



DATE: December 2, 2015

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, 2015

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, 2015. This year represents the second 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, 2015, 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, 2015. The City continued to demonstrate its strong financial performance this past year, with revenues continuing to show strong recovery coupled with cost containment resulting primarily from salary savings from positions held vacant during the economic downturn. The City also strengthened its reserves, maintaining its General Fund Reserve of 20% of operating budget, in addition to adding to other key reserves including the Other Post-Employment Benefits (OPEB) Reserve, PERS Reserve, and Technology 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:

- Decrease in the City's net position (i.e. equity) of \$17.4 million or 18% over the prior year. This decrease is entirely attributable to the implementation of GASB 68 and the realization of a \$19.6 million net pension liability.
- Total City assets of \$130.7 million, with \$111.6 million in governmental activities and \$19.1 million in business-type activities.
- Total City liabilities increased by \$21 million, largely attributable to the implementation of GASB 68 and the realization of a \$19.6 million pension liability. Further information on the City's long-term debt can be found in Notes 5, 6, 10, and 11 in the Notes to the Financial Statements.
- Total government-wide revenues of \$46.1 million, a 3% decrease from the prior year with approximately \$38.9 million or 84% attributable to Governmental activities and the remaining \$7.2 million or 16% related to Business-Type Activities.
- Total government-wide expenses of \$39.7 million, a 7% increase from the prior year. This increase in expenses is largely attributable to filling positions held vacant in the 2013/14 fiscal year during the course of the 2014/15 fiscal year.

The Fund Financial Statements present the City's Major Funds (General Fund, In-Lieu Park, and Capital Projects 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, which includes the Real Property Proceeds Fund and Community Facilities Renewal Fund, realized revenues over expenditures and transfers out of \$6.3M, a \$1.0M decrease from the prior year. This surplus is largely attributable to higher than anticipated property tax and transient occupancy tax revenues coupled with contained spending.
- General Fund revenues, excluding transfers, increased slightly over prior year actuals by \$.09M or less than 1% to \$36.1M. Current year results also exceeded budget estimates by 10%.
- General Fund expenditures increased by \$1.1M to \$29.8M, or 4%, as a result of filling positions held vacant during the economic downturn.
- Total governmental fund balances equaled \$52.6M at fiscal year-end, a strong increase of \$6.4M, or 14%, due to increased tax dollars and focused cost savings efforts.
- The Gas Tax Fund balance decreased by \$342,000 to \$1M with the use of funds for capital projects outpacing revenues for the year.
- Sewer operations ended the year favorably with an increase in net position of \$1.6M. Sewer revenues were at \$6.3M, the same as in 2014 as a result of a billing adjustment for a prior year overbilling offsetting the multi-year rate increase program.

While the CAFR provides favorable news for the City's finances, it also highlights the City's liabilities related to pension and Other Post-Employment Benefits (OPEB). The City will continue to further analyze the best manner to address these long-term liabilities over the coming months.

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, 2015

**CITY OF LOS ALTOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

**Prepared by
FINANCE DEPARTMENT**

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CITY OF LOS ALTOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2015

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INTRODUCTORY SECTION

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Transmittal Letter provided

City of Los Altos
List of Principal Officials
As of June 30, 2015

ELECTED OFFICIALS

Mayor	Jan Pepper
Mayor Pro Tem	Jeannie Bruins
City Council	Jean Mordo
City Council	Mary Prochnow
City Council	Megan Satterlee

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
Administrative Services Director	Kim Juran-Karageorgiou
Public Works Director	Susanna Chan
Recreation Director	Manuel Hernandez

ORG CHART

GFOA CERTIFICATE

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, 2015, 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, 2015, 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, 2015 that a prior period adjustment to the financial statements, as discussed in Note 7 to the financial statements:

- *Statement No. 68, Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27.*
- *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68.*

The emphasis of these matters 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, Other Required Supplementary information 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 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

DATE

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City of Los Altos
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

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, 2015. 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 **to** of this report.

FINANCIAL HIGHLIGHTS

The City ended its fiscal year on a government-wide basis with total revenues of \$46.1M, a 2% decrease from the prior year, and expenses of \$39.7M, an increase of 7%. The results represent combined government and business operations, with an overall increase in net position of \$6.45 million due to continuing strong revenues combined with contained expenditures City-wide. 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 sales taxes as well as recreation programming. As expected, community development fees decreased in 2015 from the prior year amount which included revenues from several large development projects. No revenue declines of note were observed beyond the anticipated decrease from 2014 from a one-time sale of property. Sewer revenues increased as part of a multi-year rate increase program to facilitate future operational and capital needs.

The increase in Government-wide expenses is the result of an effort to begin filling critical staff positions that were held vacant during the economic downturn. It is anticipated that the City's expenditures will begin to move more closely to the budget as positions are filled. 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 pedestrian and bicycle safety improvements throughout the City. 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 well above the anticipated budget 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 \$94.8M, a decrease of \$17.4M, or 18%. This decrease is entirely attributable to the implementation of GASB 68 and the realization of a \$19.6 net pension liability. The City's net position represents the City's total net holdings and are not necessarily unrestricted depending upon the source of the original funding.
- Unrestricted net position equals \$19.2 million, a decrease of \$16.5M, or 46%. Governmental unrestricted net position totaled \$10.7M at year end, a decrease of \$16.9M, while business activities related unrestricted assets totaled \$8.5M, an increase of \$4M. The decrease in unrestricted governmental net position results from the implementation of GASB 68 and the recording of the City's \$19.6M net pension liability. It is important to note that unrestricted net assets, as presented in the government-wide section of the CAFR, do not account for local fund restrictions, project assignments and/or policy reserves as classified within the governmental fund section of the report.
- Governmental activities reported ending net position of \$77.6M, a decrease of \$17.8 million, or 19%. The decrease in government net position arises from the impact of the implementation of GASB 68, which is offset by strong property tax and transient occupancy tax revenues.
- Business activities reported ending net position of \$17.1M, an increase of \$3 M or 2% 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 \$17.8M vs. \$17.6M last year and represents the extent to which funds are categorically constrained.

Fund Level View

- The General Fund realized an operating surplus of \$6.3M, a \$1.0M decrease from the prior year. This surplus is largely attributable to higher than anticipated property tax and transient occupancy tax revenues coupled with contained spending.
- General Fund revenues, excluding transfers, increased slightly over prior year actuals by \$.09M or less than 1% to \$36.1M. Current year results also exceeded budget estimates by 10%. Related expenditures increased by \$1.1M to \$29.8M, or 4%, as a result of filling positions held vacant during the economic downturn.
- Total governmental fund balances equaled \$52.6M at fiscal year-end, a strong increase of \$6.4M, or 14%, due to increased tax dollars and focused cost savings efforts. Significant expenditures were both expected and realized in the capital improvement funds.
- General government capital spending totaled approximately \$2.4M. The level of capital reinvestment in Los Altos reflects a sustained focus on the maintenance of streets, facilities, traffic calming efforts and safety. The Capital Improvements Projects Fund balance

increased by \$.56M due to incoming grant and special purpose revenues to end the year at \$4.7M.

- The Traffic Impact Fee Fund ended the year with a fund balance of \$1.9M with revenues of \$260,000 offset by transfer to the Capital Projects Fund of \$320,000.
- The Gas Tax Fund balance decreased by \$342,000 to \$1M with the use of funds for capital projects outpacing revenues for the year.
- Sewer operations ended the year favorably with an increase in net position of \$1.6M. Sewer revenues were at \$6.3M, the same as in 2014 as a result of a write-off for a prior year overbilling offsetting the multi-year rate increase program. Operating expenses increased by \$214,000 to \$4.8M. 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 changes from the prior year due to recognition of the City's claims liability at the 80% confidence level. The Workers' Compensation Fund ended the year with an unrestricted net position of \$116,610, a decrease of \$618,561. The General Liability Fund ended the year with unrestricted net position of \$609,919, an increase of \$90,341. 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 \$7.2M, a decrease of \$.4M or 5%.

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 to of this report.

Reporting on the City's Most Significant Funds

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

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

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

The City maintains 16 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, In-Lieu Park Land Special Revenue Fund, and Capital Project Fund, all of which are considered to be major funds. Data from the other 13 governmental funds are combined into a single, aggregated presentation.

Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in the fund financial statements section of this report.

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

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

Proprietary Funds: The City maintains two types of *proprietary funds*. Services for which the City charges customers a fee are generally reported in the City's *enterprise funds*. These proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its City dental plan, unemployment insurance, Workers' Compensation and Liability Insurance costs. Because these services predominantly benefit the governmental function, they have been included in the government-wide financial statements and related intra-fund charges have been eliminated accordingly.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All four internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The City's three enterprise funds (Sewer, Solid Waste and Storm Drain) are considered major funds and presented as such in the fund financial statements. The City follows the practice of adopting annual budgets for these operations as well.

The combining statements referred to earlier in relation to non-major governmental funds, proprietary and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages ___ to ___ of this report.

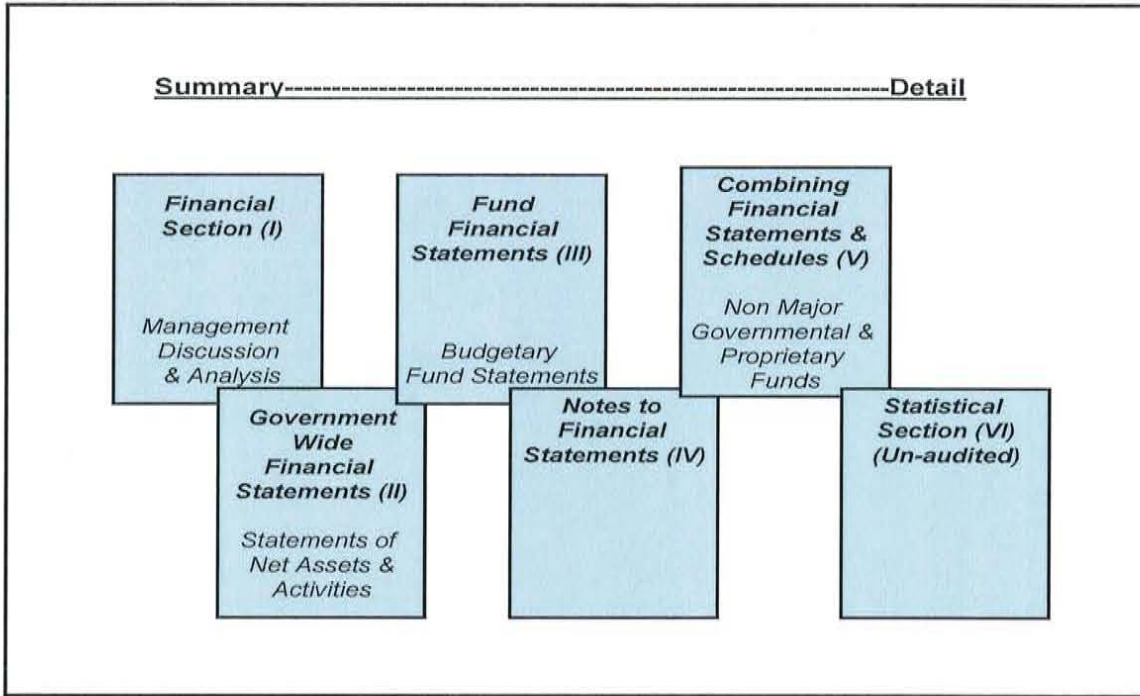
Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These can be found on pages ___ to ___ of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budget-to-actual financial comparisons for the General Fund. The City has elected to present this information within the basic financial statement and financial statement sections of the report.

The City as Trustee

Fiduciary Funds: The City is the trustee, or fiduciary, for the North County Library Authority and three special assessment districts - Raymundo and Avalon curb and gutter improvements, and Blue Oak Sewer Lane improvements. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

In summary, the various sections of this financial report are arranged as follows:



GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on the net 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, 2015. 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 a decrease of \$17.4M or 16% in net position, primarily resulting from the implementation of GASB 68 and the recognition of the City's net pension liability. A summary is noted below:

City of Los Altos Net Position

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Cash and Investments	\$ 59,544,062	\$ 52,467,447	\$ 10,189,988	\$ 7,835,171
Other Assets	1,413,846	1,240,888	252,407	721,296
Capital Assets	50,643,720	51,829,474	8,662,137	8,717,527
Total Assets	\$ 111,601,628	\$ 105,537,809	\$ 19,104,532	\$ 17,273,994
Deferred Outflows of Resources Related to Pension (Note 10)	1,914,209	-	144,081	-
Bond Debt	1,565,000	1,665,000		
Other Liabilities	28,431,049	8,469,163	1,680,200	469,571
Total Liabilities	\$ 29,996,049	\$ 10,134,163	\$ 1,680,200	\$ 469,571
Deferred Inflows of Resources Related to Pension (Note 10)	5,879,287	-	442,527	-
Net Position				
Net Investments in Capital Assets	49,078,720	50,164,474	8,662,137	8,717,527
Restricted	17,815,285	17,629,321		
Unrestricted	10,746,496	27,623,571	8,471,807	8,086,896
Total Net Position	\$ 77,640,501	\$ 95,417,366	\$ 17,133,944	\$ 16,804,423

Investment in capital assets makes up the largest portion of the City's net position, over fifty percent (61%). 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, twenty-one percent (21%), represent resources subject to external spending restrictions. The remaining twenty-two percent (22%) 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 16%, a factor of favorable revenue collections, cost savings and collection of one-time fees, which include the City reaching new highs in both property tax and transient occupancy tax collection..
- Net position equaled \$94.8M, a decrease of \$17.4M or 16%, largely due to the implementation of GASB 68 and the recognition of the City's \$19.6 million net pension liability.
- Substantial capital improvements, approximating \$2.7M, 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 \$17.1M at year end, a \$3M, or 2%, 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 decreases of \$1.1M, or 3%, while total expenditures increased by 8% or \$2.4M. Including all sources and uses, governmental net position increased by \$4.4M, or 6%, ending the year with a total fund balance of \$77.6M.

- Property tax continues to be the City's single largest source of revenue representing about 45% of general government-wide revenues. Property tax continued its aggressive growth increasing by \$1.9M, or 12%.
- Charges for services, making up 20% of government revenues, decreased as expected as community development fees decreased from the prior year amount which included revenues from several significant development projects that began construction in 2014. 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 \$246,000, or 3%, led by a 21% increase in hotel occupancy tax, resulting from the opening of a third hotel in the City and the strong regional business climate.
- Interest revenues, while still lagging as a result of historically low interest rates, increased 103% from the prior year due to growth of the City's investment portfolio and more aggressive investment strategies.
- Government expenses, including allocated capital maintenance costs, increased by \$2.4 million or 7%. This increase is primarily the result of the City's effort to fill positions that

were held vacant during the economic downturn. Interest on long-term debt remained flat reflective of the City's low debt level.

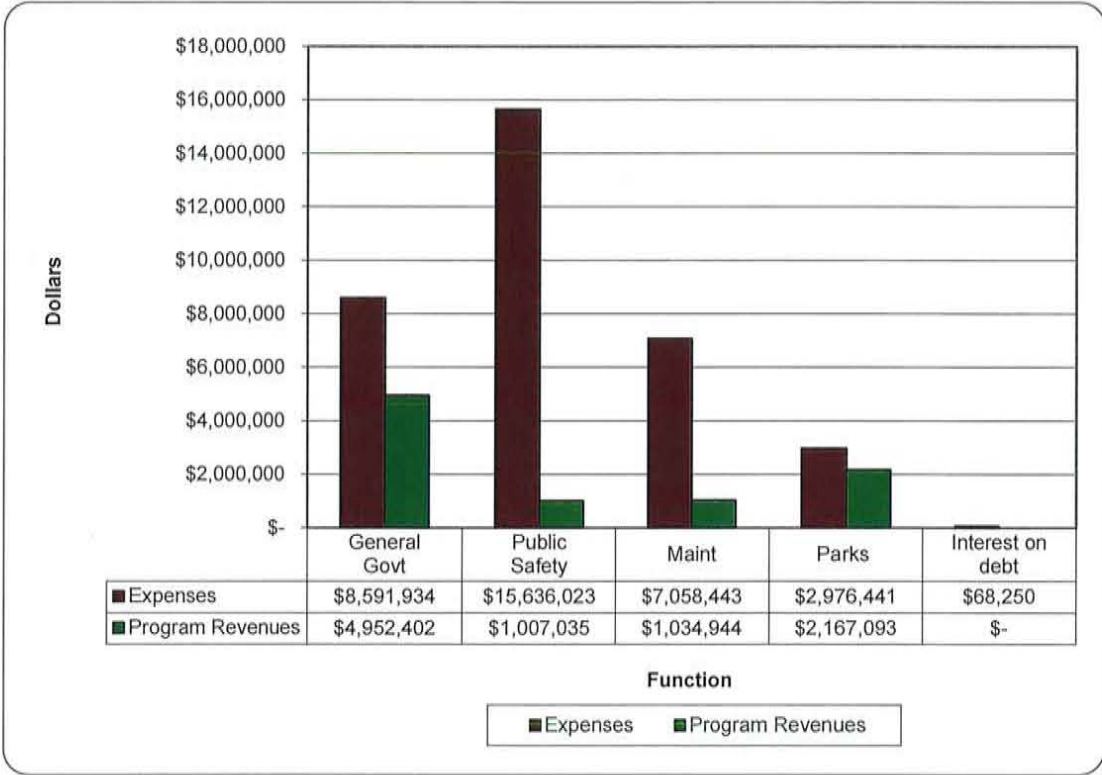
A comparison of the governmental activities and business-type activities program revenues and expenses for the current year and prior year is presented below:

**City of Los Altos Changes in Net Position
Fiscal Year Ending June 30, 2015**

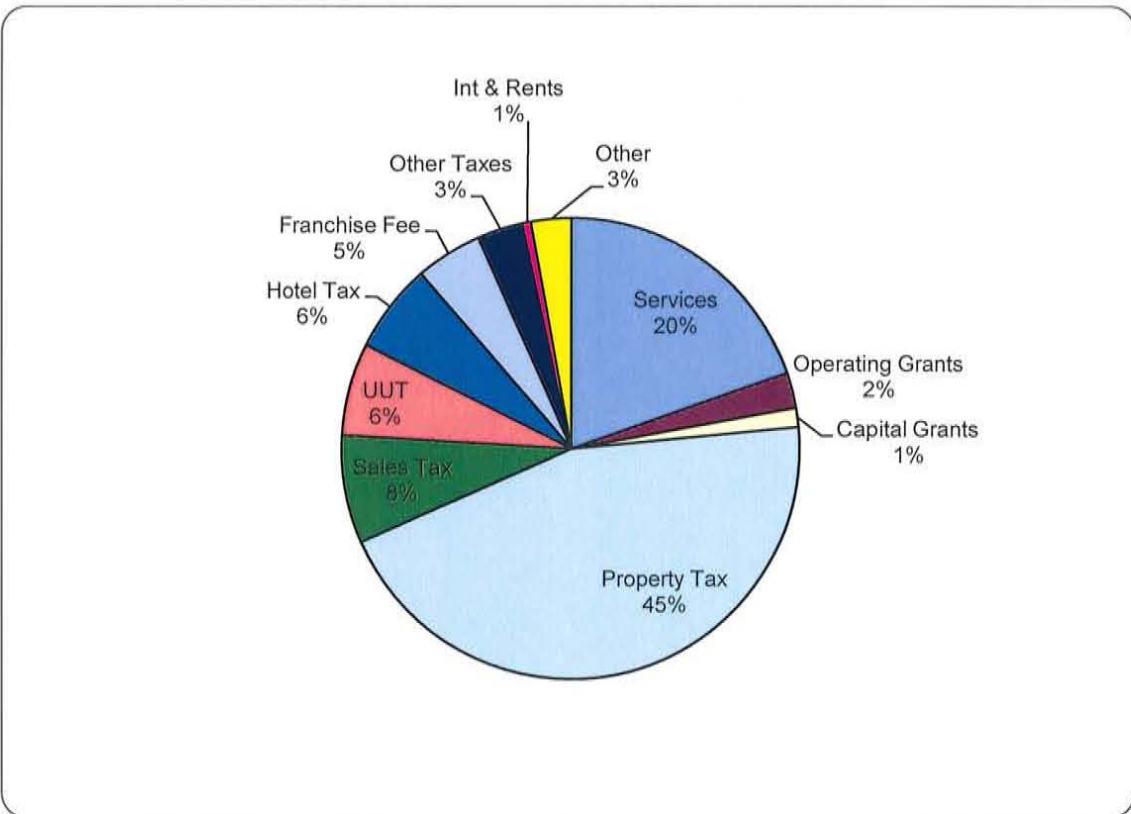
	Government		Business	
	2015	2014	2015	2014
Revenues				
Program Revenue				
Charges for Services	\$ 7,677,037	\$ 8,566,404	\$ 7,116,293	\$ 7,112,752
Operating Grants and Contributions	956,728	1,066,009		
Capital Grants and Contributions	527,709	833,333		
General Revenue				
Property Tax	17,479,882	15,586,329		
Sales Tax	2,942,764	2,809,489		
Utility User Tax	2,522,536	2,600,034		
Other Taxes	3,732,376	3,541,706		
Franchise Fees	1,807,854	1,904,717		
Interest Income	199,848	98,586		
Sale of Capital Assets	-	2,846,263		
Miscellaneous	1,123,511	212,019	40,212	28,066
Total Revenues	38,970,245	40,064,889	7,156,505	7,140,818
Expenses				
Public Safety	15,636,023	14,884,049		
Public Works	7,058,443	6,452,958		
Recreation	2,976,441	2,656,492		
Community Development	4,590,094	3,803,963		
Admin/Community Services	4,001,840	4,037,950		
Interest on Long-Term Debt	68,250	70,845		
Sewer			4,788,574	4,573,711
Solid Waste			346,947	366,102
Storm Drain			214,530	164,941
Total Expenses	34,331,091	31,906,257	5,350,051	5,104,754
Excess (Deficiency) before transfers	4,639,154	8,158,632	1,806,454	2,036,064
Transfers	(195,573)	(152,069)	195,573	152,069
Loss on Disposal of Assets				
Change in Net Assets	4,443,581	8,006,563	2,002,027	2,188,133
Net Assets - Beginning of Year	73,196,920	87,410,803	15,131,917	14,616,290
Net Assets - End of Year	\$ 77,640,501	\$ 95,417,366	\$ 17,133,944	\$ 16,804,423

Note: Due to the implementation of the provisions of GASB Statements No. 68 and 71, beginning net position was reduced by \$22,220,446 in 2015. See Note 7H for further information.

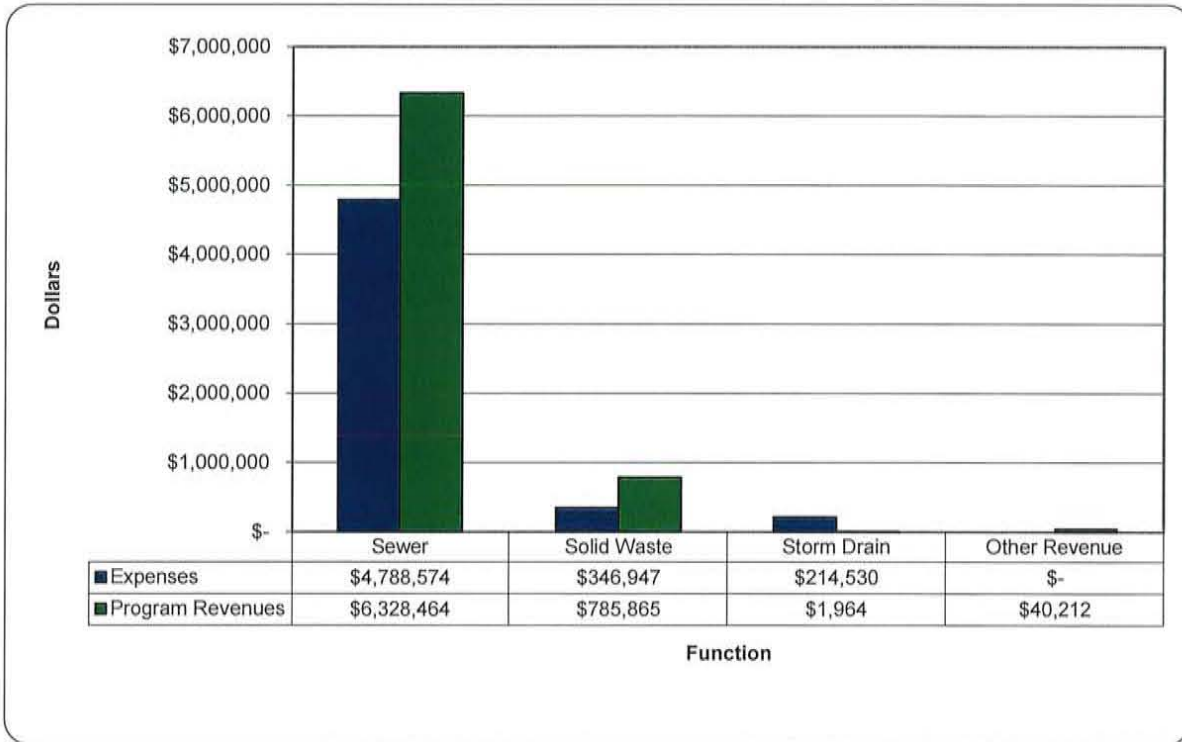
Program Expenses and Revenues - Governmental Activities



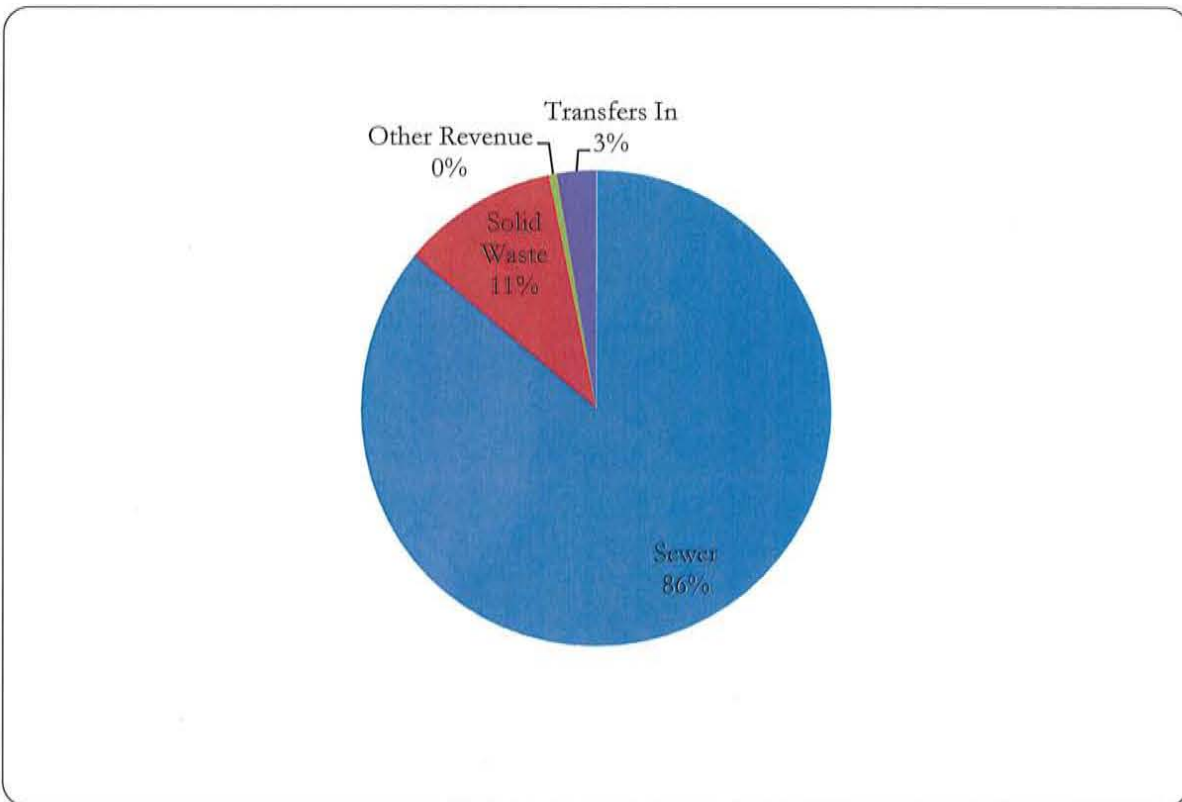
Government Revenues - All Sources



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 18% of the total net position. Net position from business-type activities increased by \$2.0M, or 13%, 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 remained relatively unchanged from the prior year as the result of a multi-year rate increase program offset by a write-off for a prior year overbilling.
- Sewer expenditures increased 5% from the prior year, increasing by \$214,000. Net position increased by \$1.6M to bring the year end net position to \$14.3M.
- Revenue for solid waste collections increased by \$31,000, or 4%, in accordance with the City's agreement for administrative fee support, with a slight decrease in expenditures of \$19,155. Total net position in the fund increased by \$452,000 leaving a total net position of \$2.9M.
- The General Fund contributed to the Storm Drain Fund to augment annual expenses. For FY 2014/15 the transfer equaled \$195,573 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 \$52.6M, an increase of \$6.4M or 14%. Of the total combined balance, 14% 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, 2015</i>
<i>Emergency Operating</i>	\$6,705,000
<i>General Fund Capital and Equipment</i>	\$18,760,240
<i>Unreserved Fund Balance</i>	4,788,160
<i>Total General Fund Available Funds</i>	\$30,253,400

The emergency and operating reserves, components of the General Fund, are safeguards in the event of an economic or financial crisis. Similarly, the state budget stabilization reserve was created in response to California's delicate fiscal condition during the great recession.

The City has set aside \$2,000,000, an increase of \$1,150,000 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, 2015, this initial set-aside totaled \$600,000.

Overall favorable operating results have led to a total General Fund balance of \$34.8M, after transfers, and an unassigned fund balance of \$4.8M. 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, 2015</i>
<i>Capital Projects Fund</i>	\$4,713,620
<i>In-Lieu Park Land Fund</i>	5,907,033
<i>Total</i>	\$10,620,653

The City continues to maintain a respectable reserve of in-lieu park funds, restricted as to parks, park land and recreation uses, at \$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 2014/15, general government capital project spending approximated \$2.4M, 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 \$5.6M including approved capital projects. The Storm Drain Fund balance remains dependent on the General Fund while the Solid Waste Fund increased to \$2.8M. 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 2014/15 the City paid approximately \$37,900 in sewer fees and \$293,902 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 \$57.7M (net of accumulated depreciation).

Investments in capital assets include land, buildings, improvements, machinery, streets, infrastructure and equipment. Governmental capital assets totaled \$49.1M and those of business-type activities totaled \$8.7M. Assets decreased by \$1.2M overall with depreciation outpacing new additions. 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, 2015

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2015 Total</i>	<i>2014 Total</i>
<i>Land</i>	\$10,622,285	0	\$10,622,285	\$10,711,785
<i>Work in Progress</i>	2,438,421	273,663	2,712,084	2,181,422
<i>Buildings</i>	12,677,772	8,233,318	20,911,090	21,618,425
<i>Improvements</i>	3,317,215	0	3,317,215	3,455,668
<i>Machinery & Equip</i>	854,965	155,156	1,010,121	1,319,686
<i>Infrastructure</i>	20,733,062	0	20,733,062	21,349,515
<i>Total Assets</i>	\$50,643,720	\$8,662,137	\$59,305,857	\$60,636,501
<i>Less Related Debt</i>	(1,565,000)	-	(1,565,000)	(1,754,500)
<i>Net Investment in Capital Assets</i>	\$49,078,720	\$8,662,137	\$57,740,857	\$58,882,001

Debt Administration: At the end of the current fiscal year, City bond and assessment debt decreased by approximately \$100,000. The total outstanding bond debt balance at year-end is approximately \$1.6M 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 5 to these financial statements.

Long-Term Debt as of June 30, 2015

	<i>Government Activities</i>	<i>Business Activities</i>	<i>2015 Total</i>	<i>2014 Total</i>
<i>Certificate of Participation</i>	\$1,565,000	\$0	\$1,565,000	\$1,665,000
<i>Compensated Absences</i>	1,546,593	47,148	1,593,856	1,593,856
<i>Total</i>	\$3,111,593	\$47,148	\$3,158,856	\$3,258,856

The City also carries a year-end net Post-Retirement Health obligation (OPEB) of \$1,606,185. 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 2014/15 General Fund budget, adopted as part of the biennial plan, equaled \$31.8M. Budget to actual results came in favorably with revenues exceeding estimates by \$3.2M or 10% and expenditures coming in at 6% below established limits, for year-end revenues over expenditures of \$5.2M.

ECONOMIC FACTORS AND FY 2015/17 BIENNIAL BUDGET AND RATES

General Fund revenue is forecast to increase by 8.2% per the FY 2015/16 budget while expenditures are budgeted to increase by 4.5%. The 2015/16 budget anticipates that the City will return to full staffing after several years of maintaining vacancies during the economic downturn. The budget also reflects increases for the City's pension costs. 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 sound fiscal posture, present a balanced General Fund and enhance reserve levels to address aging infrastructure replacement. 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 in line with current year results. The City maintains a 20% General Fund 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 5% 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 and has projected a 4% increase in this revenue base. These projections still anticipate strength in local activity.
- Total authorized positions remain steady at 131 full time equivalent employees.
- 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 by 6.2% at the end of year two. The return to full staffing along with rising pension and healthcare costs are the main contributors to the increase, with the City maintaining all other operating expenditures close to current levels.
- 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 from prior year levels as recent changes in legislation and assumptions continue to drive pension costs. 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 incorporates storm water-related costs into the General Fund budget while the City contemplates potential funding options for this program.

For a more current discussion of the state of the economy beyond those assumptions made in the FY 2015/17 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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments (Note 2)	\$59,372,102	\$10,189,988	\$69,562,090
Accounts receivable	1,337,499	252,407	1,589,906
Interest receivable	54,486		54,486
Prepaid items and inventory (Note 1H)	21,861		21,861
Total current assets	<u>60,785,948</u>	<u>10,442,395</u>	<u>71,228,343</u>
Noncurrent assets:			
Restricted cash and investments (Note 2)	171,960		171,960
Capital assets (Note 4):			
Non-depreciable	13,060,706	273,663	13,334,369
Depreciable, net of accumulated depreciation	37,583,014	8,388,474	45,971,488
Total noncurrent assets	<u>50,815,680</u>	<u>8,662,137</u>	<u>59,477,817</u>
Total Assets	<u>111,601,628</u>	<u>19,104,532</u>	<u>130,706,160</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pension (Note 10)	1,914,209	144,081	2,058,290
LIABILITIES			
Current liabilities:			
Accounts payable	2,355,116	131,620	2,486,736
Interest payable	10,595		10,595
Accrued liabilities	431,396	23,884	455,280
Other payable	196,332		196,332
Compensated absences payable, due in one year (Note 6)	386,648	11,787	398,435
Claims and judgements payable, due in one year (Note 8)	622,968		622,968
Long-term debt, due in one year (Note 5)	105,000		105,000
Total current liabilities	<u>4,108,055</u>	<u>167,291</u>	<u>4,275,346</u>
Noncurrent liabilities:			
Compensated absences payable, due in more than one year (Note 6)	1,159,945	35,361	1,195,306
Net pension liability (Note 10)	18,243,234	1,373,146	19,616,380
Net OPEB obligation (Note 11)	1,501,783	104,402	1,606,185
Claims and judgments payable, due in more than one year (Note 8)	3,523,032		3,523,032
Long-term debt, due in more than one year (Note 5)	1,460,000		1,460,000
Total noncurrent liabilities	<u>25,887,994</u>	<u>1,512,909</u>	<u>27,400,903</u>
Total Liabilities	<u>29,996,049</u>	<u>1,680,200</u>	<u>31,676,249</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pension (Note 10)	5,879,287	442,527	6,321,814
NET POSITION (Note 7)			
Net investments in capital assets	49,078,720	8,662,137	57,740,857
Restricted for:			
Debt service	364,179		364,179
Special revenue programs	10,250,058		10,250,058
Capital projects	7,201,048		7,201,048
Total Restricted Net Position	<u>17,815,285</u>		<u>17,815,285</u>
Unrestricted	10,746,496	8,471,807	19,218,303
Total Net Position	<u>\$77,640,501</u>	<u>\$17,133,944</u>	<u>\$94,774,445</u>

See accompanying notes to financial statements

CITY OF LOS ALTOS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental Activities:					
Public safety	\$15,636,023	\$897,687	\$109,348		\$1,007,035
Public works	7,058,443	32,877	504,358	\$497,709	1,034,944
Recreation	2,976,441	2,167,093			2,167,093
Community development	4,590,094	3,625,147	343,022	30,000	3,998,169
Admin / community services	4,001,840	954,233			954,233
Interest on long-term debt	68,250				
Total Governmental Activities	34,331,091	7,677,037	956,728	527,709	9,161,474
Business-type Activities:					
Sewer	4,788,574	6,328,464			6,328,464
Solid waste	346,947	785,865			785,865
Storm drain	214,530	1,964			1,964
Total Business-type Activities	5,350,051	7,116,293			7,116,293
Total primary government	\$39,681,142	\$14,793,330	\$956,728	\$527,709	\$16,277,767
General revenues:					
Taxes:					
Property taxes					
Sales and use taxes					
Utility users' tax					
Other taxes					
Franchise fees					
Total taxes					
Interest income					
Miscellaneous					
Transfers, net					
Total general revenues and transfers					
Change in Net Position					
Net Position-Beginning, as adjusted (Note 7H)					
Net Position-Ending					

See accompanying notes to financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
(\$14,628,988)		(\$14,628,988)
(6,023,499)		(6,023,499)
(809,348)		(809,348)
(591,925)		(591,925)
(3,047,607)		(3,047,607)
(68,250)		(68,250)
<u>(25,169,617)</u>		<u>(25,169,617)</u>
	\$1,539,890	1,539,890
	438,918	438,918
	(212,566)	(212,566)
	<u>1,766,242</u>	<u>1,766,242</u>
<u>(25,169,617)</u>	<u>1,766,242</u>	<u>(23,403,375)</u>
17,479,882		17,479,882
2,942,764		2,942,764
2,522,536		2,522,536
3,732,376		3,732,376
1,807,854		1,807,854
<u>28,485,412</u>		<u>28,485,412</u>
199,848		199,848
1,123,511	40,212	1,163,723
(195,573)	195,573	
<u>29,613,198</u>	<u>235,785</u>	<u>29,848,983</u>
4,443,581	2,002,027	6,445,608
73,196,920	15,131,917	88,328,837
<u>\$77,640,501</u>	<u>\$17,133,944</u>	<u>\$94,774,445</u>

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FUND FINANCIAL STATEMENTS

The funds described below were determined to be Major Funds by the City in fiscal 2015. 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.

CITY OF LOS ALTOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	General	In-Lieu Park Land Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 2)	\$35,988,248	\$5,902,319	\$5,062,212	\$7,024,702	\$53,977,481
Restricted cash and investments (Note 2)				171,960	171,960
Receivables, net of allowance for uncollectibles:					
Accounts	1,085,656		215,878	25,832	1,327,366
Interest	45,631	4,714		4,141	54,486
Prepays	13,613				13,613
Inventory (Note 1H)	8,248				8,248
Total Assets	\$37,141,396	\$5,907,033	\$5,278,090	\$7,226,635	\$55,553,154
LIABILITIES					
Accounts payable	\$1,714,630		\$564,470	\$32,003	\$2,311,103
Accrued liabilities	431,396				431,396
Other payable	196,332				196,332
Total Liabilities	2,342,358		564,470	32,003	2,938,831
FUND BALANCES					
Fund balance (Note 7):					
Nonspendable	444,635				444,635
Restricted		\$5,907,033		4,707,204	10,614,237
Committed					
Assigned	29,565,241		4,713,620	2,487,428	36,766,289
Unassigned	4,789,162				4,789,162
Total Fund Balances	34,799,038	5,907,033	4,713,620	7,194,632	52,614,323
Total Liabilities and Fund Balances	\$37,141,396	\$5,907,033	\$5,278,090	\$7,226,635	\$55,553,154

See accompanying notes to financial statements

CITY OF LOS ALTOS
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET POSITION
 JUNE 30, 2015

Fund balances of governmental funds \$52,614,323

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 50,643,720

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.

(10,595)

Deferred outflows below are not current assets of financial resources; and the deferred inflows are not due and payable in the current period and therefore are not reported in the Governmental Funds.

Deferred outflows 1,914,209
 Deferred inflows (5,879,287)

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 debt - current portion (105,000)
 Long-term debt - noncurrent portion (1,460,000)
 Net pension liability (18,243,234)
 Net OPEB obligation (1,501,783)
 Compensated absences - current portion (386,648)
 Compensated absences - noncurrent portion (1,159,945)

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.

1,214,741

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$77,640,501

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, 2015

	General	In-Lieu Park Land Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property tax	\$17,479,882				\$17,479,882
Sales tax	2,942,764				2,942,764
Utility users	2,522,536				2,522,536
Other tax	3,744,657				3,744,657
Licenses, permits and fees	3,633,722			\$290,801	3,924,523
Intergovernmental		\$62,708		964,221	1,026,929
Grants and donations	2,286		\$402,292	468,022	872,600
Charges for services	4,611,203			86,680	4,697,883
Fines and forfeitures	143,566			17,810	161,376
Interest and rentals	228,562	29,134		32,982	290,678
Other	800,547		220	505,650	1,306,417
Total Revenues	36,109,725	91,842	402,512	2,366,166	38,970,245
EXPENDITURES					
General government					
Public safety	15,127,728				15,127,728
Public works	4,306,760				4,306,760
Recreation	2,388,776				2,388,776
Community development	4,182,000			38,619	4,220,619
Admin / community development	3,770,298				3,770,298
Capital improvements			2,115,704	319,331	2,435,035
Debt service:					
Principal				100,000	100,000
Interest and fiscal charges				68,808	68,808
Total Expenditures	29,775,562		2,115,704	526,758	32,418,024
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,334,163	91,842	(1,713,192)	1,839,408	6,552,221
OTHER FINANCING SOURCES (USES)					
Transfers in (Note 3)	307,810		2,715,080	609,041	3,631,931
Transfers (out) (Note 3)	(471,289)	(56,773)	(440,262)	(2,859,180)	(3,827,504)
Total Other Financing Sources (Uses)	(163,479)	(56,773)	2,274,818	(2,250,139)	(195,573)
NET CHANGE IN FUND BALANCES	6,170,684	35,069	561,626	(410,731)	6,356,648
BEGINNING FUND BALANCES	28,628,354	5,871,964	4,151,994	7,605,363	46,257,675
ENDING FUND BALANCES	\$34,799,038	\$5,907,033	\$4,713,620	\$7,194,632	\$52,614,323

See accompanying notes to financial statements

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, 2015

Net change in fund balances of governmental funds	\$6,356,648
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.	680,386
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.	(1,866,140)
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	100,000
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	645
Interest payable	558
Net OPEB obligation	(375,480)
Net pension obligation, and related deferred outflows and inflows of resources	12,134
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.	<u>(465,170)</u>
Changes in net position of governmental activities	<u>\$4,443,581</u>

See accompanying notes to financial statements

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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 2015.

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, 2015

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds	
	Sewer	Solid Waste	Storm Drain		Totals
ASSETS					
Current Assets:					
Cash and investments (Note 2)	\$7,374,473	\$2,815,515		\$10,189,988	\$5,394,621
Accounts receivable	187,675	64,732		252,407	10,133
Interest receivable	5,832	2,226		8,058	
Total Current Assets	<u>7,567,980</u>	<u>2,882,473</u>		<u>10,450,453</u>	<u>5,404,754</u>
Non-Current Assets:					
Capital assets (Note 4):					
Nondepreciable	273,663			273,663	
Depreciable	18,272,651		\$1,969,221	20,241,872	
Less accumulated depreciation	(9,884,177)		(1,969,221)	(11,853,398)	
Total capital assets, net	<u>8,662,137</u>			<u>8,662,137</u>	
Total non-current Assets	<u>8,662,137</u>			<u>8,662,137</u>	
Total Assets	<u>16,230,117</u>	<u>2,882,473</u>		<u>19,112,590</u>	<u>5,404,754</u>
DEFERRAL OUTFLOWS OF RESOURCES					
Related to pension (Note 10)	<u>144,081</u>			<u>144,081</u>	
LIABILITIES					
Current Liabilities:					
Accounts payable	114,783	16,837		131,620	44,013
Accrued liabilities	20,934	1,147	1,803	23,884	
Compensated absences (Note 6)	11,787			11,787	
Claims and judgements (Note 8)					622,968
Total Current Liabilities	<u>147,504</u>	<u>17,984</u>	<u>1,803</u>	<u>167,291</u>	<u>666,981</u>
Long-Term Liabilities					
Compensated absences (Note 6)	35,361			35,361	
Net pension liabilities (Note 10)	1,373,146			1,373,146	
Net OPEB obligation (Note 11)	80,309	8,031	16,062	104,402	
Claims and judgements (Note 8)					3,523,032
Total Noncurrent Liabilities	<u>1,488,816</u>	<u>8,031</u>	<u>16,062</u>	<u>1,512,909</u>	<u>3,523,032</u>
Total Liabilities	<u>1,636,320</u>	<u>26,015</u>	<u>17,865</u>	<u>1,680,200</u>	<u>4,190,013</u>
DEFERRAL INFLOWS OF RESOURCES					
Related to pension (Note 10)	<u>442,527</u>			<u>442,527</u>	
NET POSITION (Note 7)					
Net investment in capital assets	8,662,137			8,662,137	
Unrestricted (deficit)	5,633,214	2,856,458	(17,865)	8,471,807	1,214,741
Total Net Position	<u>\$14,295,351</u>	<u>\$2,856,458</u>	<u>(\$17,865)</u>	<u>\$17,133,944</u>	<u>\$1,214,741</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, 2015

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer	Solid Waste	Storm Drain	Totals	
OPERATING REVENUES					
Charges for services	\$6,328,464	\$785,865	\$1,964	\$7,116,293	\$1,756,278
Total Operating Revenues	6,328,464	785,865	1,964	7,116,293	1,756,278
OPERATING EXPENSES					
Outside services	3,311,451	262,763	85,150	3,659,364	159,158
Employee services	855,869	65,317	129,380	1,050,566	1,543,415
Repairs and maintenance	272,208			272,208	469,657
Claims reimbursement					49,218
Insurance	51,188	18,867		70,055	
Depreciation	297,858			297,858	
Total Cost of Sales and Operating Expenses	4,788,574	346,947	214,530	5,350,051	2,221,448
Operating Income (Loss)	1,539,890	438,918	(212,566)	1,766,242	(465,170)
NONOPERATING REVENUES					
Interest	27,114	13,098		40,212	
Total Nonoperating Revenues	27,114	13,098		40,212	
Income (Loss) Before Transfers	1,567,004	452,016	(212,566)	1,806,454	(465,170)
Transfers in (Note 3)			195,573	195,573	
Net Transfers			195,573	195,573	
Change in Net Position	1,567,004	452,016	(16,993)	2,002,027	(465,170)
BEGINNING NET POSITION, as adjusted (Note 7H)	12,728,347	2,404,442	(872)	15,131,917	1,679,911
ENDING NET POSITION (DEFICIT)	\$14,295,351	\$2,856,458	(\$17,865)	\$17,133,944	\$1,214,741

See accompanying notes to financial statements

CITY OF LOS ALTOS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

	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	\$6,779,400	\$783,760	\$13,964	\$7,577,124	
Cash received from other funds					\$1,746,848
Cash payments to suppliers for goods and services	(3,828,740)	(277,864)	(85,150)	(4,191,754)	
Cash payment employees for services	(836,174)	(63,309)	(124,387)	(1,023,870)	
Cash payments to claimants					(1,595,880)
Insurance premiums and settlements					219,785
Cash Flows from (used for) Operating Activities	<u>2,114,486</u>	<u>442,587</u>	<u>(195,573)</u>	<u>2,361,500</u>	<u>370,753</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in			195,573	195,573	
Cash Flows from (used for) Noncapital Financing Activities			<u>195,573</u>	<u>195,573</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(242,468)			(242,468)	
Cash Flows (used for) Capital and Related Financing Activities	<u>(242,468)</u>			<u>(242,468)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	27,114	13,098		40,212	
Cash Flows from Investing Activities	<u>27,114</u>	<u>13,098</u>		<u>40,212</u>	
Net Cash Flows	1,899,132	455,685		2,354,817	370,753
Cash and investments at beginning of period	<u>5,475,341</u>	<u>2,359,830</u>		<u>7,835,171</u>	<u>5,023,868</u>
Cash and investments at end of period	<u>\$7,374,473</u>	<u>\$2,815,515</u>		<u>\$10,189,988</u>	<u>\$5,394,621</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:					
Operating income (loss)	\$1,539,890	\$438,918	(\$212,566)	\$1,766,242	(\$465,170)
Adjustments to reconcile operating income to cash flows from operating activities:					
Depreciation	297,858			297,858	
Change in assets and liabilities:					
Receivables, net	450,936	(2,105)	12,000	460,831	(9,430)
Accounts payable and other accrued expenses	(193,893)	3,766		(190,127)	(52,465)
Due to retirement system	(914)			(914)	
Compensated absences	530		977	1,507	
OPEB liabilities	20,079	2,008	4,016	26,103	
Claims and judgments					897,818
Cash Flows from (used for) Operating Activities	<u>\$2,114,486</u>	<u>\$442,587</u>	<u>(\$195,573)</u>	<u>\$2,361,500</u>	<u>\$370,753</u>

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, 2015

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 2)	\$2,026,494
Restricted cash and investments (Note 2)	39,794
Accounts receivable	<u>957,673</u>
Total Assets	<u><u>\$3,023,961</u></u>
LIABILITIES	
Accounts payable	\$301,159
Due to others	<u>2,722,802</u>
Total Liabilities	<u><u>\$3,023,961</u></u>

See accompanying notes to financial statements

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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, 2015

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, 2015

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, 2015

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.

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.

D. *Implementation of Governmental Accounting Standards Board (GASB) Pronouncements*

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement had a material impact on the City’s financial statements. See Note 7H below.

GASB Statement No. 69 – In 2014, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. This Statement did not have a material impact on the financial statements for the fiscal year 2015.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. This Statement had a material impact on the City’s financial statements. See Note 7H below.

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.

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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City defines infrastructure as basic physical assets that allow the City to function. The assets include the street system. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, streetlights and traffic control devices (signs, signals and pavement markings). These subsystems were not delineated in the Government-wide Financial Statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City has elected to use the Basic Approach, as defined by GASB Statement No. 34, for infrastructure reporting. The valuation of the City's infrastructure assets are determined based on the original cost using one of the following methods:

1. Use of historical records where available
2. Standard unit costs appropriate for the construction/acquisition date of the asset
3. Present replacement cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date

Accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date, was computed on a straight-line method. The book value was then computed by deducting the accumulated depreciation from the original cost.

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.

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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet reports 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 reports 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.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash Deposits

The City's cash and investments at June 30, 2015 are presented as follows:

Cash and investments	\$69,562,090
Restricted cash and investments	171,960
Fiduciary funds:	
Cash and investments	2,026,494
Restricted cash and investments	<u>39,794</u>
 Total cash and investments	 <u><u>\$71,800,338</u></u>

Cash and investments consist of the following as of June 30, 2015:

Cash on hand		\$2,170
Deposits with financial institutions		6,510,988
Investments:		
Liquid investments	\$33,853,742	
Managed investments	<u>31,433,438</u>	<u>65,287,180</u>
 Total cash and investments		 <u><u>\$71,800,338</u></u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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	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%

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, 2015, are shown below:

Investment Type	One Year or Less	13 months to 24 months	25 months to 36 months	Total
Money Market	\$211,812			\$211,812
Government Sponsored Enterprise Agencies:				
Federal Home Loan Bank Bonds (FHLB)	1,199,918	\$2,776,839		3,976,757
Federal Home Loan Mortgage Corporate Notes (FHLMC)	2,503,403	1,398,356	\$1,004,657	4,906,416
Federal National Mortgage Association Notes (FNMA)	751,040			751,040
Federal Farm Credit Bank (FFCB)	1,251,339			1,251,339
U.S. Treasury Notes	1,452,578	4,594,145	10,717,939	16,764,662
Corporate Notes	1,451,247	1,382,572	949,405	3,783,224
Local Agency Investment Funds (LAIF)	33,641,930			33,641,930
Total investments	\$42,463,267	\$10,151,912	\$12,672,001	65,287,180
Demand Deposits and Cash on Hand				6,513,158
Total cash and investments				\$71,800,338

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is usually measured by the assignment of a rating by a nationally recognized statistical rating organization.

At June 30, 2015, 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	6,444,883
Money Market (Sweep Account)	Not Rated	Not Rated	66,105
Money Market	Aaa	AAAm	211,812
Securities of Government Sponsored Enterprise Agencies:			
Federal Home Loan Bank Bonds (FHLB)	Aaa	AA+	3,976,757
Federal Home Loan Mortgage Corporate Notes (FHLMC)	Aaa	AA+	4,906,416
Federal National Mortgage Association Notes (FNMA)	Aaa	AA+	751,040
Federal Farm Credit Bank (FFCB)	Aaa	AA+	1,251,339
U.S. Treasury Notes	Aaa	AA+	16,764,662
Corporate Notes:			
General Electric Corp.	AA+	A1	650,951
WalMart Stores, Inc.	AA	Aa2	800,296
3M Corp Notes	AA	Aa1	756,146
Chevron Corp Notes	AA	Aa1	449,811
Exxon Mobil Corp Notes	AAA	Aaa	499,594
US Bank Corp Note	AA-	A1	626,426
Local Agency Investment Funds (LAIF)	Not Rated	Not Rated	33,641,930
Total Investments			<u>\$71,800,338</u>

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

As of June 30, 2015, the City's bank balance was \$6,545,154 and the corresponding carrying book balance was \$6,444,883. Of the bank balance, \$250,000 was covered by federal depository insurance and \$6,295,154 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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

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, 2015, the City held \$33,641,930 in LAIF. The LAIF fair value factor of 1.000375979 was used to calculate the fair value of the investments in LAIF and average maturity of 239 days.

NOTE 3 – INTERFUND TRANSACTIONS

A. Transfers

Transfers between funds during the fiscal year ended June 30, 2015 were as follows:

Fund Making Transfer	Fund Receiving Transfers	Amount	
General Fund	Capital Projects Fund	\$106,937	(A)
	Storm Drain Fund	195,573	(B)
	Non-Major Governmental Funds	168,779	(C)
In-Lieu Park Land Special Revenue Fund	Capital Projects Fund	56,773	(A)
Capital Projects Fund	Non-Major Governmental Funds	440,262	(F)
Non-Major Governmental Funds	General Fund	307,810	(D) (E)
	Capital Projects Fund	2,551,370	(A)
		\$3,827,504	

Interfund transfers were principally used for the following purposes:

- (A) To fund capital projects
- (B) To support the operations of the Storm Drain Fund
- (C) Maintain minimum fund balance in Debt Service
- (D) Public safety related funds paid to the General Fund
- (E) Gas tax to support street projects
- (F) To establish the PEG Special Revenue Fund

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 – CAPITAL ASSETS

A. Government-wide Financial Statements

At June 30, 2015, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable assets:			
Construction in progress	\$2,438,421	\$273,663	\$2,712,084
Land	10,622,285		10,622,285
Total nondepreciable assets	<u>13,060,706</u>	<u>273,663</u>	<u>13,334,369</u>
Depreciable assets:			
Buildings	21,637,868	17,453,176	39,091,044
Improvements	5,079,055		5,079,055
Machinery and equipment	4,701,492	819,475	5,520,967
Infrastructure	30,092,243	1,969,221	32,061,464
Total depreciable assets	61,510,658	20,241,872	81,752,530
Less accumulated depreciation	<u>(23,927,644)</u>	<u>(11,853,398)</u>	<u>(35,781,042)</u>
Total depreciable assets, net	<u>37,583,014</u>	<u>8,388,474</u>	<u>45,971,488</u>
Total capital assets	<u>\$50,643,720</u>	<u>\$8,662,137</u>	<u>\$59,305,857</u>

The following is a summary of capital assets for governmental activities for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Governmental Activities:					
Capital assets, not depreciated:					
Land	\$10,622,285				\$10,622,285
Construction in Progress	2,150,227	\$599,224		(\$311,030)	2,438,421
Total capital assets, not depreciated	<u>12,772,512</u>	<u>599,224</u>		<u>(311,030)</u>	<u>13,060,706</u>
Depreciable assets:					
Buildings	21,637,868				21,637,868
Improvements	5,079,055				5,079,055
Machinery and Equipment	4,683,216	81,162	(\$62,886)		4,701,492
Infrastructure	29,781,213			311,030	30,092,243
Total cost of depreciable assets	<u>61,181,352</u>	<u>81,162</u>	<u>(62,886)</u>	<u>311,030</u>	<u>61,510,658</u>
Less accumulated depreciation:					
Buildings	(8,509,597)	(450,499)			(8,960,096)
Improvements	(1,623,387)	(138,453)			(1,761,840)
Machinery and Equipment	(3,559,708)	(349,705)	62,886		(3,846,527)
Infrastructure	(8,431,698)	(927,483)			(9,359,181)
Total accumulated depreciation	<u>(22,124,390)</u>	<u>(1,866,140)</u>	<u>62,886</u>		<u>(23,927,644)</u>
Net depreciable assets	<u>39,056,962</u>	<u>(1,784,978)</u>		<u>311,030</u>	<u>37,583,014</u>
Governmental Activity Capital Assets, Net	<u>\$51,829,474</u>	<u>(\$1,185,754)</u>			<u>\$50,643,720</u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 – CAPITAL ASSETS (Continued)

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2015 are as follows:

Department	Total
Public safety	\$266,805
Public works	986,961
Community / cultural services	512,108
Community development	3,216
General government	97,050
Total depreciation expense	\$1,866,140

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

	Balance June 30, 2014	Additions	Balance June 30, 2015
Business-Type Activities:			
Capital assets, not depreciated:			
Construction in Progress	\$31,195	\$242,468	\$273,663
Total capital assets, not depreciated:	31,195	242,468	273,663
Capital assets, being depreciated:			
Buildings	17,453,176		17,453,176
Machinery and Equipment	819,475		819,475
Infrastructure	1,969,221		1,969,221
Total cost of depreciable assets	20,241,872		20,241,872
Less accumulated depreciation:			
Buildings	(8,963,022)	(256,836)	(9,219,858)
Machinery and Equipment	(623,297)	(41,022)	(664,319)
Infrastructure	(1,969,221)		(1,969,221)
Total accumulated depreciation	(11,555,540)	(297,858)	(11,853,398)
Net depreciable assets	8,686,332	(297,858)	8,388,474
Business-type Activity Capital Assets, Net	\$8,717,527	(\$55,390)	\$8,662,137

Depreciation expense for business-type activities related to the Sewer Fund amounted to \$297,858 for the year ended June 30, 2015.

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, 2015

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, 2015 is as follows:

	Balance at June 30, 2014	Retirements	Balance at June 30, 2015	Due Within One Year	Due in More Than One Year
Certificate of participation	\$1,665,000	(\$100,000)	\$1,565,000	\$105,000	\$1,460,000

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, 2015, future debt service requirements for the 2004 Refunding were as follows:

Year ending June 30	Principal	Interest	Total
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	120,000	47,200	167,200
2021 - 2025	685,000	157,575	842,575
2026 - 2027	320,000	20,612	340,612
Total	<u>\$1,565,000</u>	<u>\$456,787</u>	<u>\$2,021,787</u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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, 2014	Retirements	Balance June 30, 2015	Due Within One Year	Due in More Than One Year
Raymundo Curb and Gutter	\$152,000	(\$19,000)	\$133,000	\$20,000	\$113,000
Avalon Drive Curb and Gutter	18,000	(18,000)			
Blue Oak Lane	590,000	(15,000)	575,000	15,000	560,000
Total	<u>\$760,000</u>	<u>(\$52,000)</u>	<u>\$708,000</u>	<u>\$35,000</u>	<u>\$673,000</u>

Raymundo and Avalon 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 Avalon Drive Curb and Gutter Assessment District Improvement Bonds were issued for a similar purpose in 2000. The bonds are payable from a special property tax levied to those residents living within the respective District. Avalon Drive Curb and Gutter Assessment District Improvement Bonds were paid off as of June 30, 2015.

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 6 – COMPENSATED ABSENCES PAYABLE

The City’s compensated absences at June 30, 2015, were as follows:

	Governmental Activities	Business-type Activities	Total
Balance at July 1, 2014	\$1,547,238	\$46,618	\$1,593,856
Additions	974,912	51,300	1,026,212
Payments	(975,557)	(50,770)	(1,026,327)
Balance at June 30, 2015	<u>\$1,546,593</u>	<u>\$47,148</u>	<u>\$1,593,741</u>
Current Portion	<u>\$386,648</u>	<u>\$11,787</u>	<u>\$398,435</u>
Long Term Portion	<u>\$1,159,945</u>	<u>\$35,361</u>	<u>\$1,195,306</u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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 2014/15, 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 2014/15.

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, 2015, fund balances for government funds are made up of the following;

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – NET POSITION AND FUND BALANCES (Continued)

- *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.

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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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, 2015 were distributed as follows:

Fund Balance Classifications	General	In Lieu Park Land	Capital Projects	Nonmajor Funds	Total
Nonspendables:					
Inventory and prepaids	\$21,861				\$21,861
Encumbrances	410,774				410,774
Veteran memorial	12,000				12,000
Total Nonspendable Fund Balances	444,635				444,635
Restricted for:					
Debt service				\$364,179	364,179
Special revenue programs and projects		\$5,907,033		4,343,025	10,250,058
Total Restricted Fund Balances		5,907,033		4,707,204	10,614,237
Assigned to:					
Emergency and operating	6,705,000				6,705,000
OPEB	2,000,000				2,000,000
PERS reserve	600,000				600,000
Technology reserve	1,500,000				1,500,000
Capital projects	18,760,241		\$4,713,620	2,487,428	25,961,289
Total Assigned Fund Balances	29,565,241		4,713,620	2,487,428	36,766,289
Unassigned	4,789,162				4,789,162
Total Unassigned Fund Balances	4,789,162				4,789,162
Total Fund Balances	\$34,799,038	\$5,907,033	\$4,713,620	\$7,194,632	\$52,614,323

F. OPEB Reserves

A review of the City's fund balance assignments will reveal that as of June 30, 2015, \$2 million in General Fund reserves have been assigned in recognition of existing Post-Retirement Health Actuarial Obligations noted above.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – NET POSITION AND FUND BALANCES (Continued)

G. Capital Projects Reserves

As of June 30, 2015 the City had set-aside \$17,510,240 for the acquisition and construction of major capital projects and plans that are financed by resources other than proprietary funds. This amount includes \$10,344,647 from the City’s Real Property Proceeds Fund and \$7,165,593 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.

	Real Property Proceeds Funds	Community Facilities Renewal Fund
Beginning Fund Balance as of July 1, 2014	\$10,140,295	\$7,165,593
Revenues		
Interest Income	50,287	
Other	154,065	
Total Revenues	204,352	
Ending Fund Balance as of June 30, 2015	\$10,344,647	\$7,165,593

H. Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 Restatement

As discussed in Note 1D, in fiscal year 2015, the City implemented the provisions of GASB Statements No. 68 and 71. Accordingly, beginning net positions of the governmental activities was reduced by \$22,220,446. In addition, the beginning net positions of the business-type activities and the Sewer Enterprise Fund were both reduced by \$1,672,506. The reductions reflect the recording of inflows of resources and deferred outflows of resources as required under the new GASBs.

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.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8 – RISK MANAGEMENT (Continued)

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 \$2,500 to \$1,000,000. 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 \$28,000,000.

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, 2015, the City contributed \$318,915 or 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, 2015. During the year, the City contributed \$143,330 for current year coverage.

As of June 30, 2015, \$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.

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,		
	2015	2014	2013
Unpaid claims, beginning of year	\$3,248,182	\$3,277,504	\$2,638,744
Incurred claims and changes in estimates	1,407,886	666,678	1,047,139
Claim payments	(510,068)	(696,000)	(408,379)
Unpaid claims, end of year	<u>\$4,146,000</u>	<u>\$3,248,182</u>	<u>\$3,277,504</u>
Current Portion	<u>\$622,968</u>	<u>\$657,438</u>	<u>\$669,896</u>
Long Term Portion	<u>\$3,523,032</u>	<u>\$2,590,744</u>	<u>\$2,607,608</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, 2015 and projected values through fiscal years 2015 and 2016. The fiscal year 2014/15 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 \$622,968.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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 \$143,706 with contributions and reimbursements for the past five fiscal years as follows:

<u>Fiscal year ended June 30,</u>	<u>Contribution Amount</u>	<u>Reimbursement Amount</u>
2011	\$90,506	\$106,000
2012	112,254	109,632
2013	114,264	104,711
2014	110,284	119,137
2015	123,225	128,498
Total	<u>\$550,533</u>	<u>\$567,978</u>

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 is increased annually based on the Consumer Price Index but not to exceed 3%.

NOTE 10 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City’s separate Safety and Miscellaneous cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 – PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous - Tier 1</u>
Hire date	Prior to January 1, 2012
Benefit formula	2.7% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	2.00% - 2.7%
Required employee contribution rates	8.00%
Required employer contribution rates	16.691%
	<u>Miscellaneous - Tier 2</u>
	January 1, 2012 -
	December 31, 2012
Hire date	
Benefit formula	2% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	58
Monthly benefits, as a % of eligible compensation	1.092% - 1.65%
Required employee contribution rates	7.00%
Required employer contribution rates	8.005%
	<u>Miscellaneous - Tier 3</u>
	On or after January 1, 2013
Hire date	
Benefit formula	2% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	52
Monthly benefits, as a % of eligible compensation	1.00% - 2.00%
Required employee contribution rates	6.25%
Required employer contribution rates	6.25%

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 – PENSION PLANS (Continued)

	<u>Safety - Tier 1</u>
Hire date	Prior t January 1, 2012
Benefit formula	3% @ 50
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	3.00%
Required employee contribution rates	9.00%
Required employer contribution rates	28.286%

	<u>Safety- Tier 2</u>
Hire date	January 1, 2012 - December 31, 2012
Benefit formula	3% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	2.4-3.0%
Required employee contribution rates	9.00%
Required employer contribution rates	21.367%

	<u>Safety- Tier 3</u>
Hire date	On or after January 1, 2013
Benefit formula	2.7% @ 57
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	2.00% - 2.7%
Required employee contribution rates	11.50%
Required employer contribution rates	11.50%

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3	Safety Tier 1
Contributions - employer	\$1,399,758	\$3,161	\$3	\$1,269,272

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous- Tier 1	\$10,580,488
Miscellaneous- Tier 2	23,895
Miscellaneous- Tier 3	25
Safety- Tier 1	9,011,972
Total Net Pension Liability	\$19,616,380

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3	Safety Tier 1
Proportion - June 30, 2013	0.44%	0.00010%	0.00%	0.25%
Proportion - June 30, 2014	0.43%	0.00097%	0.00%	0.24%
Change - Increase (Decrease)	-0.01%	0.00087%	0.00%	-0.01%

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the City recognized pension expense of \$12,134. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$1,993,833	
Net differences between projected and actual earnings on plan investments		(\$6,282,255)
Adjustments due to differences in proportion	64,457	(39,559)
Total	\$2,058,290	(\$6,321,814)

\$1,993,833 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Increase (Decrease) In Pension Expense
2016	(\$1,561,672)
2017	(1,561,671)
2018	(1,563,449)
2019	(1,570,565)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous & Safety
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	(1)
Investment Rate of Return	(2)
Mortality	Derived using CalPERS Membership Data

- (1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 – PENSION PLANS (Continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 – PENSION PLANS (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3	Safety Tier 1
1% Decrease	6.50%	6.50%	6.50%	6.50%
Net Pension Liability	\$18,851,158	\$42,574	\$45	\$15,524,303
Current Discount Rate	7.50%	7.50%	7.50%	7.50%
Net Pension Liability	\$10,580,488	\$23,895	\$25	\$9,011,972
1% Increase	8.50%	8.50%	8.50%	8.50%
Net Pension Liability	\$3,716,617	\$8,394	\$9	\$3,646,092

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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 2014/15, the City’s contribution averaged \$112 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 \$42,417 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

As of June 30, 2015, \$2 million 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)	\$560,000
Interest on Net OPEB Obligation	48,000
Adjustment to annual required contribution	<u>(97,000)</u>
Annual OPEB cost	511,000
Contributions made	<u>(109,417)</u>
Change in net OPEB obligation	401,583
Net OPEB Obligation at June 30, 2014	<u>1,204,602</u>
Net OPEB Obligation at June 30, 2015	<u><u>\$1,606,185</u></u>

CITY OF LOS ALTOS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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 2014/15 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, 2013	\$234,000	\$33,511	14%	\$993,946
June 30, 2014	248,000	37,344	15%	1,204,602
June 30, 2015	511,000	109,417	21%	1,606,185

D. Funding Status and Funding Progress

The funded status of the Plan as of June 30, 2014, the Plan’s most recent actuarial valuation date, was as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
6/30/2014	\$0	\$4,394	\$4,394	0.00%	\$10,874	40.41%

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, 2014 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.00% 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 7.5% starting 2016 to 5.0% for years 2021 and after for non-Medicare and 7.8 % starting 2016 to 5.0% for years 2021 and after 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, 2015

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, 2015

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, 2015 for all City funds by service area are as follows:

Construction in progress:	
Streets & Roadways	\$4,883,125
Pedestrian Safety	3,169,413
Infrastructure & Facilities	802,492
Parks	1,143,425
Sewer	2,902,029
Technology	948,646
Community Development	<u>245,963</u>
Total	<u><u>\$14,095,093</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LOS ALTOS
Note to Required Supplementary Information
For the Year Ended June 30, 2015

COST-SHARING EMPLOYER DEFINED PENSION PLAN:

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

This schedule reports the proportion (percentage) of the collective net pension liability, the proportionate share (amount) of the collective net pension liability, the employer's covered employee payroll, the proportionate share (amount of the collective net pension liability as a percentage of the employer's covered employee payroll and the pension plan's fiduciary net position as a percentage of the total pension liability.

SCHEDULE OF CONTRIBUTIONS

This schedule reports the cost sharing employer's contributions to the plan which are actuarially determined, the employer's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered employee payroll.

CITY OF LOS ALTOS
Note to Required Supplementary Information
For the Year Ended June 30, 2015

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*

Schedule of the Plan's Proportionate Share of the
Net Pension Liability and Related Ratio as of the Measurement Date

	Miscellaneous Plans		
	Tier I	Tier II	Tier III
	6/30/2014	6/30/2014	6/30/2014
Plan's proportion of the Net Pension Liability (Asset)	0.17004%	0.00038%	0.00000%
Plan's proportion share of the Net Pension Liability (Asset)	\$10,580,488	\$23,895	\$25
Plan's Covered Employee Payroll	6,784,293	798,893	152,994
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	155.96%	2.99%	0.02%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	83.03%	83.11%
Plan's Proportionate Share of Aggregate Employer Contributions	1,399,759	3,161	3
	Safety Plan		
	Tier I		
	6/30/2014		
Plan's proportion of the Net Pension Liability (Asset)	0.14483%		
Plan's proportion share of the Net Pension Liability (Asset)	\$9,011,972		
Plan's Covered Employee Payroll	3,607,754		
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	249.79%		
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.46%		
Plan's Proportionate Share of Aggregate Employer Contributions	1,269,272		

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

CITY OF LOS ALTOS
Note to Required Supplementary Information
For the Year Ended June 30, 2015

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*
Schedule of Contributions

	Miscellaneous Plan		
	Tier I	Tier II	Tier III
	<u>Fiscal Year 2015</u>	<u>Fiscal Year 2015</u>	<u>Fiscal Year 2015</u>
Actuarially determined contribution	\$994,964	\$68,424	\$18,423
Contributions in relation to the actuarially determined contributions	(994,964)	(68,424)	(18,423)
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered-employee payroll	\$6,784,293	\$798,893	\$152,994
Contributions as a percentage of covered-employee payroll	14.67%	8.56%	12.04%

Notes to Schedule

Valuation date: 6/30/2013 6/30/2013 6/30/2013

	Safety Plan
	Tier I
	<u>Fiscal Year 2015</u>
Actuarially determined contribution	\$924,466
Contributions in relation to the actuarially determined contributions	(1,076,741)
Contribution deficiency (excess)	<u>(\$152,275)</u>
Covered-employee payroll	\$3,607,754
Contributions as a percentage of covered-employee payroll	29.85%

Notes to Schedule

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	(1)
Investment rate of return	7.50% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

CITY OF LOS ALTOS
Note to Required Supplementary Information
For the Year Ended June 30, 2015

Schedule of Funding Progress – Other Post-Employment Benefits
As of the fiscal year ending June 30, 2015
Last Three Actuarial Valuations

In Thousands

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued 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%
6/30/2014	0	4,394	4,394	0.00%	10,874	40.41%

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property tax	\$15,746,700	\$15,746,700	\$17,479,882	\$1,733,182
Sales tax	2,825,700	2,825,700	2,942,764	117,064
Utility users	2,756,700	2,756,700	2,522,536	(234,164)
Other tax	3,143,000	3,143,000	3,744,657	601,657
Licenses, permits and fees	3,462,000	3,462,000	3,633,722	171,722
Grants and donations			2,286	2,286
Charges for services	4,011,400	4,011,400	4,611,203	599,803
Fines and forfeitures	231,800	231,800	143,566	(88,234)
Interest and rentals	452,800	452,800	228,562	(224,238)
Other	199,300	199,300	800,547	601,247
Total revenues	<u>32,829,400</u>	<u>32,829,400</u>	<u>36,109,725</u>	<u>3,280,325</u>
Expenditures:				
General government:				
Public Safety	15,999,434	15,940,502	15,127,728	812,774
Public Works	5,918,990	4,853,694	4,306,760	546,934
Recreation	2,256,520	2,268,520	2,388,777	(120,257)
Community development	3,038,570	4,149,190	4,182,000	(32,810)
Admin/community services	4,974,420	4,604,519	3,770,298	834,221
Total expenditures	<u>32,187,934</u>	<u>31,816,425</u>	<u>29,775,563</u>	<u>2,040,862</u>
Excess of revenues over expenditures	<u>641,466</u>	<u>1,012,975</u>	<u>6,334,162</u>	<u>5,321,187</u>
Other financing sources (uses):				
Transfers in	316,900	316,900	307,810	(9,090)
Transfers out	1,988,484	1,988,484	(471,289)	(2,459,773)
Total Other Financing Sources (Uses)	<u>2,305,384</u>	<u>2,305,384</u>	<u>(163,479)</u>	<u>(2,468,863)</u>
Net change in fund balance	<u>\$2,946,850</u>	<u>\$3,318,359</u>	6,170,683	<u>\$2,852,324</u>
Fund balance at beginning of year			<u>28,628,355</u>	
Fund balance at end of year			<u>\$34,799,038</u>	

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES:				
Interest and rentals	\$5,000	\$5,000	\$29,134	\$24,134
Intergovernmental	<u>360,000</u>	<u>360,000</u>	<u>62,708</u>	<u>(297,292)</u>
Total Revenues	<u>365,000</u>	<u>365,000</u>	<u>91,842</u>	<u>(273,158)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>365,000</u>	<u>365,000</u>	<u>91,842</u>	<u>(273,158)</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)			<u>(56,773)</u>	<u>(56,773)</u>
Total other financing sources (uses)			<u>(56,773)</u>	<u>(56,773)</u>
NET CHANGE IN FUND BALANCE	<u>\$365,000</u>	<u>\$365,000</u>	35,069	<u>(\$329,931)</u>
Beginning fund balance			<u>5,871,964</u>	
Ending fund balance			<u>\$5,907,033</u>	

CITY OF LOS ALTOS
Note to Required Supplementary Information
For the Year Ended June 30, 2015

1. *Budget and Budgetary Accounting*

The City adopts a budget annually for General Fund, Special Revenue Funds, except for the Storm Drain Deposits Fund, Equipment Replacement Capital Projects 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.

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OTHER SUPPLEMENTARY INFORMATION

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GENERAL FUND

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.

CITY OF LOS ALTOS
GENERAL FUND
BALANCE SHEET
JUNE 30, 2015

	General	Community Facilities Renewal Fund	Real Property Proceeds	Total General Fund
ASSETS				
Cash and investments	\$17,236,184	\$8,415,593	\$10,336,471	\$35,988,248
Receivables, net of allowance for uncollectibles:				
Accounts	1,085,656			1,085,656
Interest	37,454		8,177	45,631
Prepays	13,613			13,613
Inventory	8,248			8,248
Total Assets	\$18,381,155	\$8,415,593	\$10,344,648	\$37,141,396
LIABILITIES				
Accounts payable	\$1,714,630			\$1,714,630
Accrued liabilities	431,396			431,396
Other payable	196,332			196,332
Total Liabilities	2,342,358			2,342,358
FUND BALANCES				
Fund balance:				
Nonspendable	444,635			444,635
Assigned	10,805,000	\$8,415,593	\$10,344,648	29,565,241
Unassigned	4,789,162			4,789,162
Total Fund Balances	16,038,797	8,415,593	10,344,648	34,799,038
Total Liabilities and Fund Balances	\$18,381,155	\$8,415,593	\$10,344,648	\$37,141,396

See accompanying notes to financial statements

CITY OF LOS ALTOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	General	Community Facilities Renewal Fund	Real Property Proceeds	Total General Fund
REVENUES				
Property tax	\$17,479,882			\$17,479,882
Sales tax	2,942,764			2,942,764
Utility users	2,522,536			2,522,536
Other tax	3,744,657			3,744,657
Licenses, permits and fees	3,633,722			3,633,722
Grants and donations	2,286			2,286
Charges for services	4,611,203			4,611,203
Fines and forfeitures	143,566			143,566
Interest and rentals	178,275		\$50,287	228,562
Other	646,482		154,065	800,547
Total Revenues	35,905,373		204,352	36,109,725
EXPENDITURES				
General government				
Public safety	15,127,728			15,127,728
Public works	4,306,760			4,306,760
Recreation	2,388,776			2,388,776
Community development	4,182,000			4,182,000
Admin / community development	3,770,298			3,770,298
Total Expenditures	29,775,562			29,775,562
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,129,811		204,352	6,334,163
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 3)	307,810			307,810
Transfers (out) (Note 3)	(471,289)			(471,289)
Total Other Financing Sources (Uses)	(163,479)			(163,479)
NET CHANGE IN FUND BALANCES	5,966,332		204,352	6,170,684
BEGINNING FUND BALANCES	11,322,466	\$7,165,593	10,140,295	28,628,354
ENDING FUND BALANCES	\$17,288,798	\$7,165,593	\$10,344,647	\$34,799,038

See accompanying notes to financial statements

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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

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

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

SPECIAL REVENUE FUNDS (Continued)

PEG FUND

To account for fees collected by local Cable Television franchise. All funds are restricted for public education and government access programming.

CAPITAL PROJECTS FUND

EQUIPMENT REPLACEMENT FUND

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

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, 2015

SPECIAL REVENUE FUNDS

	Vehicle Impound	Supplemental Law Enforcement	Gas tax	Proposition 1B	Storm Drain Deposits
ASSETS					
Cash and investments		\$31,230	\$1,012,409	\$40,378	\$56,086
Restricted cash and investments					
Receivables, net of allowance for uncollectibles:					
Accounts		25,832			
Interest			1,757	32	
Total Assets		<u>\$57,062</u>	<u>\$1,014,166</u>	<u>\$40,410</u>	<u>\$56,086</u>
LIABILITIES					
Accounts payable					
Total Liabilities					
FUND BALANCES					
Restricted:					
Debt service					
Capital projects					
Special revenue programs and projects		\$57,062	\$1,014,166	\$40,410	\$56,086
Assigned					
Total Fund Balances (Deficits)		<u>57,062</u>	<u>1,014,166</u>	<u>40,410</u>	<u>56,086</u>
Total Liabilities and Fund Balances		<u>\$57,062</u>	<u>\$1,014,166</u>	<u>\$40,410</u>	<u>\$56,086</u>

SPECIAL REVENUE FUNDS						CAPITAL PROJECTS FUND
Community Development Block Grant	Downtown Parking	Traffic Impact Fee	Estate Donation	TDA	PEG	Equipment Replacement
\$88,501	\$598,334	\$1,937,224	\$18,167	\$13,478	\$526,942	\$2,509,734
	552	1,786	14			
<u>\$88,501</u>	<u>\$598,886</u>	<u>\$1,939,010</u>	<u>\$18,181</u>	<u>\$13,478</u>	<u>\$526,942</u>	<u>\$2,509,734</u>
<u>\$9,233</u>	<u>\$464</u>					<u>\$22,306</u>
<u>9,233</u>	<u>464</u>					<u>22,306</u>
79,268	598,422	\$1,939,010	\$18,181	\$13,478	\$526,942	2,487,428
<u>79,268</u>	<u>598,422</u>	<u>1,939,010</u>	<u>18,181</u>	<u>13,478</u>	<u>526,942</u>	<u>2,487,428</u>
<u>\$88,501</u>	<u>\$598,886</u>	<u>\$1,939,010</u>	<u>\$18,181</u>	<u>\$13,478</u>	<u>\$526,942</u>	<u>\$2,509,734</u>

CITY OF LOS ALTOS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	<u>DEBT SERVICE FUND</u>	
	<u>General</u>	<u>Total Non-major Governmental Funds</u>
ASSETS		
Cash and investments	\$192,219	\$7,024,702
Restricted cash and investments	171,960	171,960
Receivables, net of allowance for uncollectibles:		
Accounts		25,832
Interest		4,141
	<u>\$364,179</u>	<u>\$7,226,635</u>
Total Assets		
LIABILITIES		
Accounts payable		<u>\$32,003</u>
Total Liabilities		<u>32,003</u>
FUND BALANCES		
Restricted:		
Debt service	\$364,179	364,179
Capital projects		
Special revenue programs and projects		4,343,025
Assigned		2,487,428
	<u>364,179</u>	<u>7,194,632</u>
Total Fund Balances (Deficits)		
	<u>\$364,179</u>	<u>\$7,226,635</u>
Total Liabilities and Fund Balances		

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CITY OF LOS ALTOS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	SPECIAL REVENUE FUNDS				
	Vehicle Impound	Supplemental Law Enforcement	Gas tax	Proposition 1B	Storm Drain Deposits
REVENUES					
Charges for services					
Licenses, permits and fees					
Intergovernmental		\$107,062	\$857,159		
Grants and donations					
Fines and forfeitures	\$17,810				
Interest and rentals			9,605	\$197	
Other					
Total Revenues	<u>17,810</u>	<u>107,062</u>	<u>866,764</u>	<u>197</u>	
EXPENDITURES					
Current:					
Community development					
Capital improvements					
Debt service:					
Principal					
Interest and fiscal charges					
Total Expenditures					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>17,810</u>	<u>107,062</u>	<u>866,764</u>	<u>197</u>	
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)	(17,810)	(100,000)	(1,209,213)		
Total Other Financing Sources (Uses)	<u>(17,810)</u>	<u>(100,000)</u>	<u>(1,209,213)</u>		
NET CHANGE IN FUND BALANCES		7,062	(342,449)	197	
BEGINNING FUND BALANCES (DEFICITS)		<u>50,000</u>	<u>1,356,615</u>	<u>40,213</u>	<u>\$56,086</u>
ENDING FUND BALANCES (DEFICITS)		<u>\$57,062</u>	<u>\$1,014,166</u>	<u>\$40,410</u>	<u>\$56,086</u>

SPECIAL REVENUE FUNDS						CAPITAL PROJECTS FUND
Community Development Block Grant	Downtown Parking	Traffic Impact Fee	Estate Donation	TDA	PEG	Equipment Replacement
	\$41,212	\$249,589			\$86,680	
\$343,022			\$5,000	\$120,000		
	12,499	10,604	77			
	505,650					
343,022	559,361	260,193	5,077	120,000	86,680	
243,205	38,619					\$76,126
243,205	38,619					76,126
99,817	520,742	260,193	5,077	120,000	86,680	(76,126)
(86,641)	(100,000)	(320,225)		(120,000)	440,262	(905,291)
(86,641)	(100,000)	(320,225)		(120,000)	440,262	(905,291)
13,176	420,742	(60,032)	5,077		526,942	(981,417)
66,092	177,680	1,999,042	13,104	13,478		3,468,845
\$79,268	\$598,422	\$1,939,010	\$18,181	\$13,478	\$526,942	\$2,487,428

CITY OF LOS ALTOS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

	DEBT SERVICE FUND	
	General	Total Non-major Governmental Funds
REVENUES		
Charges for services		\$86,680
Licenses, permits and fees		290,801
Intergovernmental		964,221
Grants and donations		468,022
Fines and forfeitures		17,810
Interest and rentals		32,982
Other		505,650
		<u>2,366,166</u>
Total Revenues		<u>2,366,166</u>
EXPENDITURES		
Current:		
Community development		38,619
Capital improvements		319,331
Debt service:		
Principal	\$100,000	100,000
Interest and fiscal charges	68,808	68,808
		<u>526,758</u>
Total Expenditures	<u>168,808</u>	<u>526,758</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(168,808)</u>	<u>1,839,408</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	168,779	609,041
Transfers (out)		(2,859,180)
		<u>(2,250,139)</u>
Total Other Financing Sources (Uses)	<u>168,779</u>	<u>(2,250,139)</u>
NET CHANGE IN FUND BALANCES	(29)	(410,731)
BEGINNING FUND BALANCES (DEFICITS)	<u>364,208</u>	<u>7,605,363</u>
ENDING FUND BALANCES (DEFICITS)	<u>\$364,179</u>	<u>\$7,194,632</u>

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, 2015

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Fines and forfeitures	\$26,900	\$17,810	(\$9,090)
Total Revenues	26,900	17,810	(9,090)
EXCESS OF REVENUES OVER EXPENDITURES	26,900	17,810	(9,090)
OTHER FINANCING SOURCES (USES)			
Transfers (out)		(17,810)	(17,810)
Total other financing sources (uses)		(17,810)	(17,810)
NET CHANGE IN FUND BALANCE	<u>\$26,900</u>		<u>(\$26,900)</u>
Beginning fund balance			
Ending fund balance			

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, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Intergovernmental	<u>\$100,000</u>	<u>\$107,062</u>	<u>\$7,062</u>
Total Revenues	<u>100,000</u>	<u>107,062</u>	<u>7,062</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>100,000</u>	<u>107,062</u>	<u>7,062</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)		<u>(100,000)</u>	<u>(100,000)</u>
Total other financing sources (uses)		<u>(100,000)</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$100,000</u></u>	<u>7,062</u>	<u><u>(\$92,938)</u></u>
Beginning fund balance		<u>50,000</u>	
Ending fund balance		<u><u>\$57,062</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, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Intergovernmental	\$591,000	\$857,159	\$266,159
Interest and rentals	4,900	9,605	4,705
Total Revenues	<u>595,900</u>	<u>866,764</u>	<u>270,864</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>595,900</u>	<u>866,764</u>	<u>270,864</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)		(1,209,213)	(1,209,213)
Total other financing sources (uses)		<u>(1,209,213)</u>	<u>(1,209,213)</u>
NET CHANGE IN FUND BALANCE	<u>\$595,900</u>	<u>(342,449)</u>	<u>(\$938,349)</u>
Beginning fund balance		<u>1,356,615</u>	
Ending fund balance		<u>\$1,014,166</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, 2015

	<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>\$197</u>	<u>(\$1,403)</u>
Total Revenues	<u>1,600</u>	<u>197</u>	<u>(1,403)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,600</u>	<u>197</u>	<u>(1,403)</u>
NET CHANGE IN FUND BALANCE	<u>\$1,600</u>	<u>197</u>	<u>(\$1,403)</u>
Beginning fund balance		<u>40,213</u>	
Ending fund balance		<u>\$40,410</u>	

CITY OF LOS ALTOS
COMMUNITY DEVELOPMENT BLOCK GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Grants and donations	<u>\$92,000</u>	<u>\$343,022</u>	<u>\$251,022</u>
Total Revenues	<u>92,000</u>	<u>343,022</u>	<u>251,022</u>
EXPENDITURES			
Capital improvements		<u>243,205</u>	<u>(243,205)</u>
Total Expenses		<u>243,205</u>	<u>(243,205)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>92,000</u>	<u>99,817</u>	<u>7,817</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)		<u>(86,641)</u>	<u>(86,641)</u>
Total other financing sources (uses)		<u>(86,641)</u>	<u>(86,641)</u>
NET CHANGE IN FUND BALANCE	<u>\$92,000</u>	<u>13,176</u>	<u>(\$78,824)</u>
Beginning fund balance		<u>66,092</u>	
Ending fund balance		<u>\$79,268</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, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Licenses, permits and fees	\$27,900	\$41,212	\$13,312
Interest and rentals	9,400	12,499	3,099
Other		505,650	505,650
	<u>37,300</u>	<u>559,361</u>	<u>522,061</u>
EXPENDITURES			
Current:			
Community development	<u>50,000</u>	<u>38,619</u>	<u>11,381</u>
Total Expenses	<u>50,000</u>	<u>38,619</u>	<u>11,381</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(12,700)</u>	<u>520,742</u>	<u>510,680</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)		<u>(100,000)</u>	<u>(100,000)</u>
Total other financing sources (uses)		<u>(100,000)</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$12,700)</u></u>	<u>420,742</u>	<u><u>\$433,442</u></u>
Beginning fund balance		<u>177,680</u>	
Ending fund balance		<u><u>\$598,422</u></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, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Licenses, permits and fees		\$249,589	\$249,589
Interest and rentals	\$4,200	10,604	6,404
Total Revenues	<u>4,200</u>	<u>260,193</u>	<u>255,993</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>4,200</u>	<u>260,193</u>	<u>255,993</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)		(320,225)	(320,225)
Total other financing sources (uses)		<u>(320,225)</u>	<u>(320,225)</u>
NET CHANGE IN FUND BALANCE	<u>\$4,200</u>	<u>(60,032)</u>	<u>(\$64,232)</u>
Beginning fund balance		<u>1,999,042</u>	
Ending fund balance		<u>\$1,939,010</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, 2015

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest	\$100	\$77	(\$23)
Grants and donations		5,000	5,000
Total Revenues	100	5,077	4,977
EXCESS OF REVENUES OVER EXPENDITURES	100	5,077	4,977
NET CHANGE IN FUND BALANCE	\$100	5,077	\$4,977
Beginning fund balance		13,104	
Ending fund balance		\$18,181	

CITY OF LOS ALTOS
TDA FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Grants and donations	<u>\$1,324,800</u>	<u>120,000</u>	<u>(\$1,204,800)</u>
Total expenditures	<u>1,324,800</u>	<u>120,000</u>	<u>(1,204,800)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,324,800</u>	<u>120,000</u>	<u>(1,204,800)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u></u>	<u>(120,000)</u>	<u>(120,000)</u>
Total other financing sources (uses)	<u></u>	<u>(120,000)</u>	<u>(120,000)</u>
NET CHANGE IN FUND BALANCE	<u>\$1,324,800</u>		<u>(\$1,324,800)</u>
Beginning fund balance		<u>13,478</u>	
Ending fund balance		<u>\$13,478</u>	

CITY OF LOS ALTOS
 PEG FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Charges for services	<u>\$85,000</u>	<u>\$86,680</u>	<u>\$1,680</u>
Total expenditures	<u>85,000</u>	<u>86,680</u>	<u>1,680</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(85,000)</u>	<u>86,680</u>	<u>1,680</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		<u>440,262</u>	<u>440,262</u>
Total other financing sources (uses)		<u>440,262</u>	<u>440,262</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$85,000)</u></u>	<u>526,942</u>	<u><u>\$1,680</u></u>
Beginning fund balance		<u> </u>	
Ending fund balance		<u><u>\$526,942</u></u>	

INTERNAL SERVICE FUNDS

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, 2015

	<u>Dental Reimbursement</u>	<u>Unemployment Insurance</u>	<u>Workers' Compensation Insurance</u>
ASSETS			
Current Assets:			
Cash and investments	\$153,228	\$349,390	\$4,076,965
Accounts receivable			3,447
	<u>153,228</u>	<u>349,390</u>	<u>4,080,412</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	9,522	4,884	21,802
Claims and judgements - current portion			572,261
Noncurrent Liabilities:			
Claims and judgements - noncurrent portion			3,369,739
	<u>9,522</u>	<u>4,884</u>	<u>3,963,802</u>
NET POSITION			
Unrestricted	<u>143,706</u>	<u>344,506</u>	<u>116,610</u>
Total Net Position	<u><u>\$143,706</u></u>	<u><u>\$344,506</u></u>	<u><u>\$116,610</u></u>

<u>Liability Insurance</u>	<u>Total</u>
\$815,038	\$5,394,621
<u>6,686</u>	<u>10,133</u>
<u>821,724</u>	<u>5,404,754</u>
7,805	44,013
50,707	622,968
<u>153,293</u>	<u>3,523,032</u>
<u>211,805</u>	<u>4,190,013</u>
<u>609,919</u>	<u>1,214,741</u>
<u><u>\$609,919</u></u>	<u><u>\$1,214,741</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, 2015

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance
OPERATING REVENUES			
Charges for services	\$123,225	\$75,353	\$1,005,198
Total Operating Revenues	123,225	75,353	1,005,198
OPERATING EXPENSES			
Outside services			
Claims reimbursement	128,498	7,030	1,432,732
Insurance			141,809
Administration			49,218
Total Operating Expenses	128,498	7,030	1,623,759
Operating Income (Loss)	(5,273)	68,323	(618,561)
Change in Net Position	(5,273)	68,323	(618,561)
BEGINNING NET POSITION (DEFICITS)	148,979	276,183	735,171
ENDING NET POSITION (DEFICITS)	\$143,706	\$344,506	\$116,610

<u>Liability Insurance</u>	<u>Total</u>
<u>\$552,502</u>	<u>\$1,756,278</u>
<u>552,502</u>	<u>1,756,278</u>
159,158	159,158
(24,845)	1,543,415
327,848	469,657
<u>462,161</u>	<u>49,218</u>
<u>90,341</u>	<u>2,221,448</u>
90,341	(465,170)
90,341	(465,170)
<u>519,578</u>	<u>1,679,911</u>
<u>\$609,919</u>	<u>\$1,214,741</u>

CITY OF LOS ALTOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Dental Reimbursement	Unemployment Insurance	Workers' Compensation Insurance
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$123,225	\$75,353	\$1,002,454
Cash payments to claimants	(124,230)	(2,146)	(1,452,245)
Insurance premiums, settlements, and rebates			771,080
Cash Flows from Operating Activities	<u>(1,005)</u>	<u>73,207</u>	<u>321,289</u>
Net Cash Flows	(1,005)	73,207	321,289
Cash and investments at beginning of period	<u>154,233</u>	<u>276,183</u>	<u>3,755,676</u>
Cash and investments at end of period	<u>\$153,228</u>	<u>\$349,390</u>	<u>\$4,076,965</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	(\$5,273)	\$68,323	(\$618,561)
Adjustments to reconcile operating income to net cash flows from operating activities:			
Change in assets and liabilities:			
Accounts receivable			(2,744)
Accounts payable	4,268	4,884	(19,513)
Claims and judgments payable			962,107
Cash Flows from Operating Activities	<u>(\$1,005)</u>	<u>\$73,207</u>	<u>\$321,289</u>

<u>Liability Insurance</u>	<u>Total</u>
\$545,816	\$1,746,848
(17,259)	(1,595,880)
<u>(551,295)</u>	<u>219,785</u>
(22,738)	370,753
<u>(22,738)</u>	<u>370,753</u>
837,776	5,023,868
<u>837,776</u>	<u>5,023,868</u>
<u>\$815,038</u>	<u>\$5,394,621</u>
\$90,341	(\$465,170)
(6,686)	(9,430)
(42,104)	(52,465)
<u>(64,289)</u>	<u>897,818</u>
<u>(\$22,738)</u>	<u>\$370,753</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, 2015

	Balance 6/30/2014	Additions	Deductions	Balance 6/30/2015
<u>North County Library Authority</u>				
<u>Assets</u>				
Cash and investments	\$2,368,319	\$2,971,524	\$3,398,470	\$1,941,373
Accounts receivable	885	955,539		956,424
Total assets	<u>\$2,369,204</u>	<u>\$3,927,063</u>	<u>\$3,398,470</u>	<u>\$2,897,797</u>
<u>Liabilities</u>				
Accounts payable	\$240,793	\$545,182	\$535,807	\$250,168
Due to others	2,128,411	3,381,881	2,862,663	2,647,629
Total liabilities	<u>\$2,369,204</u>	<u>\$3,927,063</u>	<u>\$3,398,470</u>	<u>\$2,897,797</u>
<u>Avalon Drive Curb Gutter</u>				
<u>Assets</u>				
Cash and investments	\$37,712	\$125	\$19,429	\$18,408
Total assets	<u>\$37,712</u>	<u>\$125</u>	<u>\$19,429</u>	<u>\$18,408</u>
<u>Liabilities</u>				
Accounts payable		\$19,403	\$19,403	
Due to others	\$37,712		19,304	\$18,408
Total liabilities	<u>\$37,712</u>	<u>\$19,403</u>	<u>\$38,707</u>	<u>\$18,408</u>
<u>Raymundo Curb and Gutter</u>				
<u>Assets</u>				
Cash and investments	\$44,190	\$26,596	\$29,734	\$41,052
Accounts receivable	130	914	130	914
Total assets	<u>\$44,320</u>	<u>\$27,510</u>	<u>\$29,864</u>	<u>\$41,966</u>
<u>Liabilities</u>				
Accounts payable		\$29,721	\$29,721	
Due to others	\$44,320		2,354	\$41,966
Total liabilities	<u>\$44,320</u>	<u>\$29,721</u>	<u>\$32,075</u>	<u>\$41,966</u>

CITY OF LOS ALTOS
 AGENCY FUNDS
 COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2015

	Balance 6/30/2014	Additions	Deductions	Balance 6/30/2015
<hr/>				
Blue Oak Lane Sewer				
<hr/>				
<u>Assets</u>				
Cash and investments	\$26,544	\$80,860	\$81,743	\$25,661
Restricted cash and investments	39,788	6		39,794
Accounts receivable	169	335	169	335
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$66,501	\$81,201	\$81,912	\$65,790
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Liabilities</u>				
Accounts payable		\$81,743	\$30,752	\$50,991
Due to others	\$66,501		51,702	14,799
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	\$66,501	\$81,743	\$82,454	\$65,790
	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>				
Totals - All Agency Funds				
<hr/>				
<u>Assets</u>				
Cash and investments	\$2,476,765	\$3,079,105	\$3,529,376	\$2,026,494
Restricted cash and investments	39,788	6		39,794
Accounts receivable	1,184	956,788	299	957,673
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$2,517,737	\$4,035,899	\$3,529,675	\$3,023,961
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Liabilities</u>				
Accounts payable	\$240,793	\$676,049	\$615,683	\$301,159
Due to others	2,276,944	3,381,881	2,936,023	2,722,802
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	\$2,517,737	\$4,057,930	\$3,551,706	\$3,023,961
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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

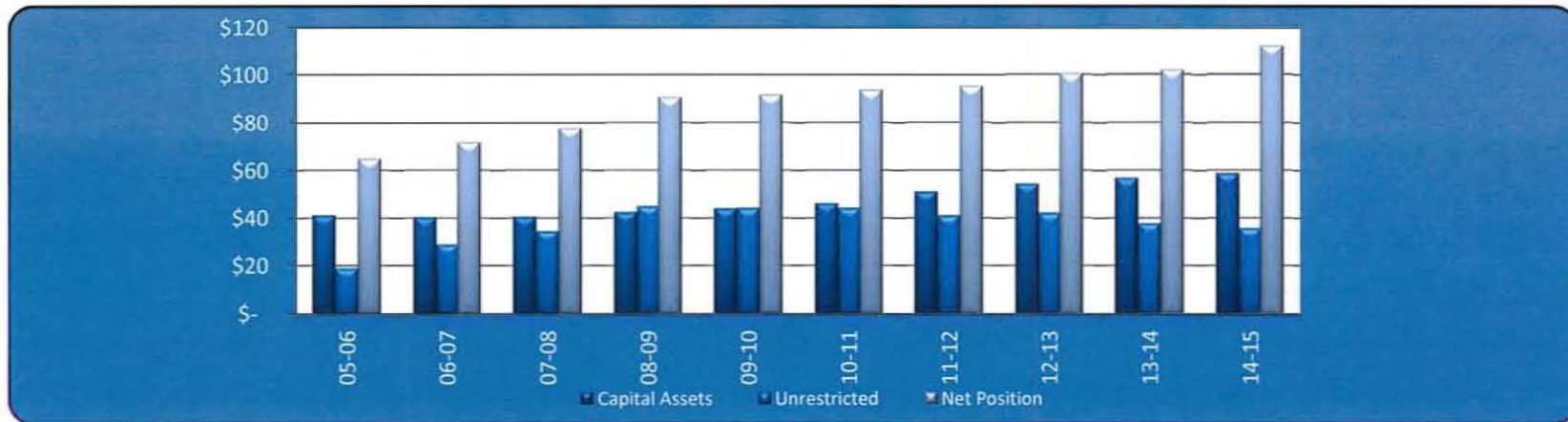
Sources

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									
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Governmental activities										
Net investment in capital assets	\$37,877	\$38,186	\$40,251	\$40,684	\$42,596	\$46,011	\$48,511	\$50,102	\$50,164	\$49,079
Restricted	2,403	2,709	3,366	3,477	3,411	3,057	3,926	7,406	17,629	17,815
Unrestricted	23,343	27,386	37,038	36,184	35,476	33,448	34,634	29,883	27,624	10,746
Total governmental activities net position	\$63,623	\$68,281	\$80,655	\$80,345	\$81,483	\$82,516	\$87,071	\$87,391	\$95,417	\$77,640
Business-type activities										
Net investment in capital assets	\$2,527	\$2,388	\$2,219	\$3,316	\$3,552	\$5,197	\$5,952	\$6,773	\$8,718	\$8,662
Unrestricted	5,511	6,977	7,922	8,102	8,766	7,625	7,539	7,843	8,087	8,472
Total business-type activities net position	\$8,038	\$9,365	\$10,141	\$11,418	\$12,318	\$12,822	\$13,491	\$14,616	\$16,805	\$17,134
Primary government										
Net investment in capital assets	\$40,404	\$40,574	\$42,470	\$44,000	\$46,148	\$51,208	\$54,463	\$56,875	\$58,882	\$57,741
Restricted	2,403	2,709	3,366	3,477	3,411	3,057	3,926	7,406	17,629	17,815
Unrestricted	28,854	34,363	44,960	44,286	44,242	41,073	42,173	37,726	35,711	19,218
Total primary government net position	\$71,661	\$77,646	\$90,796	\$91,763	\$93,801	\$95,338	\$100,562	\$102,007	\$112,222	\$94,774



Source:

City of Los Altos Finance Department

The City adjusted certain beginning balances during fiscal year 2014-2015. Financial data shown for proceeding years were not adjusted for the presentation.

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

REVIEW DRAFT

	Fiscal Year									
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Expenses										
Governmental activities:										
Public safety	\$9,913	\$11,033	\$12,415	\$13,563	\$13,812	\$14,101	\$14,797	\$15,144	\$14,884	\$15,636
Public works	4,224	4,799	4,886	5,318	5,170	5,451	5,157	5,557	6,453	7,058
Recreation	2,405	2,460	2,650	2,889	2,460	2,503	2,193	2,108	2,656	2,976
Community development	2,604	2,875	3,448	3,913	3,962	4,052	3,583	4,514	4,038	4,590
Admin/Community services	2,502	2,655	3,317	3,765	3,794	3,837	4,034	5,675	3,804	4,002
Interest on long-term activities	151	146	138	32	83	86	69	95	71	68
Total governmental activities expenses	21,799	23,968	26,854	29,480	29,281	30,030	29,833	33,093	31,906	34,330
Business-type activities:										
Sewer	3,324	3,712	3,886	4,810	4,438	4,520	4,386	4,529	4,574	4,789
Solid waste	1,264	1,575	1,609	1,574	1,826	717	341	355	366	347
Storm drain	183	181	213	188	199	200	213	232	165	215
Total Business-type activities expenses	4,771	5,468	5,708	6,572	6,463	5,437	4,940	5,116	5,105	5,351
Total primary government expenses	\$26,570	\$29,436	\$32,562	\$36,052	\$35,744	\$35,467	\$34,773	\$38,209	\$37,011	\$39,681

Program Revenues

Governmental activities:										
Charges for services:										
Public safety	\$377	\$499	\$527	\$585	\$466	\$348	\$394	\$344	\$417	\$898
Public works	156	228	204	180	152	191	32	34	60	33
Recreation	1,545	1,665	1,654	1,472	1,498	1,763	1,808	1,865	1,952	2,167
Community development	2,644	2,501	3,372	1,867	2,954	2,650	3,260	7,431	5,196	3,625
Admin/Community services	580	1,166	967	969	1,097	1,061	875	947	942	954
Operating grants and contributions:										
Public safety	136	112	118	108	102	100	112	109	116	109
Public works	535	541	511	479	462	682	829	699	909	504
Recreation	42	9	27	4	0	0	0	0	0	0
Community development	126	141	285	48	56	168	21	59	36	343
Admin/Community services	6	6	6	6	131	64	36	58	6	0
Capital grants and contributions										
Public safety	0	121	4	0	0	0	0	0	0	0
Public works	498	322	923	978	985	711	897	492	747	498
Recreation	0	1	492	10	0	0	0	0	0	0
Community development	0	0	0	24	7	0	3,400	80	3	30
Admin/Community services	0	0	0	89	200	78	76	0	83	0
Total governmental activities program revenues	6,645	7,312	9,090	6,819	8,110	7,816	11,740	12,118	10,467	9,161

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

	Fiscal Year									
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Business-type activities:										
Charges for services:										
Sewer	4,264	4,833	4,467	5,804	5,413	4,813	4,503	5,121	6,347	6,328
Solid waste	1,455	1,471	1,540	1,685	1,657	992	821	879	754	786
Storm drain	0	0	0	0	0	0	0	0	12	2
Total business-type activities program revenues	5,719	6,304	6,007	7,489	7,070	5,805	5,324	6,000	7,113	7,116
Total primary government program revenues	\$12,364	\$13,616	\$15,097	\$14,308	\$15,180	\$13,621	\$17,064	\$18,118	\$17,580	\$16,277
Net (expense)/revenue:										
Governmental activities	(\$15,154)	(\$16,656)	(\$17,764)	(\$22,661)	(\$21,171)	(\$22,214)	(\$18,093)	(\$20,975)	(\$21,439)	(\$25,169)
Business-type activities	948	836	299	917	607	368	384	884	2,008	1,765
Total primary government net (expense)/revenue	(\$14,206)	(\$15,820)	(\$17,465)	(\$21,744)	(\$20,564)	(\$21,846)	(\$17,709)	(\$20,091)	(\$19,431)	(\$23,404)
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes:										
Property taxes	\$9,767	\$10,903	\$11,875	\$12,759	\$13,051	\$12,794	\$13,302	\$14,130	\$15,586	\$17,480
Sales taxes	2,662	2,750	2,872	2,697	2,255	2,588	2,746	2,926	2,809	2,943
Utility users taxes	2,101	2,274	2,483	2,530	2,515	2,543	2,548	2,600	2,600	2,523
Other taxes	235	2,682	2,703	2,147	2,453	2,910	2,868	3,301	3,542	3,732
Franchise fees	1,110	1,164	2,029	1,458	1,437	1,814	1,731	1,770	1,905	1,808
Sale of Capital Assets-net	0	0	6,499	0	0	0	(545)	(8)	2,846	0
Interest income	1,048	1,414	1,353	760	341	275	115	174	99	200
Miscellaneous	3,050	323	517	201	286	388	131	382	212	1,124
Transfers	(187)	(197)	(193)	(200)	(239)	(65)	(247)	(232)	(152)	(196)
Total governmental activities	19,786	21,313	30,138	22,352	22,099	23,247	22,649	25,043	29,447	29,614
Business-type activities										
Interest income	0	296	284	160	53	71	37	10		
Miscellaneous									28	40
Transfers	187	197	193	200	239	65	247	232	152	196
Total business-type activities	187	197	477	360	292	136	284	242	180	236
Total primary government	\$19,973	\$21,510	\$30,615	\$22,712	\$22,391	\$23,383	\$22,933	\$25,285	\$29,627	\$29,850
Change in Net Position										
Governmental activities	\$4,632	\$4,657	\$12,374	(\$309)	\$928	\$1,033	\$4,556	\$4,068	\$8,008	\$4,445
Business-type activities	1,135	1,033	776	1,277	899	504	668	1,126	2,188	2,001
Total primary government	\$5,767	\$5,690	\$13,150	\$968	\$1,827	\$1,537	\$5,224	\$5,194	\$10,196	\$6,446

Source:

City of Los Altos Finance Department

Note:

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

City of Los Altos

Fund Balances - Governmental Funds

Last Ten Fiscal Years

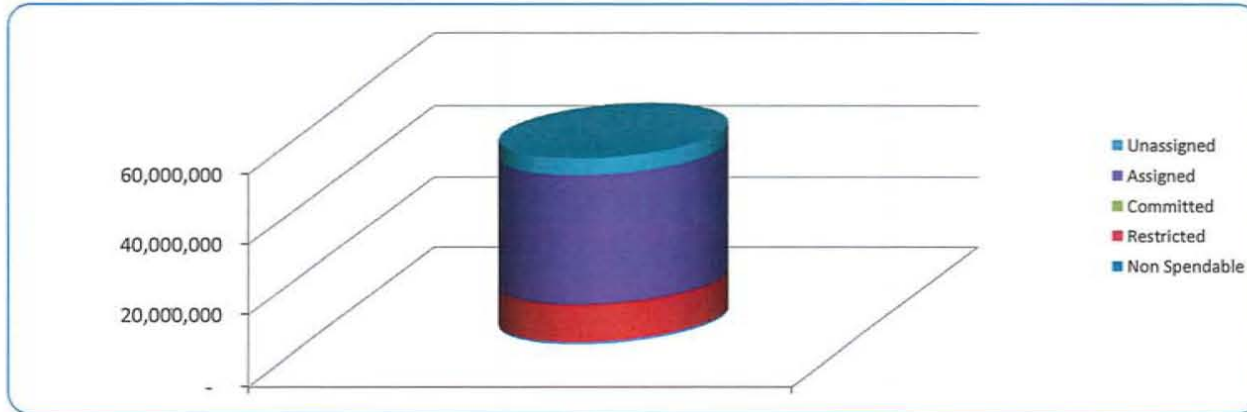
(modified accrual basis of accounting; amounts expressed in thousands)

(Pre GASB 54 Presentation - For Years Before 2011-12)

(Pre GASB 54 Presentation)	Fiscal Year									
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 *	2014-15
General fund										
Reserved	\$5,872	\$131	\$228	\$39	\$143	\$48	\$46	\$49	\$27,195	\$30,010
Unreserved/Unrestricted	206	6,157	6,492	7,650	6,908	7,836	7,439	8,453	1,433	4,789
Total general fund	\$6,078	\$6,288	\$6,720	\$7,689	\$7,051	\$7,884	\$7,485	\$8,502	\$28,628	\$34,799
All other governmental funds										
Restricted	\$20,591	\$4,604	\$5,484	\$3,472	\$3,399	\$2,780	\$3,926	\$7,406	\$364	\$10,614
Reserved, reported in:										
Special revenue funds	0	(21)	1,798	4,120	6,422	6,768	6,911	7,415	9,644	
Capital projects funds	(770)	18,876	21,360	21,814	19,540	16,868	17,213	15,676	7,621	7,201
Debt service funds	(8)	(8)	(8)	(8)						
Total all other governmental funds	\$19,813	\$23,451	\$28,634	\$29,398	\$29,361	\$26,416	\$28,050	\$30,497	\$17,629	\$17,815
Total all governmental funds	\$25,891	\$29,739	\$35,354	\$37,087	\$36,412	\$34,300	\$35,535	\$38,999	\$46,257	\$52,614

* 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.

	2014-15				Total
	General Fund	In Lieu Park Land	Capital Projects	Other Govt Funds	
<i>GASB 54 Presentation:(2014-15)</i>					
<i>Inventory & Prepaids</i>	(\$21,861)				(\$21,861)
<i>Encumbrances</i>	(410,774)				(410,774)
<i>Veteran Memorial</i>	(12,000)				(12,000)
Non Spendable	(444,635)	0	0	0	(444,635)
<i>Debt Service</i>				(\$364,179)	(364,179)
<i>Special Revenue Programs and Projects</i>		(\$5,907,033)		(4,343,025)	(10,250,058)
Restricted	0	(5,907,033)	0	(4,707,204)	(10,614,237)
<i>Emergency & Operating</i>	(6,705,000)				(6,705,000)
<i>OPEB</i>	(2,000,000)				(2,000,000)
<i>PERS Reserve</i>	(600,000)				(600,000)
<i>Technology reserve</i>	(1,500,000)				(1,500,000)
<i>Capital Projects</i>	(18,760,241)		(\$4,713,620)	(2,487,428)	(25,961,289)
Assigned	(29,565,241)	0	(4,713,620)	(2,487,428)	(36,766,289)
Unassigned	(4,789,162)				(4,789,162)
Total Fund Equity	(\$34,799,038)	(\$5,907,033)	(\$4,713,620)	(\$7,194,632)	(\$52,614,323)



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									
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Revenues										
Taxes	\$13,781	\$15,205	\$16,566	\$17,115	\$17,545	\$17,714	\$18,250	\$19,444	\$21,950	\$24,167
License, permits and park-in-lieu	2,568	2,522	3,493	2,532	3,025	3,187	3,204	3,312	4,531	3,925
Utility users tax and Intergovernmental	4,515	4,323	4,470	4,365	3,680	3,988	4,333	4,513	4,861	3,549
Grants and donations	549	359	1,294	305	559	929	4,242	650	788	873
Charges for services	3,272	3,701	3,673	3,422	3,494	4,020	3,780	4,480	4,572	4,698
Fines and forfeitures	201	264	286	329	246	148	231	171	214	161
Interest and rentals	1,338	1,692	1,857	945	504	333	169	135	159	291
Other	395	777	1,284	359	1,394	521	973	4,616	2,989	1,306
Total revenues	26,619	28,843	32,923	29,372	30,447	30,840	35,182	37,321	40,064	38,970
Expenditures										
General government										
Public Safety										
Police	7,047	7,245	7,553	8,283	8,111	8,616	9,588	9,178	8,891	9,166
Fire Services	3,020	3,839	4,664	4,900	5,119	5,259	5,375	5,513	5,714	5,961
Public works	3,775	4,321	4,286	5,038	4,420	4,793	4,826	4,831	4,353	4,307
Recreation	1,952	2,103	2,257	2,443	1,994	2,062	2,429	2,102	2,186	2,389
Community development	2,606	2,922	3,384	3,826	3,770	3,973	3,726	4,553	3,885	4,221
Administration/Community services	2,414	2,658	3,222	3,623	3,600	3,845	3,624	3,655	3,552	3,770
Capital improvements	72	1,374	2,719	1,288	2,784	4,475	3,212	2,916	3,492	2,435
Debt service										
Principal	193	193	657	101	85	85	90	95	95	100
Interest and fiscal charges	146	143	138	103	81	80	77	75	72	69
Total expenditures	21,225	24,798	28,880	29,605	29,964	33,188	32,947	32,918	32,240	32,418
Excess (deficiency) of revenues over (under) expenditures	5,394	4,045	4,043	(233)	483	(2,348)	2,235	4,403	7,824	6,552
Other financing sources (uses)										
Debt issuance	257	0	0	0	0	0	0	0	0	0
Transfers in	6,639	6,153	5,388	2,396	2,781	3,509	1,887	2,443	2,119	3,632
Transfers out	(6,827)	(6,350)	(5,581)	(2,596)	(3,020)	(3,574)	(2,134)	(2,925)	(2,685)	(3,828)
Total Other financing sources (uses)	69	(197)	(193)	(200)	(239)	(65)	(247)	(482)	(566)	(196)

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									
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Special items										
CALPers Side Fund Pay Down	0	0	0	0	(3,005)	0	(850)	(950)	0	0
Sale of capital assets-net	0	0	1,765	2,167	2,167	300	100	492	0	0
Total special items	0	0	1,765	2,167	(838)	300	(750)	(458)	0	0
Net change in fund balances	\$5,463	\$3,848	\$5,615	\$1,734	(\$594)	(\$2,113)	\$1,238	\$3,463	\$7,258	\$6,356
Debt service as a percentage of non-capital expenditures	1.6%	1.4%	3.0%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%

Source: City of Los Altos Finance Department

