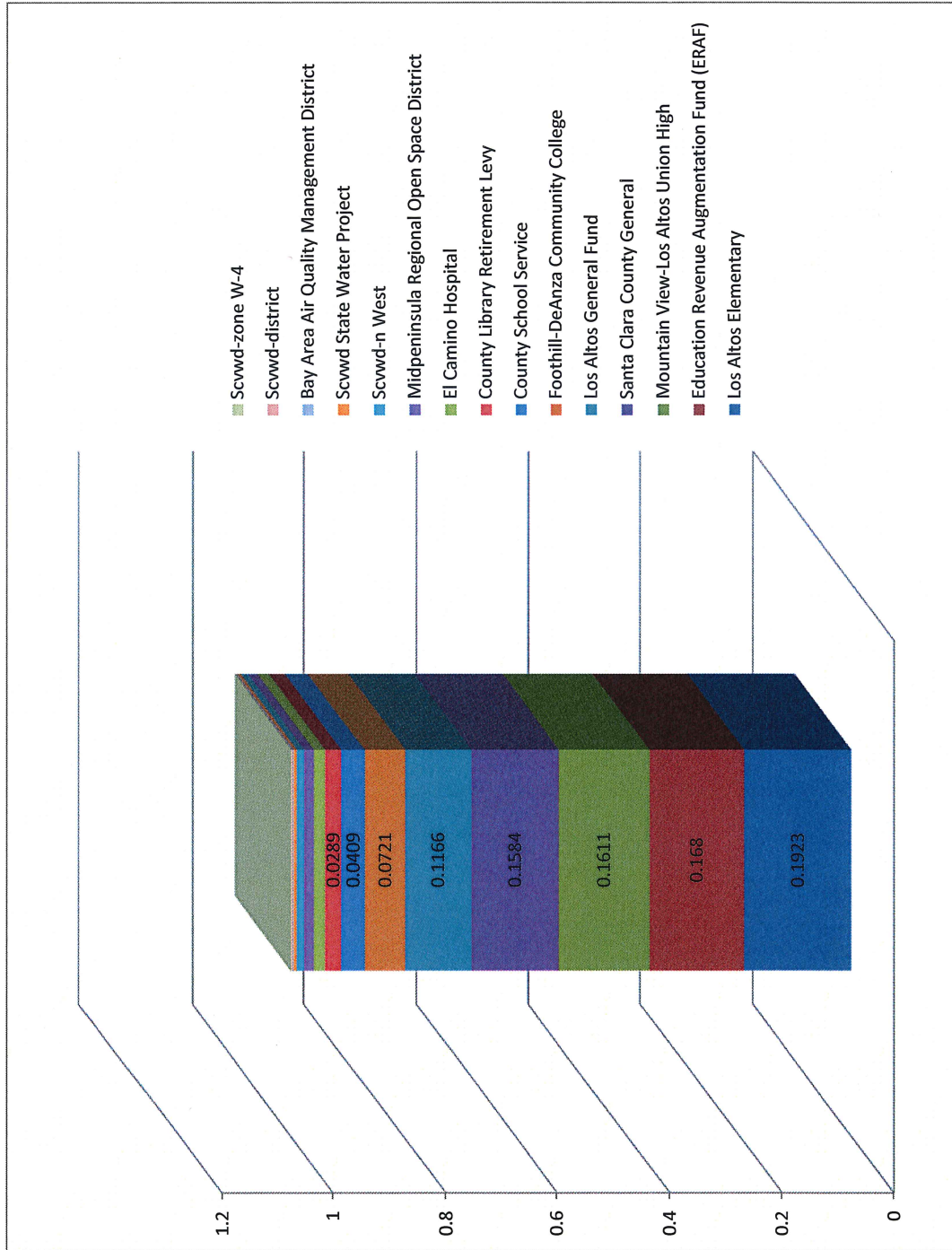
Source:
 HdL, Coren & Cone

(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.

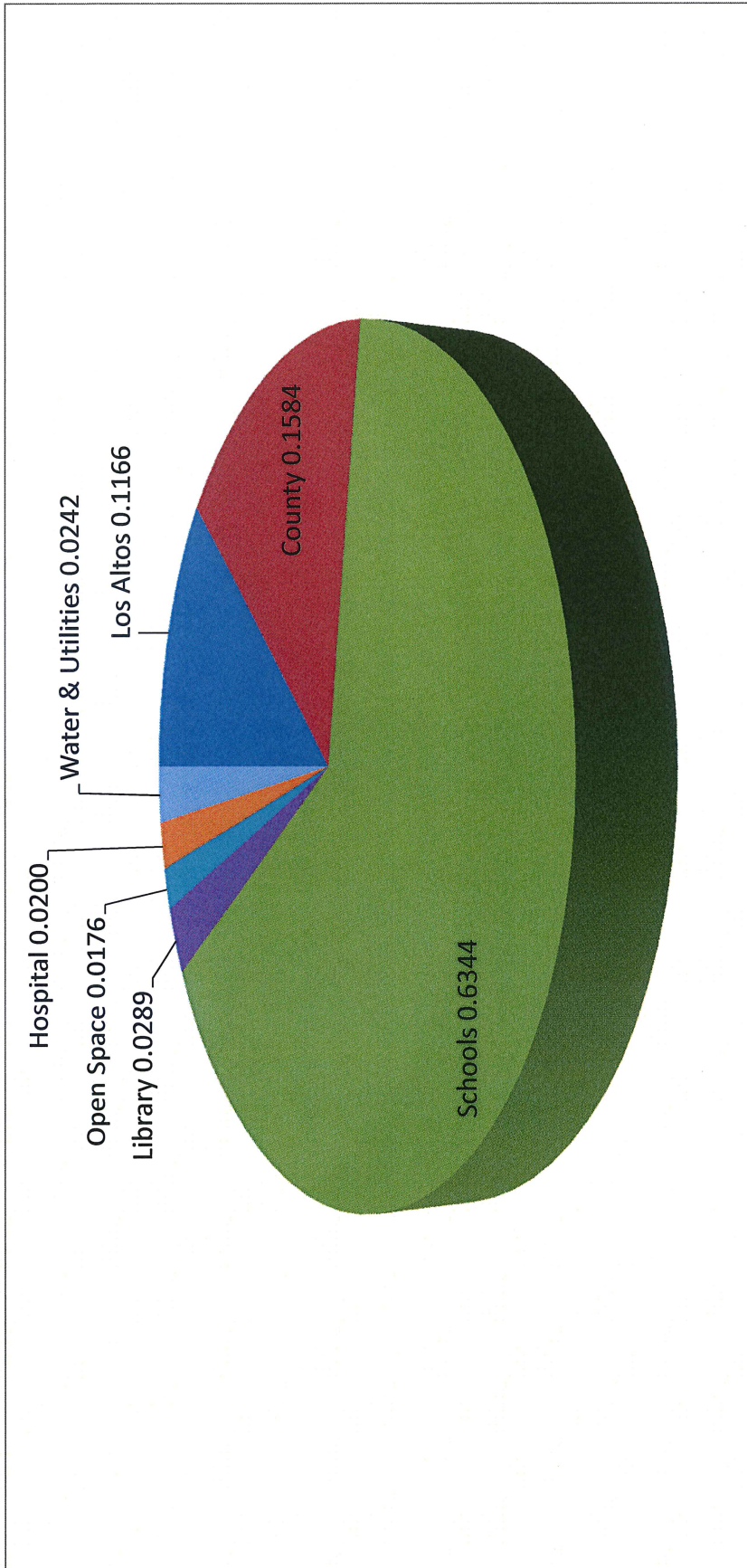


City of Los Altos
 Property Tax Dollar Breakdown
 June 30, 2014



Source:
 HdL Coren & Cone

City of Los Altos
Property Tax Dollars By Recipient Group
June 30, 2014



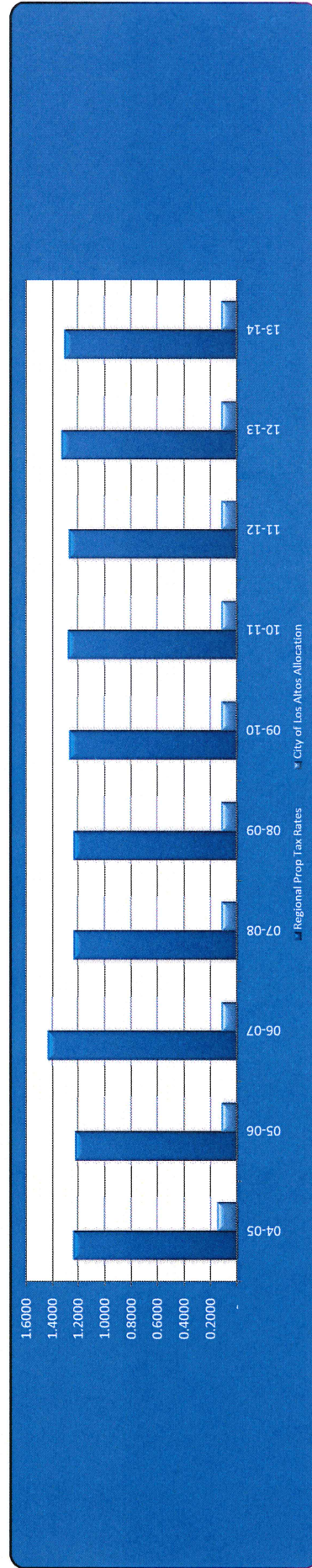
Source:
HdL Coren & Cone

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

Fiscal Year	Overlapping Rates (1)															Total
	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			
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		
2013-14	1.0000	0.0388	0.0024	0.0534	0.0276	0.0525	0.0254	0.0290	0.0121	0.0405	0.0070	0.0035	0.0129	1.30510		

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 Ten Years Ago

	2013-14				2004-05			
Taxpayer	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.	\$ 42,159,926	1	0.38%					
Los Altos Gardens II LP	38,831,394	2	0.35%					
Springwood Apartments LLC	28,109,342	3	0.25%					
Compass Grand Los Altos LLC	22,276,509	4	0.20%					
Palo Alto Medical Foundation	22,149,892	5	0.20%					
KRC Los Altos Limited Partnership	21,587,143	6	0.19%	17,965,060	5	0.28%		
4 Seasons Associates LLC	19,512,969	7	0.17%	18,130,000	4	0.28%		
Los Altos Gardens I LP	19,335,245	8	0.17%					
240 3rd St. Associates LLC	18,513,627	9	0.17%					
BOX.Com	17,691,131	10	0.16%					
Los Altos Hotel Associates LLC								
Village Court Partners				13,800,026	6			0.22%
Whole Foods Market California Inc								
Los Altos Office Associates				40,977,519	1	0.64%		
David & Lucile Packard Foundation				18,379,952	3	0.29%		
Kenneth T. Namimatsu, Et Al				23,344,125	2	0.37%		
Rambus Inc				11,015,933	8	0.17%		
Los Altos Woods LLC				11,242,615	7	0.18%		
Los Altos -El Camino Associates LLC				9,412,001	10	0.15%		
Cornerstone Properties I LLC				10,244,233	9	0.16%		
Steve J. Vidovich								
City Total	\$ 290,689,985		2.60%	\$ 174,511,464		2.74%		
	11,159,691,006			\$ 6,373,193,405				

Source:
HdL Coren & Cone

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

Fiscal Year	Santa Clara County					
	Overall		Overall		Overall %	
	Secured Tax Levy	Unsecured Tax Levy	Unsecured Tax Levy	Unsecured Tax Collections	Delinquent Unsecured	
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	3,877,675,089	301,164,764	292,131,302		3.00%	
2013-14	4,165,019,181	349,740,765	316,325,898		2.59%	

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				
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
2013-14	-	1,665,000	-	1,665,000	29,969	56	79,102

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, 2014

2013-14 Assessed Valuation: \$11,159,691,006

	Total Debt 6/30/2014	% Applicable (1)	City's Share of Debt 6/30/14
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Santa Clara County	\$804,700,000	3.336%	\$ 26,844,792
Foothill-De Anza Community College District	613,179,288	9.844%	60,361,369
Fremont Union High School District	290,570,108	4.332%	12,587,497
Mountain View-Los Altos Union High School District	65,436,599	26.442%	17,302,746
Cupertino Union School District	261,223,462	7.175%	18,742,783
Los Altos School District	76,158,560	53.700%	40,897,147
El Camino Hospital District	140,010,000	18.704%	26,187,470
Santa Clara Valley Water District Benefit Assessment District	115,045,000	3.336%	3,837,901
City of Los Altos 1915 Act Bonds	760,000	100.000%	760,000
			\$ 207,521,705
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Santa Clara County General Fund Obligations	\$757,814,320	3.336%	\$ 25,280,686
Santa Clara County Pension Obligation Bonds	375,419,144	3.336%	12,523,983
Santa Clara County Board of Education Certificates of Participation	9,730,000	3.336%	324,593
Foothill-De Anza Community College District Certificates of Participation	13,468,694	9.844%	1,325,858
Mountain View-Los Altos Union High School District Certificates of Participation	4,170,000	26.442%	1,102,631
City of Los Altos Certificates of Participation	1,665,000	100.000%	1,665,000
Midpeninsula Regional Park District General Fund Obligations	133,209,717	5.766%	7,680,872
Santa Clara County Vector Control District Certificates of Participation	3,275,000	3.336%	109,254
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 50,012,877
Less: Santa Clara County supported obligations			17,797,448
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 32,215,429
TOTAL DIRECT DEBT			\$1,665,000
TOTAL GROSS OVERLAPPING DEBT			\$255,869,582
TOTAL NET OVERLAPPING DEBT			\$238,072,134
GROSS COMBINED TOTAL DEBT			\$257,534,582 (2)
NET COMBINED TOTAL DEBT			\$239,737,134

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

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

Source:
 California Municipal Statistics, Inc.

City of Los Altos
 Legal Debt Margin
 Last Ten Fiscal Years

Fiscal Year	Assessed Valuation *	Debt Limit 15% of Assessed Valuation	Debt Applicable to Limit	Legal Debt Margin
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	10,202,177,182	1,530,326,577	-	1,530,326,577
2013-14	11,159,691,006	1,673,953,651	-	1,673,953,651

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)	
	Population (1)	Change	Enrollment (2)	Change	Rate (1)	Income (1)	Age (1)	H School Degree (1)	C School Degree (1)								
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%								
2013-14	29,969	0.59%	8,303	1.28%	2.6%	79,102	46.1	98.70%	77.40%								

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)			% of Total City Employment
	Employees(1)	Rank		
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.

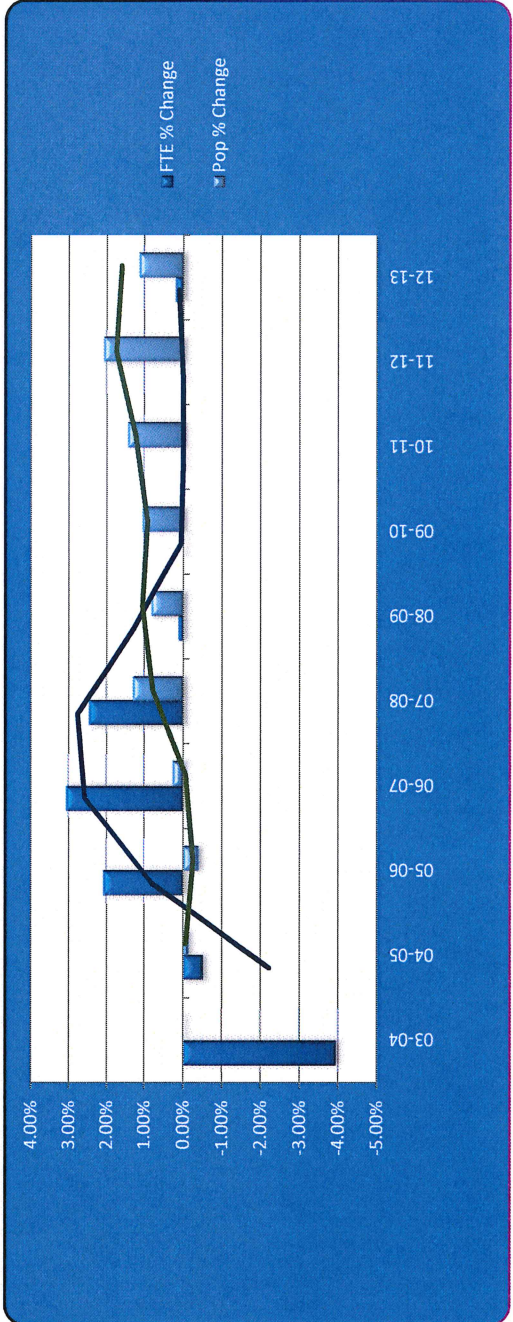
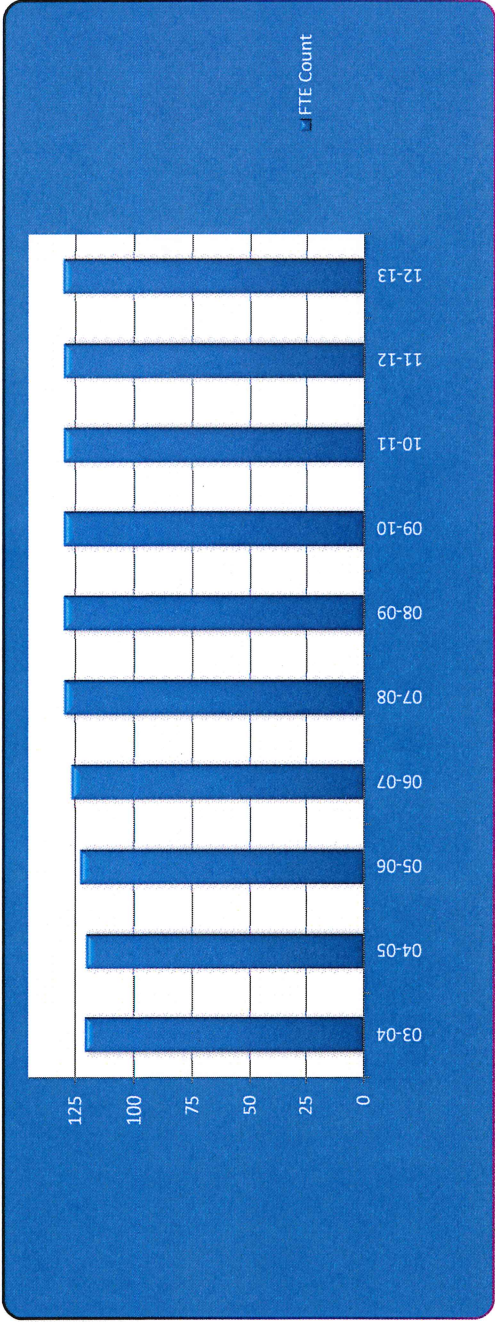
Note: The Principal Employers information data has been newly updated for 2009 and one year is presented to initiate a comparative base

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

Function/Program	Fiscal Year											
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2010-11	2011-12	2012-13	2013-14	
Public Safety *												
Police Operations	35.50	35.50	36.50	36.50	36.50	32.00	32.00	32.00	32.00	32.00	32.00	32.00
Police Traffic Safety	2.00	2.00	2.00	2.00	2.00	5.00	5.00	5.00	5.00	4.00	4.00	4.00
Communications	8.50	8.50	8.50	8.50	8.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Fire (Contract Basis)	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance Services	26.50	28.00	29.50	30.00	29.00	29.50	29.50	29.50	29.50	29.50	29.50	29.50
Recreation	8.25	8.25	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Community Development												
Planning & Building	12.00	12.00	12.50	13.00	13.00	13.00	13.00	13.00	13.00	14.00	14.00	14.00
Engineering	8.00	9.00	9.00	9.00	9.00	8.00	9.00	9.00	9.00	9.00	9.00	9.00
Economic Development	0.50	0.50	0.50	0.50	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Administration												
City Management	3.50	3.50	4.25	4.10	6.25	5.75	4.75	4.75	4.75	5.00	5.00	5.00
Administration & Finance	9.00	9.00	9.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Sewer	5.75	5.75	6.75	6.75	6.75	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Solid Waste	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Storm Drain	0.50	0.50	1	1	1	1	1	1	1	1	1	1
Total	120.25	122.75	126.50	129.60	129.75	129.75	129.75	129.75	129.75	130.00	130.00	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									
	2004-05	2005-06	2006-07	2007-08 *	2008-09 *	2009-10 *	2010-11 *	2011-12 *	2012-13 *	2013-14 *
Police:										
Arrests	528	383	453	449	630	634	396	301	308	283
Moving citations issued	3,193	3,306	3,197	2,435	2,926	1,879	1,437	1,385	1,285	1,069
Parking citations issued	1,197	1,040	2,295	2,455	2,015	1,531	960	1,938	1,947	2,559
Municipal code violations issued	249	376	522	552	458	580	21	25	56	161
Public Works:										
Crack sealing in lineal feet	41,500	241,000	55,028	52,000	105,600	53,326	56,984	66,290	98,136	2112
Street sign installed and replaced	517	578	434	245	206	1,042	117	1,361	511	949
Recreation:										
Classes/programs	1,981	2,384	1,890	1,781	1,332	1,604	1,714	1,821	2,675	2738
Facility rentals	440	419	589	583	3,154	4,010	2,462	3,106	2,702	3501
Field/gymnasium permits	49	74	77	127	3,529	2,774	2,415	3,658	3,388	2945
Planning:										
Plan applications submitted	259	290	340	331	376	318	335	404	510	716
Building:										
Permits issued	1,735	1,871	1,733	1,759	1,602	1,711	1,706	1,690	1,817	1757
Plan checks submitted	284	461	335	485	522	455	537	560	636	649
Inspections	5,593	7,742	7,307	7,236	6,204	5,788	6,203	7,108	6,631	7,682
Sewer:										
Cleaning and flushing in lineal feet	928,997	1,380,984	810,261	1,100,150	732,162	434,250	596,006	852,453	777,285	667,415
Storm Drain:										
Catch basin/storm drain cleaned (measured in storm inlets cleaned)	2,282	2,111	1,754	1,827	1,459	2,823	3,038	1,583	1,202	1898

Source: City of Los Altos Quarterly Reports.

* Data for this fiscal year were 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									
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Public Safety										
Police Station	1	1	1	1	1	1	1	1	1	1
Fire Stations	2	2	2	2	2	2	2	2	2	2
Recreation:										
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
Maintenance Services										
Miles of Streets	125	125	127	127	127	127	127	127	127	127
Number of Traffic Signals	14	14	13	13	13	13	13	13	13	13
Sewer:										
Miles of Sewer Mains	141	141	141	141	141	141	141	141	141	141
Storm Drain:										
Miles of Storm Drain Mains	58	58	58	58	58	58	58	58	58	58

Source:
 City of Los Altos

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

Fiscal Year	Other Expired Debts			Avalon Dr. Curb & Gutter			Raymundo Curb & Gutter			Blue Oak Line 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	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	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	87,010.56	35,000.00	41,944.01	1.13
2013-14					8,000.00	1,276.00		18,000.00	7,486.50				-	36,000.00	42,730.01	-

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