

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 85 – In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The City implemented this statement in current year. See additional information in Note 12.

GASB Statement No. 86 – In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This statement had no impact on the City’s financial statements.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash Deposits

The City’s cash and investments at June 30, 2018 are presented as follows:

| | |
|---------------------------------|----------------------------|
| Cash and investments | \$77,335,822 |
| Restricted cash and investments | 169,840 |
| Fiduciary funds: | |
| Cash and investments | 4,258,034 |
| Restricted cash and investments | <u>39,794</u> |
| Total cash and investments | <u><u>\$81,803,490</u></u> |

Cash and investments consist of the following as of June 30, 2018:

| | | |
|--------------------------------------|-------------------|----------------------------|
| Cash on hand | | \$2,170 |
| Deposits with financial institutions | | 6,046,449 |
| Investments: | | |
| Liquid investments | \$21,950,040 | |
| Managed investments | <u>53,804,831</u> | <u>75,754,871</u> |
| Total cash and investments | | <u><u>\$81,803,490</u></u> |

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

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 | 100% | \$65 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 | 100% | N/A |
| Supra-National Agency Notes and Bonds | 5 years | 10% | N/A |
| U.S. Government-Sponsored Enterprise Agencies | 5 years | 100% | 20% |
| Medium-Term Corporate Notes | 4 years | 30% | 3% |
| Asset-backed Securities | 5 years | 20% | 3% |

C. 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, 2018, are shown below:

| Investment Type | One Year or Less | 13 months to 24 months | 25 months to 36 months | 37 months to 60 months | Total |
|--|---------------------|------------------------|------------------------|------------------------|---------------------|
| Money Market Mutual Fund | \$212,991 | | | | \$212,991 |
| Government Sponsored Enterprise Agencies: | | | | | |
| Federal Home Loan Bank Bonds (FHLB) | 568,019 | \$1,872,143 | | | 2,440,162 |
| Federal National Mortgage Association Notes (FNMA) | | 2,729,022 | \$1,050,580 | \$385,373 | 4,164,975 |
| Federal Home Loan Mortgage Corporation (FHLMC) | | 1,328,674 | | | 1,328,674 |
| U.S. Treasury Notes | | 8,690,360 | 5,343,912 | | 14,034,272 |
| Supra-National Agency Notes and Bonds | | 539,066 | 2,500,209 | | 3,039,275 |
| Certificate of Deposit | 2,440,936 | 4,912,773 | 2,193,170 | | 9,546,879 |
| Corporate Notes | 3,125,919 | 4,823,460 | 4,630,331 | | 12,579,710 |
| Asset-Backed Securities | | 112,840 | 1,398,006 | 5,160,038 | 6,670,884 |
| Local Agency Investment Funds (LAIF) | 21,737,049 | | | | 21,737,049 |
| Total investments | <u>\$28,084,914</u> | <u>\$25,008,338</u> | <u>\$17,116,208</u> | <u>\$5,545,411</u> | 75,754,871 |
| Demand Deposits and Cash on Hand | | | | | 6,048,619 |
| Total cash and investments | | | | | <u>\$81,803,490</u> |

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

D. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2018:

| <i>Investments by Fair Value Level:</i> | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| Government Sponsored Enterprise Agencies: | | | |
| Federal Home Loan Bank Bonds (FHLB) | | \$2,440,162 | \$2,440,162 |
| Federal National Mortgage Association Notes (FNMA) | | 4,164,975 | 4,164,975 |
| Federal Home Loan Mortgage Corporation (FHLMC) | | 1,328,674 | 1,328,674 |
| U.S. Treasury Notes | \$14,034,272 | | 14,034,272 |
| Supra-National Agency Notes and Bonds | | 3,039,275 | 3,039,275 |
| Corporate Notes | | 12,579,710 | 12,579,710 |
| Asset-backed Securities | | 6,670,884 | 6,670,884 |
| | <u>\$14,034,272</u> | <u>\$30,223,680</u> | <u>44,257,952</u> |
| <i>Investments Measured at Amortized Cost:</i> | | | |
| Certificates of Deposit | | | 9,546,879 |
| Money Market Mutual Fund | | | 212,991 |
| California Local Agency Investment Fund (LAIF) | | | 21,737,049 |
| Cash in banks and on hand | | | 6,048,619 |
| | | | <u>\$81,803,490</u> |

Investments above classified in Level 1 of the fair value hierarchy are valued using a quoted price in an active market for an identical asset. Investments above classified in Level 2 of the fair value hierarchy are valued using a quoted price in a non-active market for an identical asset. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank. Certificates of Deposit, Money Market Mutual Fund and LAIF are valued at amortized cost and therefore, exempt from being classified under GASB 72.

E. 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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

At June 30, 2018, the City's deposit and investments were rated as follows:

| Investment Type | Credit Quality Ratings | | Market Value |
|--|------------------------|-----------|---------------------|
| | Moody's | S&P | |
| Securities of Government Sponsored Enterprise Agencies: | | | |
| Federal Home Loan Bank Bonds (FHLB) | Aaa | AA+ | \$2,440,162 |
| Federal Home Loan Mortgage Corporate Notes (FHLMC) | Aaa | AA+ | 1,328,674 |
| Federal National Mortgage Association Notes (FNMA) | Aaa | AA+ | 4,164,975 |
| U.S. Treasury Notes | Aaa | AA+ | 14,034,272 |
| Corporate Notes: | | | |
| Goldman Sachs Group INC | A3 | BBB+ | 544,707 |
| IBM Corp | A1 | A+ | 468,998 |
| Cisco Systems Inc | A1 | AA- | 197,183 |
| Wal-Mart Stores Inc | Aa2 | AA | 634,271 |
| Honeywell International Corp | A2 | A | 148,131 |
| American Express | A3 | A- | 541,772 |
| American Honda Finance | A2 | A+ | 546,495 |
| JP Morgan Chase | A3 | A- | 542,568 |
| Microsoft Corp | Aaa | AAA | 212,253 |
| BNYMellon Corp | A1 | A | 542,740 |
| Chevron Corp | Aa2 | AA- | 321,031 |
| Walt Disney Company | A2 | A+ | 577,341 |
| HSBC USA Inc | A2 | A | 192,723 |
| EXXON Mobil | Aaa | AA+ | 271,135 |
| Toyota Motor | Aa3 | AA- | 616,056 |
| Apple Inc Bonds | Aa1 | AA+ | 540,205 |
| Intel Corp | A1 | A+ | 246,089 |
| General Dynamics Corp | A2 | A+ | 329,641 |
| Home Depot Inc | A2 | A | 230,773 |
| John Deere Capital Corp | A2 | A | 696,307 |
| Branch Banking & Trust | A2 | A- | 542,455 |
| Catepillar Financing | A3 | A | 399,262 |
| Johnson & Johnson Corp | Aaa | AAA | 113,110 |
| PACCAR Finance Group | A1 | A+ | 339,624 |
| Visa Inc | A1 | A+ | 147,564 |
| National Rural Util | A2 | A | 228,289 |
| Unilever Capital | A1 | A+ | 545,673 |
| United Parcel Service | A1 | A+ | 312,143 |
| Morgan Stanley Corp | A3 | BBB+ | 537,178 |
| Hersey Company | A1 | A | 205,230 |
| Charles Schwab Corp | A2 | A | 271,079 |
| Bank of America Corp | A3 | A- | 537,684 |
| Certificates of Deposit | | | |
| Svenska Handelsbanken NY | P-1 | A-1+ | 871,200 |
| Bank of Montreal Chicago | P-1 | A-1 | 598,882 |
| Sumitomo Mitsui Bank NY | P-1 | A-1 | 970,854 |
| Skandinav Enskilda Banken NY | Aa2 | A+ | 1,065,726 |
| MUFG Bank NY | A1 | A | 544,501 |
| Credit Suisse NY | A1 | A | 549,980 |
| Nordea Bank AB NY | Aa3 | AA- | 547,099 |
| UBS AG Stamford CT | Aa2 | A+ | 551,808 |
| Credit Agricole NY | A1 | A | 550,608 |
| Canadian IMP BK NY | A1 | A+ | 549,999 |
| Bank of Nova Scotia Houston | A1 | A+ | 553,052 |
| Westpac Banking Corp NY | Aa3 | AA- | 949,728 |
| Swedbank NY | Aa2 | AA- | 538,515 |
| Royal Bank of Canada NY | A1 | AA- | 704,927 |
| Asset-backed Securities | Aaa | AAA | 2,025,902 |
| Asset-backed Securities | Aaa | Not Rated | 2,936,191 |
| Asset-backed Securities | Not Rated | AAA | 1,708,791 |
| Supra-National Agency Notes and Bonds | Aaa | AAA | 3,039,275 |
| Money Market | Aaa | AAAm | 212,991 |
| Subtotal | | | 54,017,822 |
| Not Rated: | | | |
| Cash on hand | Not Rated | Not Rated | 2,170 |
| US Bank General Checking | Not Rated | Not Rated | 5,987,461 |
| Money Market (Sweep Account) | Not Rated | Not Rated | 58,988 |
| Local Agency Investment Funds (LAIF) | Not Rated | Not Rated | 21,737,049 |
| Total Investments | | | <u>\$81,803,490</u> |

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

F. Concentration of Credit Risk

The City's investment policy contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total entity-wide investments are as follows at June 30, 2018:

| Issuer | Investment Type | Amount |
|--|--|-------------|
| Federal National Mortgage Association Notes (FNMA) | Government Sponsored Enterprise Agencies | \$4,164,975 |

G. 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, 2018, the City's bank balance was \$7,726,501 and the corresponding carrying book balance was \$5,925,781. Of the bank balance, \$250,000 was covered by federal depository insurance and \$7,476,501 was collateralized.

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.

H. 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, 2018, the City held \$21,737,049 in LAIF. The LAIF fair value factor of 0.998126869 was used to calculate the fair value of the investments in LAIF and average maturity of 193 days.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 – INTERFUND TRANSACTIONS

A. Transfers

Transfers between funds during the fiscal year ended June 30, 2018 were as follows:

| <u>Fund Making Transfer</u> | <u>Fund Receiving Transfers</u> | <u>Amount</u> | |
|------------------------------|---------------------------------|--------------------|--------|
| General Fund | Capital Projects Fund | \$3,879,531 | (A) |
| | Non-Major Governmental Funds | 166,060 | (B)(D) |
| Non-Major Governmental Funds | General Fund | 158,506 | (C) |
| | Capital Projects Fund | 1,510,248 | (A) |
| | | <u>\$5,714,345</u> | |

Interfund transfers were principally used for the following purposes,

- (A) To fund capital projects
- (B) Maintain minimum fund balance in Debt Service
- (C) Public safety related funds paid to the General Fund
- (D) Traffic fines paid to the General Fund

B. Due to/from other funds

Current interfund balances arise in the normal course of business, to fund projects until the borrowing fund receives revenues to repay the lending fund and to assist funds with negative cash balance at the fiscal year end. The following is a summary of interfund balances as of June 30, 2018:

| <u>Due From Other Funds</u> | <u>Due To Other Funds</u> | <u>Amount</u> |
|-----------------------------|-----------------------------|------------------|
| General Fund | Capital Projects Fund | \$559,945 |
| | Storm Drain Enterprise Fund | <u>9,500</u> |
| | Total | <u>\$569,445</u> |

NOTE 4 – NOTE RECEIVABLE

The City entered into a loan agreement with the City Manager on November 1, 2016, to provide the City Manager a long-term loan of up to \$2,000,000 to finance the acquisition of his personal residence located within the City. The loan is secured by a deed of trust on the property. The loan is due upon sale of the property, within six to twelve months after the termination of the City Manager's employment with the City depending on the cause of termination, or 30 years from the date of the loan agreement execution, whichever occurs first. The loan bears an interest rate at the 5 Year Treasury Rate as of September 1, 2016 amortized over a thirty-year period and recalculated to the 5 year Treasury Rate every five years of the original date of the loan. At June 30, 2018, the outstanding balance of this loan was \$1,895,206.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 5 – CAPITAL ASSETS

A. Government-wide Financial Statements

At June 30, 2018, the City's capital assets consisted of the following:

| | Governmental Activities | Business-Type Activities | Total |
|-------------------------------|----------------------------|-----------------------------|--------------|
| Nondepreciable assets: | | | |
| Construction in progress | \$6,869,136 | \$768,187 | \$7,637,323 |
| Land | 11,642,285 | | 11,642,285 |
| Total nondepreciable assets | 18,511,421 | 768,187 | 19,279,608 |
| Depreciable assets: | | | |
| Buildings | 21,637,868 | 17,726,839 | 39,364,707 |
| Improvements | 6,325,889 | | 6,325,889 |
| Machinery and equipment | 6,208,419 | 1,103,287 | 7,311,706 |
| Infrastructure | 39,507,935 | 2,545,530 | 42,053,465 |
| Total depreciable assets | 73,680,111 | 21,375,656 | 95,055,767 |
| Less accumulated depreciation | (29,421,709) | (12,693,584) | (42,115,293) |
| Total depreciable assets, net | 44,258,402 | 8,682,072 | 52,940,474 |
| Total capital assets | \$62,769,823 | \$9,450,259 | \$72,220,082 |

The following is a summary of capital assets for governmental activities for the year ended June 30, 2018:

| | Balance June 30, 2017 | Additions | Retirements | Transfers | Balance June 30, 2018 |
|---|--------------------------|-------------|-------------|---------------|--------------------------|
| Governmental Activities: | | | | | |
| Capital assets, not depreciated: | | | | | |
| Land | \$11,642,285 | | | | \$11,642,285 |
| Construction in progress | 7,788,517 | \$8,181,645 | | (\$9,101,026) | 6,869,136 |
| Total capital assets, not depreciated | 19,430,802 | 8,181,645 | | (9,101,026) | 18,511,421 |
| Depreciable assets: | | | | | |
| Buildings | 21,637,868 | | | | 21,637,868 |
| Improvements | 5,330,448 | | | 995,441 | 6,325,889 |
| Machinery and equipment | 5,744,498 | 695,928 | (\$232,007) | | 6,208,419 |
| Infrastructure | 31,402,350 | | | 8,105,585 | 39,507,935 |
| Total cost of depreciable assets | 64,115,164 | 695,928 | (232,007) | 9,101,026 | 73,680,111 |
| Less accumulated depreciation: | | | | | |
| Buildings | (9,829,941) | (400,706) | | | (10,230,647) |
| Improvements | (2,047,430) | (180,014) | | | (2,227,444) |
| Machinery and equipment | (4,330,941) | (365,521) | 232,007 | | (4,464,455) |
| Infrastructure | (11,257,821) | (1,241,342) | | | (12,499,163) |
| Total accumulated depreciation | (27,466,133) | (2,187,583) | 232,007 | | (29,421,709) |
| Net depreciable assets | 36,649,031 | (1,491,655) | | 9,101,026 | 44,258,402 |
| Governmental Activity Capital Assets, Net | \$56,079,833 | \$6,689,990 | | | \$62,769,823 |

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 5 – CAPITAL ASSETS (Continued)

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2018 are as follows:

| Functions/Programs | Total |
|----------------------------|--------------------|
| Public safety | \$177,513 |
| Public works | 1,294,849 |
| Recreation | 493,894 |
| Admin / community services | 221,327 |
| Total depreciation expense | <u>\$2,187,583</u> |

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

| | Balance June 30, 2017 | Additions | Transfers | Balance Transfers |
|--|--------------------------|--------------------|-------------|----------------------|
| Business-Type Activities: | | | | |
| Capital assets, not depreciated: | | | | |
| Construction in progress | | \$1,344,496 | (\$576,309) | \$768,187 |
| Total capital assets, not depreciated: | | 1,344,496 | (576,309) | 768,187 |
| Capital assets, being depreciated: | | | | |
| Buildings | \$17,726,839 | | | \$17,726,839 |
| Machinery and equipment | 1,069,493 | 33,794 | | 1,103,287 |
| Infrastructure | 1,969,221 | | 576,309 | 2,545,530 |
| Total cost of depreciable assets | 20,765,553 | 33,794 | 576,309 | 21,375,656 |
| Less accumulated depreciation: | | | | |
| Buildings | (9,739,327) | (263,155) | | (10,002,482) |
| Machinery and equipment | (653,539) | (53,934) | | (707,473) |
| Infrastructure | (1,969,221) | (14,408) | | (1,983,629) |
| Total accumulated depreciation | (12,362,087) | (331,497) | | (12,693,584) |
| Net depreciable assets | 8,403,466 | (297,703) | 576,309 | 8,682,072 |
| Business-type Activity Capital Assets, Net | <u>\$8,403,466</u> | <u>\$1,046,793</u> | | <u>\$9,450,259</u> |

Depreciation expense for business-type activities related to the Sewer Fund amounted to \$331,497 for the year ended June 30, 2018.

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, 2018

NOTE 6 – LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Debt

Summary of changes in governmental activities long-term debt for the year ended June 30, 2018 is as follows:

| | Balance at June 30, 2017 | Retirements | Balance at June 30, 2018 | Due Within One Year | Due in More Than One Year |
|------------------------------|-----------------------------|-------------|-----------------------------|------------------------|------------------------------|
| Certificate of participation | \$1,355,000 | (\$110,000) | \$1,245,000 | \$120,000 | \$1,125,000 |

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, 2018, future debt service requirements for the 2004 Refunding were as follows:

| Year ending June 30 | Principal | Interest | Total |
|---------------------|-------------|-----------|-------------|
| 2019 | \$120,000 | \$51,880 | \$171,880 |
| 2020 | 120,000 | 47,200 | 167,200 |
| 2021 | 125,000 | 42,400 | 167,400 |
| 2022 | 130,000 | 37,400 | 167,400 |
| 2023 | 140,000 | 31,875 | 171,875 |
| 2024 - 2027 | 610,000 | 66,512 | 676,512 |
| Total | \$1,245,000 | \$277,267 | \$1,522,267 |

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, 2017 | Retirements | Balance June 30, 2018 | Due Within One Year | Due in More Than One Year |
|--------------------------|--------------------------|-------------|--------------------------|------------------------|------------------------------|
| Raymundo Curb and Gutter | \$92,000 | (\$21,000) | \$71,000 | \$22,000 | \$49,000 |
| Blue Oak Lane | 545,000 | (15,000) | 530,000 | 15,000 | 515,000 |
| Total | \$637,000 | (\$36,000) | \$601,000 | \$37,000 | \$564,000 |

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 6 – LONG-TERM OBLIGATIONS (Continued)

Raymundo Special Assessment Districts: The Raymundo Curb and Gutter Assessment District Improvement Bonds were issued on August 3, 2005 to provide financing for the street improvements in that District. 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.

NOTE 7 – COMPENSATED ABSENCES PAYABLE

The City's compensated absences at June 30, 2018, were as follows:

| | Governmental Activities | Business-type Activities | Total |
|--------------------------|----------------------------|-----------------------------|--------------------|
| Balance at July 1, 2017 | \$1,503,785 | \$64,292 | \$1,568,077 |
| Additions | 1,097,264 | 89,499 | 1,186,763 |
| Payments | (956,367) | (68,833) | (1,025,200) |
| Balance at June 30, 2018 | <u>\$1,644,682</u> | <u>\$84,958</u> | <u>\$1,729,640</u> |
| Current Portion | <u>\$411,171</u> | <u>\$21,240</u> | <u>\$432,411</u> |
| Long-Term Portion | <u>\$1,233,511</u> | <u>\$63,718</u> | <u>\$1,297,229</u> |

NOTE 8 – 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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

B. General Fund Reserve

The City Council has established a General Fund 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 2017/18, in line with budget approval, the City reallocated the pre-established State Budget Stabilization reserve into the aforementioned General Fund 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 2017/18.

C. Classifications

In the Government-wide Financial Statements, net position is 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, 2018, 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* – Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the City Council's highest level of decision-making authority. The City Council can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

- *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.

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 by resolution 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 by resolution. The same action must be taken to modify or rescind the commitment.