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# Town of Los Altos Hills California



**Comprehensive  
Annual Financial Report  
For the year ended June 30, 2008**

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**TOWN OF LOS ALTOS HILLS, CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2008**

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**TOWN OF LOS ALTOS HILLS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Year Ended June 30, 2008**

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**TOWN OF LOS ALTOS HILLS  
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**For the Year Ended June 30, 2008**

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**For the Year Ended June 30, 2008**

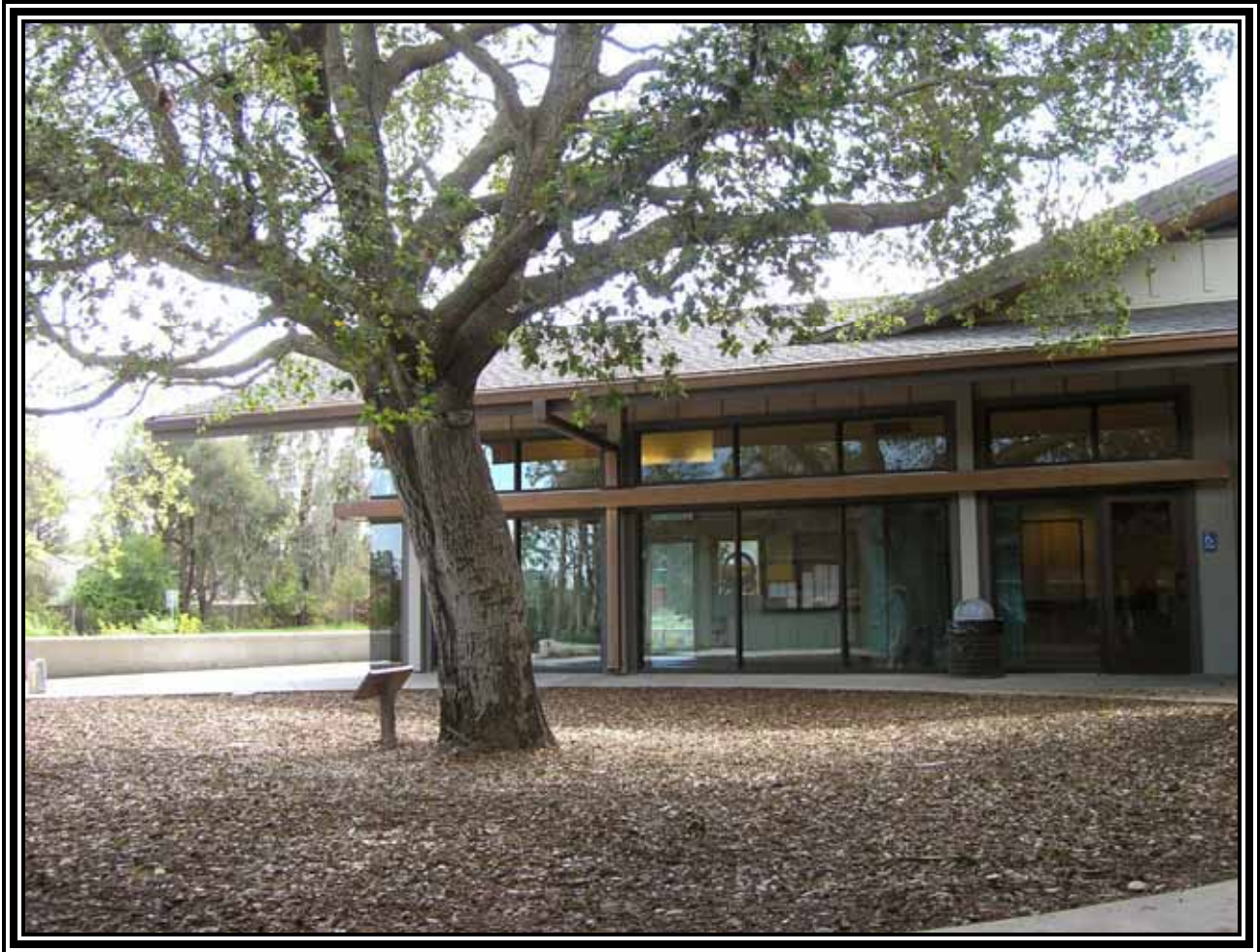
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*Town Hall's Heritage Oak*

## Introductory Section

Letter of Transmittal



GFOA Certificate of Achievement



Town Organization



Town Officers



Independent Auditor's Report



Management's Discussion and Analysis

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December 24, 2008

To the Citizens of the Town of Los Altos Hills,  
Honorable Mayor and Members of the City Council

It is a pleasure to submit to you the Comprehensive Annual Financial Report for the Town of Los Altos Hills, California, for the year ended June 30, 2008.

This report consists of management's representations concerning the finances of the Town of Los Altos Hills. Consequently, responsibility for both the accuracy of the data and the fairness of this presentation, including all disclosures, rests with the Town's management. To present a reasonable basis for making these representations, management personnel of the Town have established and maintained a comprehensive internal control structure designed to ensure that the assets of the Town are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgment by management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to represent fairly the financial position and results of operation of the various funds of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

State statutes require an annual audit by independent certified public accountants. The Town's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Los Altos Hills for the year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Los Altos Hills' financial statements for the year ended June 30, 2008, are fairly presented in conformity with generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be

found immediately following the report of the independent auditors in the financial section of this report.

## **REPORTING ENTITY AND SERVICES**

The Town of Los Altos Hills, California is an exclusively residential community with no commercial or industrial base. Located in the northwestern section of Santa Clara County, the Town boasts easy access to all of Silicon Valley, which is renowned for its technological innovation and entrepreneurship. The County's economy is based on a large variety of high-tech manufacturing and computer software firms, supported by the Valley's business environment, world-class universities and a well-developed specialized professional services industry.

The Town was incorporated in 1956 and operates under a Council-Manager form of government. Policy-making and legislative authority are vested in the governing City Council, which consists of a five Council members. Council members are elected to overlapping four-year terms and, from amongst themselves, select a Mayor and Mayor Pro Tem every July. The Council is responsible for passing ordinances, adopting the budget, appointing Planning Commission and Volunteer Committee members and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the Town, and for appointing the heads of the Town departments.

By means of its own employees, the Town provides general government activities such as management, planning, code enforcement, engineering, building inspection, maintenance of public infrastructure, recreation, limited parks, and open space maintenance. Activities such as police and fire protection, water service, sewer service, integrated waste management and cable television are delivered through contractual agreements with vendors or other local governments.

The annual budget serves as the foundation for the Town's financial planning and control. Prior to June 30 of each year, the City Manager submits to the City Council a proposed operating and capital improvement budget for review. The Council holds public hearings and a final budget is adopted on or before June 30.

Budgetary reviews and controls are applied as described in the Note to Required Supplementary Information on page 65. Budget to actual comparisons are provided in this report for each governmental fund for which an annual budget has been adopted. For the General Fund, this comparison is presented on page 66 as part of the required supplementary information. For governmental funds other than the General Fund, this comparison is presented in the Combining Statements and Individual Fund Statements section of this report, starting on page 69. Budgets are also adopted and controlled for the proprietary funds. Budget comparisons for these funds are not legally mandated and thus are not presented.

## **FACTORS AFFECTING FINANCIAL CONDITION**

Given the nature of the Town's land-use regulations and geographic constraints, factors that affect the Town's financial condition are somewhat narrow. The Town does not have a significant business, tourism, or sales taxes revenue base that would fluctuate with natural ebbs and flows of the economy. The factors of interest are discussed below.

### ***State of California's fiscal health***

The Town relies on the State of California to faithfully exercise its fiduciary responsibility to collect and distribute a number of taxes and grant funds utilized by local agencies to provide direct services to the community. As the State's fiscal condition has spiraled out of control in response to the global financial meltdown, the Town hangs in waiting to learn the fate of State controlled monies. Chief among the State monies are property tax revenues which comprise approximately 51% of the Town's general fund revenues.

In fiscal year 2008, the State's ailing financial condition did not adversely impact on the Town. The State sold bonds authorized by the voters for transportation infrastructure improvements (Proposition 1B) and disbursed \$400,000 to the Town for local projects. These funds were anticipated and programmed as part of the annual street resurfacing program. Additionally in fiscal year 2008, the State continued to fund the Citizens Option for Public Safety (COPS) grant which provides \$100,000 per year for public safety programs.

The outlook for fiscal year 2009, however, is not good. According to information distributed by Governor Schwarzenegger's Office in December 2008, the State's general fund faces a \$15 billion deficit in fiscal year 2009. Without proactive budget balancing measures, the Governor's Office projects the deficit will grow to a total of \$42 billion for the eighteen month period ending June 30, 2010. Subsequent to the Governor's announcement, the State's money managers sounded alarm that a continued delay of a balanced State's budget could result in running out of money to pay the State's current obligations as early as February 2009.

Already seen in fiscal year 2009 was the State's decision in December 2008 to suspend disbursements on certain grant funded projects. This action by the State has no known material impact on the Town's grant funded projects.

The Town's fiscal year 2009 budget included a \$100,000 reduction to general fund revenues as a contingent measure to protect against potential shortfalls in State controlled revenues. As of the date of this transmittal, the State has not announced any measures that would require the use of the \$100,000 contingency.

### ***Property valuations***

The Town's primary revenue base is property tax and fluctuations in the high value real estate markets continue to be of concern. In fiscal year 2008, \$3.2 million or approximately 51% of the Town's general fund revenue was derived from property taxes. Compared to prior year, property taxed increased approximately 7.2%, or \$214,000, for fiscal year 2008.

With evidence that the local real estate market was softening, the Santa Clara County Assessor's Office temporarily decreased the assessed valuation of 93 properties (up from 91 in fiscal year 2007) in Town under Proposition 8. Proposition 8 provides temporary relief to taxpayers who purchased their property at the height of the market and subsequently experience a decline property values. The Assessor's Proposition 8 adjustments lowered the Town's 2009 total assessed valuation by 2.7%, up from a 2.5% adjustment in 2008. Countywide, the Assessor increased the number of Proposition 8 adjustments from 17,758 in fiscal year 2008 to 41,866 in fiscal year 2009.

### ***Personnel costs***

Personnel costs are the greatest expenditure factor impacting the Town's financial condition. The Town has historically controlled personnel costs through scalable contract staffing and consulting services agreements designed to meet the fluctuating needs of the Town. This practice, in conjunction with maintaining the status quo for employee benefits and staffing levels, permits the Town to have the lowest personnel costs per capita of comparable neighboring agencies.

At the present time, the Town anticipates pension rates to be the personnel cost at greatest risk of higher than anticipated increases as a consequence of the downturn in the national economy. According to a report issued by the California Public Employees' Retirement System (CalPERS) in November 2008, if the CalPERS investment portfolio experiences a loss for fiscal year 2009 greater than 15% to 20%, pension costs will increase by 2% to 4% of base salary for the fiscal year 2012. For fiscal year 2011, CalPERS has projected the Town's required contribution at 14.3% of regular salaries assuming historical market returns of 7.75%. Thus far in fiscal year 2009, the CalPERS portfolio has experienced tremendous loses and all indication is that it will fail to meet its earnings projections for fiscal year 2009.

The true impact of the poor economy relies on the change in CalPERS' investment portfolio balance from June 30, 2008 to June 30, 2009 and will not be final until October 2009. Additional information related to the Town's pension costs is available in Note 7 to the financial statements.

Another factor that impacts personnel costs is the Town's implementation of Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, issued by the Governmental Accounting Standards Board (GASB) in fiscal year 2008. In accordance with GASB 45, the Town completed an actuarial study to determine the value of retiree medical benefit liabilities. As a result of the study, the Town is depositing 100% of the

annual required contribution (\$203,000 per year) to the CalPERS Post Employment Benefits Trust Fund. This matter is more fully discussed in Note 11 to the financial statements.

## **LONG-TERM FINANCIAL PLANNING**

With the State's finances in peril, the Town's long-term financial planning strategies are critical to the organization's future. The following bullet points summarize the Town's primary strategies that have been relied upon in the past. Each strategy continues to be of importance going forward and will be refined as new challenges confront the Town.

- Personnel cost containment – The Town's use of scalable contract staffing and consulting services agreements assist the Town's small permanent staff in delivering services to the community. While the use of contract services has the benefit of reducing exposure to long-term employee liabilities, this strategy is successful only with the support of competent and versatile permanent staff members. In the long-term, the challenge is to ensure that the Town's small number of permanent staff members possess the skills necessary to step-up to increased roles and challenges that face the organization.
- Adequate cost recovery policies – The Town conducts periodic reviews of the cost to provide special Town services (planning, building, engineering, and sewer) to develop a cost recovery fee schedule consistent with City Council policy directives. These studies are conducted every two or three years and it may be necessary to increase their frequency to optimize cost recovery opportunities. Additionally, the Town may look to evaluate the long-term sustainability of parks and recreation programs that currently receive a general fund subsidy.
- Risk management practices – As a member of ABAG-Plan, a loss-sharing pool of local governments, the Town works to create, implement, and maintain a series of best management practices designed to reduce the Town's exposure to liability claims. On an annual basis, ABAG-Plan's independent risk management consultants assess the Town's adherence to the pool's risk management goals and objectives. The Town's commitment to proactive risk management is critical to minimizing potentially large liability claims.
- Investment in capital improvements – Essential in managing risk is investing in the ongoing maintenance and improvement of the Town's public facilities and infrastructure. Recent capital facility improvement programs adopted by the City Council reinforce the need to improve the conditions of existing roadways, improve the Town's network of pathways, and retrofit or replace Town owned structures. In the current economic condition, grants for capital improvements may become increasingly scarce and the Town will be challenged to look harder for outside funds to continue its recent initiatives to improve capital facilities and infrastructure.

## **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Los Altos Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the fifth consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, The Town had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the dedicated service of the entire staff of the finance department. We wish to express our appreciation to all member of the Town who assisted and contributed to the preparation of this report. Credit must also be given to the mayor, members of the City Council, and members of the Finance and Investment Committee for their leadership and stewardship of the public resources entrusted to the Town.

Respectfully Submitted,

/s/ Carl Cahill  
City Manager

/s/ Nick Pegueros  
Director of Finance and Administrative Services



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Los Altos Hills  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting



*Oliver S. Cox*

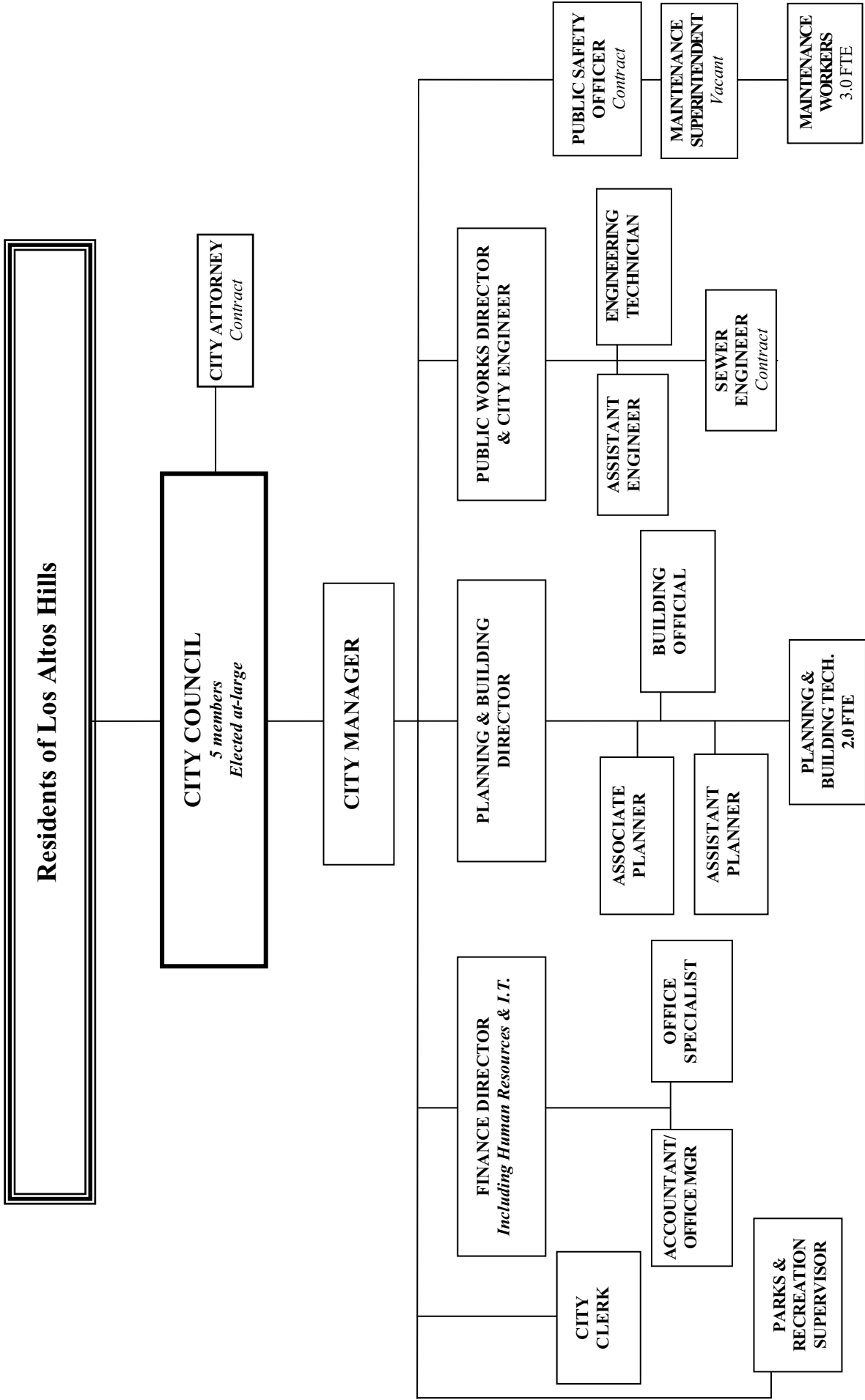
President

*Jeffrey R. Emer*

Executive Director

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# TOWN ORGANIZATION CHART



# TOWN OFFICERS

As of June 30, 2008

<u>City Council</u>	<u>Term Expires</u>
Craig A.T. Jones, Mayor	2008
Jean Mordo, Vice Mayor	2008
Mike O'Malley	2008
Breene Kerr	2010
Dean Warshawsky	2010

City Council Appointed

Carl Cahill, City Manager  
Steve Mattas, City Attorney (contract)

City Manager Appointed

Richard Chiu Jr., Public Works Director & City Engineer  
Karen Jost, City Clerk  
Debbie Pedro, Planning & Building Director  
Nick Pegueros, Director of Finance and Administrative Services



*Town Hall's Heritage Oak*

## Financial Section

Independent Auditor's Report



Management's Discussion and Analysis



Government-wide Financial Statements



Fund Financial Statements



Notes to Financial Statements



Required Supplementary Information



Combining Statements and Individual Fund Statements

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VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

## INDEPENDENT AUDITOR'S REPORT

Town Council of the Town  
of Los Altos Hills  
Town of Los Altos Hills, California

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Altos Hills, California, (the Town) as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 45 for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2008, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Required Supplementary Information, including Management's Discussion and Analysis, budgetary comparison information, and other information as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This Required Supplementary Information is the responsibility of the management of the Town. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and accordingly, we do not express an opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements of the Town. These financial statements and schedules are also the responsibility of the management of the Town. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The scope of our audit did not include the introductory section and statistical schedules listed in the table of contents and we do not express an opinion on them.

Varrinck, Trine, Day & Co., LLP.

Pleasanton, California  
December 24, 2008



## TOWN OF LOS ALTOS HILLS

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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As the management of the Town of Los Altos Hills, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Los Altos Hills for the year ended June 30, 2008. Readers should consider the information presented here in conjunction with the additional information presented in our letter of transmittal, which can be found on pages 1 – 6 of this report.

#### **Financial Highlights**

- The assets of the Town exceed its liabilities at June 30, 2008, by \$35,514,350 (net assets). Of this amount, \$12,464,814 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$3,803,277 during the year ended June 30, 2008.
- The Town's General Fund balance at June 30, 2008, is \$4,564,602 – a decrease of \$1,223,909 over the previous year. The fund balance is approximately 106% of General Fund expenditures.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements, which consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements such as this discussion and analysis.

#### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the Town of Los Altos Hills' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, for example, earned but unused vacation leave.

These government-wide financial statements can be found on pages 30 and 31 of this report.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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### **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 Town of Los Altos Hills, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of the Town of Los Altos Hills can be divided into two categories: governmental funds and proprietary 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 the 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 Town maintains twelve 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, Debt Service Fund, Street Capital Projects Fund and Other Capital Projects Fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the "Combining Statements and Individual Fund Statements" section of this report.

The Town of Los Altos Hills adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 35 - 38 of this report. The budgetary comparison schedule for the General Fund is on page 66.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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### ***Proprietary funds***

The Town of Los Altos Hills maintains two different types of proprietary funds – enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for the sewer and solid waste operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses an internal service fund to account for the central services, corporation yard services, and the repair and replacement of equipment and vehicles. Because these services predominantly benefit governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the internal service fund and the sewer and solid waste operations.

The basic proprietary fund financial statements can be found on pages 39 - 41 of this report.

### ***Fiduciary funds***

The Town is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for Sewer Assessment District #11. The District's fiduciary activities are reported on page 42. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **Notes to the 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. The notes to the financial statements can be found on pages 44 - 63 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 Town's progress in funding its obligation to provide pension benefits to its employees and the General Fund budgetary schedule. Required supplementary information can be found on pages 66 - 68 of this report.

Combining statements for nonmajor governmental funds are presented after the required supplementary information on pages 70 - 72. Budgetary schedules for nonmajor governmental funds, the Street Capital Projects, Other Capital Projects, and Debt Service funds are presented on pages 73 - 83.

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

**Government-wide financial analysis**

As noted above, net assets may serve over time as a useful indicator of a government’s financial position. The Town’s assets exceeded liabilities by \$35,514,350 at June 30, 2008.

***Schedule of Net Assets***

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>ASSETS</b>						
Current and other assets	\$ 12,951,999	\$ 10,713,768	\$ 3,500,857	\$ 2,804,168	\$ 16,452,856	\$ 13,517,936
Capital assets	<u>23,087,062</u>	<u>21,760,560</u>	<u>1,172,175</u>	<u>1,155,552</u>	<u>24,259,237</u>	<u>22,916,112</u>
Total assets	<u>36,039,061</u>	<u>32,474,328</u>	<u>4,673,032</u>	<u>3,959,720</u>	<u>40,712,093</u>	<u>36,434,048</u>
<b>LIABILITIES</b>						
Current	2,707,594	2,359,405	755,400	502,351	3,462,994	2,861,756
Long term debt	<u>1,734,749</u>	<u>1,861,219</u>	<u>-</u>	<u>-</u>	<u>1,734,749</u>	<u>1,861,219</u>
Total liabilities	<u>4,442,343</u>	<u>4,220,624</u>	<u>755,400</u>	<u>502,351</u>	<u>5,197,743</u>	<u>4,722,975</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	21,225,843	19,777,871	1,172,175	1,155,552	22,398,018	20,933,423
Restricted	651,518	1,102,923	-	-	651,518	1,102,923
Unrestricted	<u>9,719,357</u>	<u>7,372,910</u>	<u>2,745,457</u>	<u>2,301,817</u>	<u>12,464,814</u>	<u>9,674,727</u>
Total net assets	<u>\$ 31,596,718</u>	<u>\$ 28,253,704</u>	<u>\$ 3,917,632</u>	<u>\$ 3,457,369</u>	<u>\$ 35,514,350</u>	<u>\$ 31,711,073</u>

Note: Total assets – liabilities = total net assets

The largest portion of the Town’s net assets, 63%, reflects its investment in capital assets – land, buildings, machinery, equipment and infrastructure. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The Town entered into a financing lease in the amount of \$2 million in September, 2004 for the construction of a new Town Hall, and received a loan from the California Energy Commission in the amount of \$160,000 in 2006 which provided funding for energy conservation features of the new building. The long-term balance of the two debts at June 30, 2008, is \$1,734,749.

An additional portion of the Town’s net assets, 2%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$12,464,814, may be used to meet the Town’s ongoing obligations to citizens and creditors.

At June 30, 2008, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

**Changes in net assets**

The following schedule shows summarized information for the current and prior year on the changes in net assets.

***Changes in Net Assets***

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 2,224,872	\$ 2,116,163	\$ 2,983,668	\$ 2,535,648	\$ 5,208,540	\$ 4,651,811
Operating grants	1,292,756	536,042	7,270	6,107	1,300,026	542,149
General revenues						
Property taxes	3,216,837	2,998,724	-	-	3,216,837	2,998,724
Motor vehicle license tax	43,579	56,396	-	-	43,579	56,396
Other taxes	434,126	536,746	-	-	434,126	536,746
Franchise fees	389,224	371,717	-	-	389,224	371,717
Sale of Capital Assets-net	1,430,776	-	-	-	1,430,776	-
Use of money and property	744,677	521,425	178,503	130,778	923,180	652,203
Other intergovernmental	502,482	457,503	-	-	502,482	457,503
Other unrestricted	154,061	113,700	-	-	154,061	113,700
Total revenues	<u>10,433,390</u>	<u>7,708,416</u>	<u>3,169,441</u>	<u>2,672,533</u>	<u>13,602,831</u>	<u>10,380,949</u>
<b>EXPENSES</b>						
Administration	1,923,014	1,979,197	-	-	1,923,014	1,979,197
Public safety	1,381,626	1,333,011	-	-	1,381,626	1,333,011
Community development	2,522,067	2,377,965	-	-	2,522,067	2,377,965
Parks and recreation	802,066	703,112	-	-	802,066	703,112
Drainage and street operations	578,324	664,229	-	-	578,324	664,229
Sewer	-	-	1,080,206	1,005,104	1,080,206	1,005,104
Solid waste	-	-	1,512,251	1,440,098	1,512,251	1,440,098
Total expenses	<u>7,207,097</u>	<u>7,057,514</u>	<u>2,592,457</u>	<u>2,445,202</u>	<u>9,799,554</u>	<u>9,502,716</u>
Increase (decrease) in net assets						
before transfers	3,226,293	650,902	576,984	227,331	3,803,277	878,233
Transfers in (out)	116,721	394,955	(116,721)	(394,955)	-	-
Change in net assets	<u>3,343,014</u>	<u>1,045,857</u>	<u>460,263</u>	<u>(167,624)</u>	<u>3,803,277</u>	<u>878,233</u>
Net assets, beginning of year	<u>28,253,704</u>	<u>27,207,847</u>	<u>3,457,369</u>	<u>3,624,992</u>	<u>31,711,073</u>	<u>30,832,839</u>
Net assets, end of year	<u>\$ 31,596,718</u>	<u>\$ 28,253,704</u>	<u>\$ 3,917,632</u>	<u>\$ 3,457,368</u>	<u>\$ 35,514,350</u>	<u>\$ 31,711,072</u>

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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***Governmental activities***

Governmental activities increased the Town’s net assets by \$3,343,014. The table below compares expenses by function with the corresponding program revenues for governmental activities.

***Program Revenues and Expenses – Governmental Activities***

	<b>2008</b>			<b>2007</b>		
	Program revenues	Expenses	Net revenue (expenses)	Program revenues	Expenses	Net revenue (expenses)
Administration	\$ -	\$ 1,834,475	\$ (1,834,475)	\$ -	\$ 1,883,973	\$ (1,883,973)
Public safety	115,130	1,381,626	(1,266,496)	114,651	1,333,011	(1,218,360)
Community development	1,255,246	2,522,067	(1,266,821)	1,095,175	2,377,965	(1,282,790)
Parks & rec	234,258	802,066	(567,808)	279,008	703,112	(424,104)
Drain/street	1,912,994	578,324	1,334,670	1,163,371	664,228	499,143
Interest on LTD	-	88,539	(88,539)	-	95,224	(95,224)
	<u>\$ 3,517,628</u>	<u>\$ 7,207,097</u>	<u>\$ (3,689,469)</u>	<u>\$ 2,652,205</u>	<u>\$ 7,057,513</u>	<u>\$ (4,405,308)</u>

Overall, net expenses for governmental activities for fiscal year 2008 decreased from \$4,405,308 to \$3,689,469, a difference of \$715,840 or 16%, from the previous year. The greatest increase in net revenue, \$835,527, was for storm drain and street operations which received an infusion of capital funds from the State of California’s sale of Proposition 1B infrastructure bonds and a contribution received from the County of Santa Clara to bring the roads of the newly annexed West Loyola neighborhood up to Town road standards. The greatest increase in net expenditures, \$143,704, was seen in the parks and recreation department where the Town significantly expanded its expenses in parks and recreation programs compared to prior year.

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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**Major Governmental Funds**

The following is a schedule of revenues, expenditures and changes if fund balances for each of the major governmental and aggregate non-major governmental funds:

	General Fund	Debt Service	Street Cap Project	Other Cap Project	Non-major	Total
Revenues	\$ 6,318,941	\$ -	\$ 914,361	\$ 612,626	\$ 1,156,686	\$ 9,002,614
Expenditures	4,306,420	211,316	1,379,404	1,790,250	977,962	8,665,352
Sale of Assets	-	-	-	1,430,776	-	1,430,776
Net transfers	(3,236,430)	211,316	1,300,000	1,706,690	135,145	116,721
Net increase/(decrease)	(1,223,909)	-	834,957	1,959,842	313,869	1,884,759
Fund balances, beginning of year	5,788,511	-	778,024	1,026,053	567,242	8,159,830
Fund balances, end of year	\$ 4,564,602	\$ -	\$ 1,612,981	\$ 2,985,895	\$ 881,111	\$ 10,044,589

**General Fund**

*General Fund revenues* - General Fund revenues for the year ended June 30, 2008, increased \$529,361, or 9.1%, over the prior fiscal year. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years.

	2008	2007	\$ Increase (decrease)	% increase (decrease)
Property taxes	\$ 3,205,734	\$ 2,991,481	\$ 214,253	7.2%
Taxes other than property	434,126	536,746	(102,620)	-19.1%
Franchise fees	389,224	371,717	17,507	4.7%
Licenses and permits	668,489	519,492	148,997	28.7%
Intergovernmental	146,061	113,899	32,162	28.2%
Use of money and property	744,677	512,425	232,252	45.3%
Charges for services	605,076	589,069	16,007	2.7%
Other revenues	125,554	154,751	(29,197)	-18.9%
Total	\$ 6,318,941	\$ 5,789,580	\$ 529,361	9.1%

- Property taxes – With a 7.2%, \$214,253, increase over prior year, property taxes continue to be the Town’s primary source of revenues. The increase is attributable to existing properties changing hands at a higher assessed valuation than was recorded by the Santa Clara County Assessor in accordance with Proposition 13.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2008

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- Taxes other than property – Fiscal year 2008 experienced a significant decline in the number of property transfers subject to the property transfer tax. Compared to fiscal year 2007, this revenue decreased \$95,783. This revenue is projected to remain flat in fiscal year 2009.
- Licenses and permits – Licenses and permits largely account for the building permits obtained to improve existing residences or land. In the fiscal year ending June 30, 2008, the Town’s building permit activity was higher than prior year and, coupled with a fee increase on permits, this revenue source increased \$148,997, or 28.7%, compared to prior year.
- Use of money and property - Interest income increased \$232,252, or 45.3%, compared to prior year largely due to the mark-to-market, fair market valuation adjustment to the Town’s investment portfolio, \$157,074. True interest earnings for this fund were 14.8% higher than prior year. This increase was due, in part, to higher cash balances resulting from delayed capital improvement projects.

*General Fund expenditures* - General Fund expenditures for the current year decreased \$85,661, or 2.0% over the prior fiscal year.

	2008	2007	Increase (decrease)	% increase (decrease)
Administration	\$ 1,345,356	\$ 1,589,309	\$ (243,953)	-15.3%
Public safety	875,868	840,754	35,114	4.2%
Community development	1,855,950	1,773,386	82,564	4.7%
Parks and recreation	229,246	188,632	40,614	21.5%
Total	\$ 4,306,420	\$ 4,392,081	\$ (85,661)	-2.0%

- Administration – Administration decreased 15.3% compared to prior year due to lower legal fees and lower expenditures by the Town’s volunteer committees.
- Parks and recreation – The Town’s parks and recreation department ramped up operations in the fiscal year ending June 30, 2008 to offer expand recreation programs.

A ten year history of general governmental revenues and expenditures can be found in the statistical section of this document.

### ***Debt Service***

The Town entered into a financing lease in the amount of \$2 million in September, 2004 for the construction of Town Hall and received a loan from the California Energy Commission in the amount of \$160,000 in 2006 to provide funding for energy conservation features of the new building. Interest payments during the current year totaled \$89,846 and principal in the amount of \$121,470 was retired. The balance of the two debts at June 30, 2008 is \$1,861,219; of that amount, \$126,470 is due within one year and the balance, \$1,734,749, is due in more than one year.



## TOWN OF LOS ALTOS HILLS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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#### *Street Capital Projects Fund*

Expenditures for street improvements were \$1,379,404 for fiscal year 2008, compared to \$1,055,553 for the prior year. The increase is due to an aggressive street resurfacing and repair project adopted by the City Council in 2008. The project is funded through a combination of gas tax revenues, roadway impact fees, and use of general fund unreserved-undesignated fund balance.

#### *Other Capital Projects Fund*

Expenditures for other capital projects were \$1,790,250 for fiscal year 2008, compared to \$1,143,689 for the prior year. This increase is attributed to increased focus on parks and recreation capital infrastructure including planning for the renovation of the Town's little league baseball fields and seismic retrofit plans for Westwind Community Barn. Expenditures in this category will continue at a high level for fiscal year 2009 and is anticipated to decrease beginning in fiscal year 2010.

#### **Proprietary Funds**

The Town provides sewer service facilities, contracting with local agencies for maintenance and disposal. The Sewer Fund had operating income of \$431,166 for the current year, compared to \$131,198 for the prior year. In 2008, operating revenue growth exceeded growth in operating expenses generating a favorable increase in operating income. Also benefiting the fund in fiscal year 2008 was a one-time correction to the non-operating allocation. With the decreased non-operating transfer, the overall sewer fund experienced a positive change to net assets in 2008 of \$591,635. The Town implemented a sewer rate increase for fiscal year 2008 and continues to actively review related fees and assessments to ensure that operating expenses of the fund are recovered and that funds are accrued for future sewer pipeline replacement. Additionally, staff turnover and restructuring may require a thorough review of allocations to all funds for general administration.

Solid Waste Fund operations include regular garbage collection services, curbside collection of yard waste, and a recycling collection program. The Town has a franchise agreement with Los Altos Garbage Company to provide these services. The Town is contractually responsible for setting the rate charged to customers and has not increased rates for these services in the past several years. The Solid Waste Fund had an operating loss of \$39,955 for the current year, compared to operating loss of \$40,751 for the prior year. The decrease in operating loss expense is due to lower than anticipated maintenance as a result of the unseasonably dry winter in 2008.

Net assets of the Sewer Fund increased by \$591,635, and net assets of the Solid Waste Fund decreased by \$131,372. Factors contributing to the changes include:

- Operating expenses for the Sewer Fund increased by \$75,102 (7.5%) resulting from expanded sewer line maintenance in 2008. Operating expenses for the Solid Waste Fund increased by \$72,153 due to higher dumping fees and preparation and negotiation of a new franchise agreement which took effect on October 1, 2008.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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- Interest income for the funds increased by \$47,725 in fiscal year 2008 to \$178,503 in the current year due to the same mark-to-market, fair market valuation, that impacted the Town's other funds.
- Transfers out to the General Fund for overhead allocation decreased by \$251,932 and \$26,302 for the Sewer and Solid Waste Funds, respectively. The significant decrease for the Sewer Fund was to correct for higher than justified overhead allocations in prior years. The on-going overhead allocation for the Sewer Fund is projected in the range of \$100,000 to \$125,000 per year.

### Financial analysis of the Town's Funds

As described above, the Town of Los Altos Hills uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds* – The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of a fiscal year.

As of June 30, 2008, the Town's governmental funds reported combined ending fund balances of \$10,044,589 – an increase of \$1,884,759 over the previous year. The following table shows activity in each of the governmental fund types.

The General Fund's fund balance decreased by \$1,223,909 while the combined fund balances for Special Revenue and Capital Projects Funds increased by \$3,108,668.

The table below compares total governmental fund revenues, expenditures and interfund transfers for the current and prior fiscal years:

	<u>2008</u>	<u>2007</u>	<u>\$ Increase (decrease)</u>
Revenues	\$ 9,002,614	\$ 7,708,412	\$ 1,294,202
Expenditures	8,665,352	7,811,113	854,239
Sale of Assets	1,430,776	-	1,430,776
Net transfers in (out)	116,721	394,955	(278,234)
Net increase/(decrease)	<u>\$ 1,884,759</u>	<u>\$ 292,254</u>	<u>\$ 1,592,505</u>

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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For fiscal year 2008, governmental fund revenues increased by \$1,294,202 and expenditures increased by \$854,239, reflecting significant activity capital improvement activity. A discussion of revenues and expenditures trends and comparisons is provided in the “Major Funds” section above. In fiscal year 2008, the Town sold a pocket of land that previously had no identifiable acquisition cost. Proceeds from the sale, \$1,430,776, were dedicated by the City Council to fund parks and recreation capital improvements. Net transfers out to other funds decreased by \$278,235 as a consequence of a lower overhead allocation to the Sewer Fund.

The following table presents information about fund balance reservations and designations, note the Debt Service fund does not have fund balances and has been omitted from this presentation:

	<u>General Fund</u>	<u>Street Cap Project</u>	<u>Other Cap Project</u>	<u>Non-major</u>	<u>Total</u>
Reserved for:					
Highways & streets	\$ -	\$ -	\$ -	\$ 503,788	\$ 503,788
Public safety	-	-	-	147,730	147,730
Parks & recreation	-	-	-	229,593	229,593
Unreserved, designated for:					
Capital projects	-	1,612,981	2,985,895	-	4,598,876
Other purposes	1,600,000	-	-	-	1,600,000
Unreserved, undesignated	2,964,602	-	-	-	2,964,602
Fund balances, end of year	<u>\$ 4,564,602</u>	<u>\$ 1,612,981</u>	<u>\$ 2,985,895</u>	<u>\$ 881,111</u>	<u>\$ 10,044,589</u>

At June 30, 2008, \$2,964,602 of the combined fund balances of \$10,044,589 is unreserved and undesignated, which means that this amount is available for the City Council to program for future spending at its discretion. Additional unreserved amounts of fund balances have been designated by the City Council for capital projects, \$4,598,876, and emergencies and contingencies, \$1,600,000. The City Council may increase, decrease or eliminate these designations. Additional portions of the fund balances are reserved for the repair, maintenance and construction of streets, \$503,788, public safety, \$147,730, and parks and recreation, \$229,593. These amounts represent revenues from State sources and dedicated user fees.

At June 30, 2008, the General Fund’s fund balance is \$4,564,602. The entire amount is unreserved. The City Council has designated \$1,600,000 of the unreserved balance for emergencies and contingencies. The balance, \$2,964,602, is undesignated. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved undesignated fund balance and total fund balance to total fund expenditures. At June 30, 2008, the unreserved undesignated fund balance and total fund balance represent 69% and 106% of General Fund expenditures, respectively. At June 30, 2007, the unreserved undesignated fund balance and total fund balance represented 94% and 130% of General Fund expenditures, respectively.

*Proprietary funds* – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets increased \$460,263 as a result of

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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the business-type activities of the Town. Factors contributing to the net increase are described in the “Proprietary funds” section above.

**General Fund budgetary highlights**

A comparison of the final budget to actual revenues and expenditures for the General Fund is presented in the Required Supplementary Information section of this report.

The adopted budgeted revenues remained largely unchanged when compared to the amended budget at year end. Budgeted expenses increased from original estimates by \$81,700.

Actual revenues were \$211,155, or 3.5%, over budget and actual expenditures were \$4,443, or 0.1%, over budget. Factors contributing to these variances are described in the “General Fund” section above.

**Capital assets**

The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$24,259,238, net of accumulated depreciation - an increase of \$1,343,126 over the prior year. Capital assets include land, buildings, equipment and infrastructure.

The following table presents summarized information on capital assets net of depreciation for fiscal years 2007 and 2008. Additional information on the Town’s capital assets can be found in Note 4 to the financial statements.

***Capital Assets***  
*(Net of depreciation)*

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	4,691,148	4,647,770	-	-	4,691,148	4,647,770
Office equipment	164,630	207,086	-	-	164,630	207,086
Vehicles	69,886	86,310	-	-	69,886	86,310
Sewer collection system	-	-	1,172,175	1,155,552	1,172,175	1,155,552
Infrastructure	17,910,863	16,568,859	-	-	17,910,863	16,568,859
Total capital assets, net	\$ 23,087,062	\$ 21,760,560	\$ 1,172,175	\$ 1,155,552	\$ 24,259,237	\$ 22,916,112

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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### **Long-term debt**

The balance of long term debt, excluding compensated absences, at June 30, 2008, is \$1,861,219; of that amount, \$126,470 is due within one year and the balance, \$1,734,749, is due in more than one year.

There is no dedicated source of revenue to fund these debt payments; the Town will make the payments out of reserves, revenue increases, operating or capital expenditure savings, or a combination of all three.

Additional information on long-term debt can be found in Note 5 to the financial statements.

### **Requests for information**

This financial report is designed to provide a general overview of the Town of Los Altos Hills' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Town of Los Altos Hills  
Attn: Finance Director  
26379 Fremont Road  
Los Altos Hills, CA 94022

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# Basic Financial Statements

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## Government-wide Financial Statements

The Government-wide financial statements summarize the entire Town's financial activities and financial position and are comprised of two schedules – the Statement of Net Assets (balance sheet) and the Statement of Activities (income statement). These statements are prepared on the same basis of accounting as is used by most businesses, the full accrual basis. The full accrual basis of accounting records the effect of all Town transactions regardless of whether or when cash changes hands. Since the Town's twenty-four (24) funds are each considered separate and distinct accounting units, when the government-wide statements are prepared all material internal transaction between Town funds are eliminated.

The Statement of Net Assets (page 30) reports the difference between the Town's total assets and total liabilities, including all capital assets and long-term liabilities. This statement consolidates the financial position of the Town's governmental activities into a single column and the financial position of the Town's business-type activities in a single column. The two columns are combined to present a comprehensive view of the Town's financial position at the end of the fiscal year. The Town's Governmental Activities include the general, internal service, special revenues and capital improvement funds. The Town's Business-type Funds include the sewer system and solid waste franchise.

The Statement of Activities (page 31) reports increases and decreases in the Town's net assets. Just as with the Statement of Net Assets, this statement is prepared using the full accrual method of accounting. This differs from the "modified accrual" basis used in the Fund Financial Statements which reflect only current assets, current liabilities, available revenues and measurable expenditures.

**TOWN OF LOS ALTOS HILLS**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 12,600,496	\$ 3,417,550	\$ 16,018,046
Receivables:			
Accounts	171,356	80,338	251,694
Interest	1,820	2,969	4,789
Net OPEB Asset	178,327	-	178,327
Capital assets			
Land	250,535	-	250,535
Other capital assets, net of depreciation:			
Buildings	4,691,148	-	4,691,148
Office equipment	164,630	-	164,630
Vehicles	69,886	-	69,886
Land improvements	-	1,172,175	1,172,175
Infrastructure	17,910,863	-	17,910,863
Total Assets	<u>36,039,061</u>	<u>4,673,032</u>	<u>40,712,093</u>
<b>LIABILITIES</b>			
Accounts payable	554,861	727,431	1,282,292
Other liabilities	46,440	151	46,591
Interest payable	23,466	-	23,466
Refundable deposits	1,855,508	23,843	1,879,351
Compensated absences			
Due within one year	8,093	166	8,259
Due in more than one year	92,756	3,809	96,565
Long-term debt			
Due within one year	126,470	-	126,470
Due in more than one year	1,734,749	-	1,734,749
Total Liabilities	<u>4,442,343</u>	<u>755,400</u>	<u>5,197,743</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	21,225,843	1,172,175	22,398,018
Restricted for:			
Highways and streets	503,788	-	503,788
Public safety	147,730	-	147,730
Unrestricted	9,719,357	2,745,457	12,464,814
Total Net Assets	<u>\$ 31,596,718</u>	<u>\$ 3,917,632</u>	<u>\$ 35,514,350</u>

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

**TOWN OF LOS ALTOS HILLS**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

	Program Revenues			Net Revenue (Expense) and Change in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Grants	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>						
Administration	\$ 1,834,475	\$ -	\$ -	\$ (1,834,475)	\$ -	\$ (1,834,475)
Public safety	1,381,626	13,217	101,913	(1,266,496)	-	(1,266,496)
Community development	2,522,067	1,255,246	-	(1,266,821)	-	(1,266,821)
Parks and recreation	802,066	234,258	-	(567,808)	-	(567,808)
Drainage and street operations	578,324	722,151	1,190,843	1,334,670	-	1,334,670
Interest on long-term debt	88,539	-	-	(88,539)	-	(88,539)
<b>Total Governmental Activities</b>	<b>7,207,097</b>	<b>2,224,872</b>	<b>1,292,756</b>	<b>(3,689,469)</b>	<b>-</b>	<b>(3,689,469)</b>
<b>Business-type Activities:</b>						
Sewer	1,080,206	1,511,372	-	-	431,166	431,166
Solid waste	1,512,251	1,472,296	7,270	-	(32,685)	(32,685)
<b>Total Business-type Activities</b>	<b>2,592,457</b>	<b>2,983,668</b>	<b>7,270</b>	<b>-</b>	<b>398,481</b>	<b>398,481</b>
<b>Total Primary Government</b>	<b>\$ 9,799,554</b>	<b>\$ 5,208,540</b>	<b>\$ 1,300,026</b>	<b>(3,689,469)</b>	<b>398,481</b>	<b>(3,290,988)</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Property taxes				3,216,837	-	3,216,837
Motor vehicle license tax				43,579	-	43,579
Other taxes				434,126	-	434,126
Franchise Taxes				389,224	-	389,224
Sale of Capital Assets-net				1,430,776	-	1,430,776
Use of money and property				744,677	178,503	923,180
Intergovernmental-unrestricted				502,482	-	502,482
Other unrestricted revenue				154,061	-	154,061
Transfers				116,721	(116,721)	-
<b>Total General Revenues and</b>				<b>7,032,483</b>	<b>61,782</b>	<b>7,094,265</b>
<b>Change in Net Assets</b>				<b>3,343,014</b>	<b>460,263</b>	<b>3,803,277</b>
<b>Net Assets, Beginning of Year</b>				<b>28,253,704</b>	<b>3,457,369</b>	<b>31,711,073</b>
<b>Net Assets, End of Year</b>				<b>\$ 31,596,718</b>	<b>\$ 3,917,632</b>	<b>\$ 35,514,350</b>

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

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## Fund Financial Statements

Fund Financial Statements are presented for both Governmental Funds and Proprietary Funds. Unlike the government-wide financial statements, the Governmental Fund's Fund Financial Statements are prepared using the modified accrual basis of accounting. The Proprietary Funds, which include internal services funds in the Fund Financial Statements, are prepared using the full accrual basis of accounting.

The Fund Financial Statements for Governmental Funds are presented for individual major funds, while non-major funds are combined in a single column. Major funds are defined, generally, as having significant activities or balances in the current year. Detail relating to non-major funds is located in the Combining Statements and Individual Fund Statements section of this report (page 65).

Within the Fund Financial Statement for Governmental Funds, a reconciliation of the Net Assets schedule (balance sheet) and Changes in Fund Balance schedule (income statement) is provided to reconcile the differences between modified accrual accounting and full accrual accounting for the purposes of preparing the Government-wide Financial Statements.

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**TOWN OF LOS ALTOS HILLS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2008**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Totals
<b>ASSETS</b>						
Cash and investments	\$ 6,424,186	\$ -	\$ 1,753,493	\$ 3,127,858	\$ 875,540	\$ 12,181,077
Accounts receivable	105,736	-	-	-	65,620	171,356
Interest receivable	-	-	-	-	1,820	1,820
Due from other funds	5,851	-	-	-	-	5,851
<b>Total Assets</b>	<b>\$ 6,535,773</b>	<b>\$ -</b>	<b>\$ 1,753,493</b>	<b>\$ 3,127,858</b>	<b>\$ 942,980</b>	<b>\$ 12,360,104</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 114,894	\$ -	\$ 140,512	\$ 141,963	\$ 56,016	\$ 453,385
Other liabilities	769	-	-	-	2	771
Refundable deposits	1,855,508	-	-	-	-	1,855,508
Due to other funds	-	-	-	-	5,851	5,851
<b>Total Liabilities</b>	<b>1,971,171</b>	<b>-</b>	<b>140,512</b>	<b>141,963</b>	<b>61,869</b>	<b>2,315,515</b>
<b>FUND BALANCES</b>						
Reserved for:						
Highways and streets	-	-	-	-	503,788	503,788
Public safety	-	-	-	-	147,730	147,730
Parks and recreation	-	-	-	-	229,593	229,593
Unreserved, designated for:						
Capital projects	-	-	1,612,981	2,985,895	-	4,598,876
Other purpose	1,600,000	-	-	-	-	1,600,000
Unreserved, undesignated	2,964,602	-	-	-	-	2,964,602
<b>Total Fund Balances</b>	<b>4,564,602</b>	<b>-</b>	<b>1,612,981</b>	<b>2,985,895</b>	<b>881,111</b>	<b>10,044,589</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,535,773</b>	<b>\$ -</b>	<b>\$ 1,753,493</b>	<b>\$ 3,127,858</b>	<b>\$ 942,980</b>	<b>\$ 12,360,104</b>

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

**TOWN OF LOS ALTOS HILLS**

**GOVERNMENTAL FUNDS**

**RECONCILIATION OF THE GOVERNMENT FUNDS BALANCE**

**SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

**JUNE 30, 2008**

---

Fund Balances of Governmental Funds	\$ 10,044,589
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	18,021,397
The Internal Service Fund is used by the Town to charge the cost of Town Hall, office, and corporate yard services. The assets and liabilities of the Internal Service Fund are included in the Governmental Activities in the Statement of Net Assets.	5,512,214
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(96,797)
Long-term debt	(1,861,219)
Interest payable	(23,466)
Net Assets of Governmental Activities	<u>\$ 31,596,718</u>

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



**TOWN OF LOS ALTOS HILLS**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2008**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
<b>REVENUES</b>						
Property taxes	\$ 3,205,734	\$ -	\$ -	\$ -	\$ -	\$ 3,205,734
Taxes other than property	434,126	-	-	-	-	434,126
Franchise fees	389,224	-	-	-	-	389,224
Licenses and permits	668,489	-	-	-	25,475	693,964
Intergovernmental	146,061	-	869,000	554,495	269,261	1,838,817
Use of money and property	744,677	-	-	36,868	70,122	851,667
Charges for services	605,076	-	-	-	791,828	1,396,904
Miscellaneous	125,554	-	45,361	21,263	-	192,178
<b>Total revenues</b>	<b>6,318,941</b>	<b>-</b>	<b>914,361</b>	<b>612,626</b>	<b>1,156,686</b>	<b>9,002,614</b>
<b>EXPENDITURES</b>						
Current:						
Administration	1,345,356	-	-	-	-	1,345,356
Public safety	875,868	-	-	-	191,401	1,067,269
Community development	1,855,950	-	-	-	-	1,855,950
Parks and recreation	229,246	-	-	-	360,982	590,228
Drainage and street operations	-	-	-	-	425,579	425,579
Debt service						
Principal	-	121,470	-	-	-	121,470
Interest	-	89,846	-	-	-	89,846
Capital outlay	-	-	1,379,404	1,790,250	-	3,169,654
<b>Total expenditures</b>	<b>4,306,420</b>	<b>211,316</b>	<b>1,379,404</b>	<b>1,790,250</b>	<b>977,962</b>	<b>8,665,352</b>
Excess (Deficiency) of Revenues						
Over Expenditures	2,012,521	(211,316)	(465,043)	(1,177,624)	178,724	337,262
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of Assets	-	-	-	1,430,776	-	1,430,776
Transfers in	278,824	211,316	1,300,000	1,706,690	525,145	4,021,975
Transfers out	(3,515,254)	-	-	-	(390,000)	(3,905,254)
<b>Total Other Financing Sources (Uses)</b>	<b>(3,236,430)</b>	<b>211,316</b>	<b>1,300,000</b>	<b>3,137,466</b>	<b>135,145</b>	<b>1,547,497</b>
<b>Net Change in Fund Balances</b>	<b>(1,223,909)</b>	<b>-</b>	<b>834,957</b>	<b>1,959,842</b>	<b>313,869</b>	<b>1,884,759</b>
Fund Balances, Beginning of Year	5,788,511	-	778,024	1,026,053	567,242	8,159,830
Fund Balances, End of Year	\$ 4,564,602	\$ -	\$ 1,612,981	\$ 2,985,895	\$ 881,111	\$ 10,044,589

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

# TOWN OF LOS ALTOS HILLS

## GOVERNMENT FUNDS

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

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Net Change in Fund Balances - Total Governmental Funds	\$ 1,884,759
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:	
Governmental funds report capital outlays as expenditures but in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:	
Cost of assets capitalized	3,169,654
Depreciation expense charged to governmental activities	(1,827,648)
Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets.	121,470
Governmental funds do not report accrued interest expense on long-term debt, but this information is reported in the Statement of Activities.	
Interest accrual at June 30, 2008	(23,466)
Interest accrual at June 30, 2007	24,771
Internal Service Funds are used by management to charge the costs of certain activities, such as cost of Town Hall, office, and corporate yard services to individual funds. The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.	
Change in Net Assets of Internal Service Funds reported with Business-Type Activities	<u>(6,526)</u>
Change in Net Assets of Governmental Activities	<u>\$ 3,343,014</u>

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

**TOWN OF LOS ALTOS HILLS**

**PROPRIETARY FUNDS  
STATEMENT OF FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008  
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2007**

	Business-type Activities - Enterprise Funds				Total June 30, 2008	Governmental Activities - Internal Service Fund
	Sewer		Solid Waste			
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007		
<b>ASSETS</b>						
Current Assets:						
Cash and investments	\$ 3,297,432	\$ 2,406,605	\$ 120,118	\$ 280,671	\$ 3,417,550	\$ 419,419
Accounts receivable	23,965	89,896	56,373	24,027	80,338	-
Interest receivable	2,451	2,451	518	518	2,969	-
Net OPEB Asset	-	-	-	-	-	178,327
Total Current Assets	3,323,848	2,498,952	177,009	305,216	3,500,857	597,746
Noncurrent Assets:						
Capital assets, net of accumulated depreciation	1,172,175	1,155,552	-	-	1,172,175	5,065,665
Total Assets	4,496,023	3,654,504	177,009	305,216	4,673,032	5,663,411
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	598,607	307,397	128,824	125,659	727,431	101,476
Other liabilities	151	65,320	-	-	151	45,669
Compensated absences payable						
Due within one year	166	-	-	-	166	624
Due in more than one year	3,809	3,975	-	-	3,809	3,428
Refundable deposits	23,843	-	-	-	23,843	-
Total Liabilities	626,576	376,692	128,824	125,659	755,400	151,197
<b>NET ASSETS</b>						
Invested in capital assets	1,172,175	1,155,552	-	-	1,172,175	5,065,665
Unrestricted	2,697,272	2,122,260	48,185	179,557	2,745,457	446,549
Total Net Assets	\$ 3,869,447	\$ 3,277,812	\$ 48,185	\$ 179,557	\$ 3,917,632	\$ 5,512,214

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

**TOWN OF LOS ALTOS HILLS**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008  
WITH COMPARATIVE AMOUNT FOR THE YEAR ENDED JUNE 30, 2007**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Sewer		Solid Waste		Total	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007		
<b>OPERATING REVENUES</b>						
Charges for services	\$ 1,511,372	\$ 1,136,302	1,418,464	\$ 1,357,344	\$ 2,929,836	\$ -
Other income	-	-	53,832	42,003	53,832	-
Town Hall services	-	-	-	-	-	608,405
Office services	-	-	-	-	-	22,606
Corporate yard services	-	-	-	-	-	51,438
Vehicle services	-	-	-	-	-	60,322
<b>Total Operating Revenues</b>	<b>1,511,372</b>	<b>1,136,302</b>	<b>1,472,296</b>	<b>1,399,347</b>	<b>2,983,668</b>	<b>742,771</b>
<b>OPERATING EXPENSES</b>						
Salaries and benefits	64,071	98,338	8,857	16,799	72,928	166,769
Contract services	891,674	592,035	1,465,832	1,387,686	2,357,506	153,199
Operating expenses	79,094	251,175	37,562	35,613	116,656	223,977
Depreciation	45,367	63,556	-	-	45,367	205,352
<b>Total Operating Expenses</b>	<b>1,080,206</b>	<b>1,005,104</b>	<b>1,512,251</b>	<b>1,440,098</b>	<b>2,592,457</b>	<b>749,297</b>
<b>Operating Income (Loss)</b>	<b>431,166</b>	<b>131,198</b>	<b>(39,955)</b>	<b>(40,751)</b>	<b>391,211</b>	<b>(6,526)</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>						
Interest income	160,469	112,749	18,034	18,029	178,503	-
Intergovernmental	-	-	7,270	6,107	7,270	-
<b>Total Nonoperating Revenue</b>	<b>160,469</b>	<b>112,749</b>	<b>25,304</b>	<b>24,136</b>	<b>185,773</b>	<b>-</b>
<b>Income Before Transfers</b>	<b>591,635</b>	<b>243,947</b>	<b>(14,651)</b>	<b>(16,615)</b>	<b>576,984</b>	<b>(6,526)</b>
<b>Transfers</b>						
Transfers in	1,550,000	-	-	-	1,550,000	-
Transfers out	(1,550,000)	(251,932)	(116,721)	(143,023)	(1,666,721)	-
<b>Total Transfers</b>	<b>-</b>	<b>(251,932)</b>	<b>(116,721)</b>	<b>(143,023)</b>	<b>(116,721)</b>	<b>-</b>
<b>Changes in Net Assets</b>	<b>591,635</b>	<b>(7,985)</b>	<b>(131,372)</b>	<b>(159,638)</b>	<b>460,263</b>	<b>(6,526)</b>
<b>Total Net Assets, Beginning of Year</b>	<b>3,277,812</b>	<b>3,285,797</b>	<b>179,557</b>	<b>339,195</b>	<b>3,457,369</b>	<b>5,518,740</b>
<b>Total Net Assets, End of Year</b>	<b>\$ 3,869,447</b>	<b>\$ 3,277,812</b>	<b>\$ 48,185</b>	<b>\$ 179,557</b>	<b>\$ 3,917,632</b>	<b>\$ 5,512,214</b>

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

**TOWN OF LOS ALTOS HILLS**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Business-type Activities</u>			Governmental Activities - Internal Service Fund
	Sewer Fund	Solid Waste Fund	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 1,577,303	\$ 1,439,950	\$ 3,017,253	\$ 742,771
Payments to suppliers	(720,884)	(1,500,229)	(2,221,113)	(268,572)
Payments to employees	(64,071)	(8,857)	(72,928)	(166,769)
Contribution for OPEB	-	-	-	(178,327)
Net Cash Provided (Used) by Operating Activities	792,348	(69,136)	723,212	129,103
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Intergovernmental	-	7,270	7,270	-
Transfers in	1,550,000	-	1,550,000	-
Transfers out	(1,550,000)	(116,721)	(1,666,721)	-
Net Cash Used by Noncapital Financing Activities	-	(109,451)	(109,451)	-
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Cash to acquire fixed assets	(61,990)	-	(61,990)	(189,850)
Net Cash Used by Capital and Related Financing Activities	(61,990)	-	(61,990)	(189,850)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	160,469	18,034	178,503	-
Net Increase (Decrease) in Cash and Investments	890,827	(160,553)	730,274	(60,747)
Cash and Cash Equivalents, Beginning of Year	2,406,605	280,671	2,687,276	480,166
Cash and Cash Equivalents, End of Year	\$ 3,297,432	\$ 120,118	\$ 3,417,550	\$ 419,419
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 431,166	\$ (39,955)	\$ 391,211	\$ (6,526)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	45,367	-	45,367	205,352
(Increase) decrease in accounts receivable	65,931	(32,346)	33,585	-
(Increase) decrease in OPEB assets	-	-	-	(178,327)
Increase (decrease) in accounts payable	249,884	3,165	253,049	108,604
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	\$ 792,348	\$ (69,136)	\$ 723,212	\$ 129,103

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

**TOWN OF LOS ALTOS HILLS**

**FIDUCIARY FUND**

**STATEMENT OF FIDUCIARY FUND ASSETS AND LIABILITIES**

**JUNE 30, 2008**

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**ASSETS**

Restricted cash and investments	<u>\$ 15,745</u>
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**LIABILITIES**

Due to bondholders	<u>\$ 15,745</u>
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Note: During the fiscal year ended June 30, 2008, there was no activity in the Fiduciary Fund.

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

Notes to  
Financial Statements

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Description of Reporting Entity

The Town of Los Altos Hills (the Town) was incorporated in 1956, under the provisions of the State of California. As of June 30, 2008, the Town's population was 8,452. The Town operates under a Council-Manager form of government and provides the following services: management, planning, code enforcement, engineering, building inspection, maintenance of public infrastructure, recreation, police and fire protection, water services, sewer service, integrated waste management, and cable television.

For financial reporting purposes, the Town's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the Town Council. There are no component units. The financial statements may be obtained by writing to the Town of Los Altos Hills, Administrative Services Department, 26379 Fremont Road, Los Altos Hills, California 94022.

#### B. Basis of Presentation

##### Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Town. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) fees, fines, and charges paid by the recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 in regards to interfund activities, payable and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities. These are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, Internal Service Fund transactions have been eliminated. However, the transactions between governmental and business-type activities, which are presented as transfers, have not been eliminated from the Statement of Activities.



# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fund Financial Statements

The fund financial statements provide information about the Town's funds, including fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

Proprietary funds distinguish operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the Town's enterprise and internal service fund are charges for customer services including: sewer service fees, solid waste collection fees, equipment maintenance and usage fees, and support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation of capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the town's policy to use restricted resources first, then unrestricted resources as they are needed.

The Town reports the following major governmental funds:

- The *General Fund* is used to account for all general revenues of the Town not specifically levied or collected for the other Town funds and the related expenditures. The General Fund accounts for all financial resources of the Town that are not accounted for in another fund. For the Town, the General Fund includes such activities as the general government, public works, public safety, parks and recreation, and community development.
- The *Street Capital Projects Fund* is used to account for the acquisition and construction of streets.
- The *Capital Project Fund* is used to account for financial resources that are necessary for the acquisition or construction of major capital facilities.

The Town reports the following major enterprise funds:

- The *Sewer Fund* is used to account for the maintenance of the Town's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.
- The *Solid Waste Fund* is used to account for regular garbage collection services, curbside collection of yard waste, and a mixed paper recycling collection program. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town reports the following additional fund types:

- The *Internal Service Fund* is used to account for the maintenance and replacement of vehicles and equipment; the operation, maintenance, and replacement of office equipment used by the Town's departments; costs incurred for printing/reproduction services and mailing services for all of the Town's departments; and the charges against each department for its share of the costs of operations for the Finance Department.
- The *Agency Fund* is used to account for assets held by the Town in the capacity of agent for a special assessment district.
- The *Special Revenue Funds* are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

#### C. Measurement Focus, Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time that liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include property and sales tax, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales tax, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental fund. Proceeds of long-term debt and capital leases are reported as other financing sources.

Financial reporting is based upon all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) that were issued on or before November 30, 1989 that do not conflict or contradict GASB pronouncements. FASB Pronouncements issued after November 30, 1989, are not followed in preparation of the accompanying financial statements. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No.34.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agency funds are custodial in nature (i.e. assets equal liabilities) and do not involve the measurement of the results of operations.

#### D. Internal Investment Pool

The Town maintains an internal investment pool that is available for use by all funds. Investments in non-participating interest earnings contracts are reported at cost, and all other investments at fair value. Fair value is determined annually and is based on current market prices. The method of allocating interest earned on pooled deposits and investments among funds is based on average cash balances.

For purposes of the accompanying statement of cash flows, the enterprise and internal service funds consider all highly liquid investments with a maturity of three months or less when purchased, and their equity in the cash and investment pool to be cash equivalents.

#### E. Receivables

During the course of normal operations, the Town carried various receivable balances for franchise fees, interest, license fees, sewer fees, and solid waste fees. Accounts receivable are shown at \$105,736 in the General Fund, \$65,620 in Non Major Governmental Fund, \$23,965 in the Sewer Fund, and \$56,373 in the Solid Waste Fund. Interest receivable is shown at \$2,451 in the Sewer Fund, \$518 in the Solid Waste Fund, and \$1,820 in the Non major Governmental Funds.

#### F. Capital Assets

Capital assets, including infrastructure acquired prior to GASB 34, are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated market value on the date of contribution. Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements including roads, bridges, water/sewer, lighting systems, drainage systems, and flood control. The Town defines capital assets as assets with an estimated useful life in excess of three year and an initial, individual cost of \$15,000.

Capital assets used in the operation are depreciated using the straight-line method over their estimated useful lives in the government-wide statement and proprietary funds.

The estimated useful lives are as follows:

Infrastructure	20 - 50 years
Structures and Improvements	10 - 30 years
Vehicles	5 - 10 years
Equipment	3 - 10 years

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

#### **G. Property Taxes**

Revenue is recognized in the fiscal year for which the tax and assessment are levied. The County of Santa Clara levies, bills, and collects property taxes for the Town. Under the Teeter Bill, the County remits the entire amount levied and handles the delinquencies, retaining interest and penalties.

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10, and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31.

#### **H. Accumulated Compensated Absences**

The Town accrues the cost for compensated absences (vacation and comp time) when they are earned. Employees have a vested interest in accrued vacation time and all vacation hours will eventually either be used or paid by the Town. Generally, employees earn and use their current vacation hours with a small portion being accrued or unused each year. As this occurs, the Town incurs an obligation to pay for these unused hours. Sick leave benefits do not vest and no liability is recorded. All compensated absences for governmental activities are paid out of the general fund.

#### **I. Interfund Transactions**

Interfund transactions are reflected as services provided, reimbursements, or transfers. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers within governmental and proprietary funds are netted as part of the reconciliation to the government-wide presentation.

#### **J. Estimates**

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and Investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Cash on hand	\$	760
Deposits with financial institutions		1,418,941
Cash in revolving Investments		14,614,090
Total Deposits and Investments	\$	<u>16,033,791</u>

Cash and investment as of June 30, 2008, consist of the following:

Statement of net assets:		
Cash and investments	\$	16,018,046
Fiduciary funds:		
Cash and investments		15,745
Total Deposits and Investments	\$	<u>16,033,791</u>

### Policies and Practices

The Town is authorized under California Government Code and the Town's investment policy to make direct investments in U.S. Treasury instruments; securities of the U.S. Government, or its agencies; certificates of deposit placed with commercial banks and/or savings and loan companies; and the Local Agency Investment Fund (LAIF).

The Town shall not engage in leveraged investing, such as in margin accounts or any form of borrowing for the purpose of investment. The Town also shall not invest in instruments whose principal and interest have no backing, such as options and future contracts, nor in derivatives, outside of authorized pools.

The Town's investments were in compliance with the above provisions as of and for the year ended June 30, 2008.

### General Authorizations

The table below identifies the investment types that are authorized for the Town of Los Altos Hills by the California Government Code and are further limited by the Town's investment policy. Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	20%	20%
Registered State Bonds, Notes, Warrants	5 years	20%	20%
U.S. Treasury Bills	1 year	20%	30%
U.S. Treasury Notes	5 years	20%	20%
U.S. Agency Securities	5 years	None	None
Certificates of Deposit	3 years	20%	20%
Money Market Mutual Funds	N/A	15%	15%
Local Agency Investment Fund (LAIF)	N/A	30%	30%
Passbook Savings and Demand Deposits	N/A	None	None

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town manages its exposure to interest rate risk by purchasing only shorter term investments as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2008, the Town had the following investments.

Investment Type	Fair Value	Weighted Average Maturity
Federal Agency Bonds/Notes	\$ 6,105,965	Feb 2009- July 2010
U.S. Treasury Bonds/Notes	6,293,653	Aug 2009- May 2011
LAIF	2,049,538	165 Days
Money Market	164,934	Less than 1 month
Total Securities	<u>\$ 14,614,090</u>	

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The state investment pool is not rated.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End			
				AAA	AA-	A-1+	Unrated
U.S. Treasuries	\$ 6,293,653	N/A	\$ 6,293,653	\$ -	\$ -	\$ -	\$ -
Federal Agency Bond/Note	6,105,965	AAA	-	6,105,965	-	-	-
LAIIF	2,049,538	N/A	-	-	-	-	2,049,538
Money Market	164,934	N/A	164,934	-	-	-	-
Total	\$ 14,614,090		\$ 6,458,587	\$ 6,105,965	\$ -	\$ -	\$ 2,049,538

**Concentration of Credit Risk**

The investment policy of the Town contains limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer (other than U.S Treasury securities, mutual funds and external investment pools) that represent five percent (5%) or more of the total investments are as follows:

Issuer	Investment Type	Amount
FHLB	Federal Agency Securities	\$ 1,554,971
FHLMC	Federal Agency Securities	3,262,632
FNMA	Federal Agency Securities	1,031,087
Total		\$ 5,848,690

**Custodial Credit Risk – Deposits**

This is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy, as well as 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, 2008, the Town's bank balance of \$1,853,690, with a reported balance of \$1,418,941, is insured for the first \$100,000 and the balance is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Town.

**Custodial Credit Risk - Investments**

This is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. However, the Town's policy states that all security transactions entered into by the Town of Los Altos Hills shall be conducted on delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian, in the Town of Los Altos Hills' name and control, designated by the City Manager or her/his designee

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

and evidenced by safekeeping receipts when applicable. Additionally, collateralization will be required on certificates of deposit at 102% of market value of principal and interest.

**Investment in the State Investment Pool** - The Town is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Town's investment in the pool is reported in the accompanying financial statement at amounts based upon the Town'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). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

**NOTE 3 – INTERFUND TRANSACTIONS**

The following schedule briefly summarizes the Town’s transfer activity for the fiscal year ended June 30, 2008:

Between Governmental and Business-type Activities:

Transfer from	Transfer to	Amount	Purpose
Solid Waste Fund	General Fund	\$ 116,721	For administrative services

Between Governmental Activities:

Transfer from	Transfer to	Amount	Purpose
General Fund	Street Fund	\$ 111,166	Street repair and maintenace
General Fund	Debt Service Fund	211,316	Debt payments
General Fund	Parks and Rec Programs	162,103	Parks & recreation programs
General Fund	Parks and Rec Facilities Fund	110,957	Parks & recreation facilities
General Fund	Pathway In-Lieu Fee	138,349	Pathways capital projects
General Fund	Other Capital Projects Fund	1,616,690	Capital projects
General Fund	Street Capital Projects Fund	1,000,000	Street capital projects
General Fund	Drainage Fund	164,673	Storm drain operations
Road Way Impact Fee Fund	Street Capital Projects Fund	300,000	Street capital projects
Parks and Rec In-Lieu Fee	Other Capital Projects Fund	90,000	Capital projects
	Total	\$ 3,905,254	



**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
<b>Governmental activities</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 250,535	\$ -	\$ -	\$ 250,535
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>250,535</u>	<u>-</u>	<u>-</u>	<u>250,535</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	59,846,686	3,169,653	-	63,016,339
Buildings	4,980,671	172,154	-	5,152,825
Vehicles	442,381	17,696	(67,573)	392,504
Office equipment	444,411	-	-	444,411
Total capital assets being depreciated	<u>65,714,149</u>	<u>3,359,503</u>	<u>(67,573)</u>	<u>69,006,079</u>
<i>Less accumulated depreciation for:</i>				
Infrastructure	(43,277,827)	(1,827,649)	-	(45,105,476)
Buildings	(332,901)	(128,776)	-	(461,677)
Vehicles	(356,071)	(34,120)	67,573	(322,618)
Office equipment	(237,325)	(42,456)	-	(279,781)
Total accumulated depreciation	<u>(44,204,124)</u>	<u>(2,033,001)</u>	<u>67,573</u>	<u>(46,169,552)</u>
Total capital assets being depreciated, net	<u>21,510,025</u>	<u>1,326,502</u>	<u>-</u>	<u>22,836,527</u>
Governmental activities capital assets, net	<u>\$ 21,760,560</u>	<u>\$ 1,326,502</u>	<u>\$ -</u>	<u>\$ 23,087,062</u>
<b>Business-type activities</b>				
<i>Capital assets being depreciated:</i>				
Sewer collection system	\$ 2,607,339	\$ 61,991	\$ -	\$ 2,669,330
Office equipment	1,509	-	-	1,509
Total capital assets being depreciated	<u>2,608,848</u>	<u>61,991</u>	<u>-</u>	<u>2,670,838</u>
<i>Less accumulated depreciation for:</i>				
Sewer collection system	(1,451,787)	(45,367)	-	(1,497,154)
Office equipment	(1,509)	-	-	(1,509)
Total accumulated depreciation	<u>(1,453,296)</u>	<u>(45,367)</u>	<u>-</u>	<u>(1,498,663)</u>
Business-type activities capital assets, net	<u>\$ 1,155,552</u>	<u>\$ 16,624</u>	<u>\$ -</u>	<u>\$ 1,172,175</u>

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 482,592
Public safety	314,357
Community development	666,117
Parks and recreation	211,838
Drainage and street operations	152,745
Capital assets held by the Town's Internal Service Fund charged to the various functions based on their usage of the assets	<u>205,352</u>
 Total depreciation - governmental activities	 <u><u>\$ 2,033,001</u></u>

Depreciation expense was charged to business-type functions as follows:

Sewer Fund	<u><u>\$ 45,367</u></u>
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**NOTE 5 – LONG-TERM DEBT**

**Town Hall Lease**

Long-term debt activity for the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Retirement	Balance June 30, 2008	Current portion	Interest rate
Capital Lease	\$ 1,841,934	\$ -	\$ (111,597)	\$ 1,730,337	\$ 116,597	4.65%
California Energy Commission Loan	140,755	-	(9,873)	130,882	9,873	3.95%
Subtotals	1,982,689	-	(121,470)	1,861,219	126,470	
Compensated Absences (Governmental & Business)	104,824	-	-	104,824	8,259	
Totals	<u>\$ 2,087,513</u>	<u>\$ -</u>	<u>\$ (121,470)</u>	<u>\$ 1,966,043</u>	<u>\$ 134,729</u>	

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

On September 14, 2004, the town entered into a lease with the Municipal Finance Corporation to provide financing for the Town Hall construction. Payments will be financed by transfers from the General Fund.

Debt service requirements for the lease are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 116,597	\$ 79,118	\$ 195,715
2010	122,594	73,621	196,215
2011	128,099	67,866	195,965
2012	134,124	61,841	195,965
2013	140,434	55,531	195,965
2014-2018	807,698	172,125	979,823
2019-2020	280,791	13,157	293,948
Total	\$ 1,730,337	\$ 523,259	\$ 2,253,596

On February 18, 2004, the town entered in to a loan agreement with the State Energy Conservation Assistance loan to provide financing for the Town Hall to implement energy efficiency measures. Payments will be financed by transfers from the General Fund.

Loan repayment schedule is as follow:

Fiscal Year	Principal	Interest	Total
2009	\$ 9,873	\$ 5,070	\$ 14,943
2010	11,099	4,660	15,759
2011	11,118	4,233	15,351
2012	11,551	3,800	15,351
2013	12,022	3,329	15,351
2014-2018	75,219	9,211	84,430
Total	\$ 130,882	\$ 30,302	\$ 161,184

**NOTE 6 – NET ASSETS/FUND BALANCES**

**A. Net Assets**

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets, restricted, and unrestricted.

*Invested in Capital Assets* – This category presents all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation reduces the balance in this category.

*Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, or restrictions imposed by law through constitutional

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE 6 – NET ASSETS/FUND BALANCES (CONTINUED)**

provisions or enabling legislation. At June 30, 2008, restricted assets consisted of \$503,788 for street projects and \$147,730 for public safety grants.

*Unrestricted Net Assets* – This category presents net assets of the Town not restricted for any project or other purpose.

**B. Fund Balances - Reservations and Designations**

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund’s cash and receivables less its liabilities. Portions of a fund’s balance may be reserved or designated for future expenditure.

**Reservations**

Highways and streets: Revenues received from state sources, including Highway User Tax, and user fees are restricted for the repair, maintenance, and construction of streets. (Street Capital Project, Storm Drain and Street Funds)	\$ 503,788
Public safety: Revenues received from the Citizens' Option for Public Safety and California Law Enforcement Equipment programs are restricted for public safety. (COPS and CLEEP Funds)	147,730
Parks and recreation: Revenues received from pathway, parks and recreation in-lieu fees are restricted for the repair, maintenance and construction of pathways and parks. ( Pathway in-Lieu and Parks and Recreation in Lieu Funds)	<u>229,593</u>
<b>Total Reservations</b>	<u>\$ 881,111</u>

**Designations**

Capital projects is the portion of fund balance designated for capital projects, other than streets. (Other Capital Project Fund)	\$ 4,598,876
Other designations consist of contingencies of \$350,000 and emergency relief of \$1,250,000. (General Fund)	<u>1,600,000</u>
<b>Total Designations</b>	<u>\$ 6,198,876</u>

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 7 – PENSION PLAN

#### A. Plan Description

All permanent employees are eligible to participate in the public Employees' Retirement Fund (the fund) of California Public Employees' Retirement System (Cal PERS). Fund is a cost-sharing multiple-employer defined benefit pension plan which, is a single plan with pooling (cost sharing) arrangements for the participating employers. All risks, rewards and costs, including benefits costs are shared and are not attributed individually to the employers.

The Fund provides retirement, disability, and death benefits based on the employee's years of service, age, and final compensation. The Town has only miscellaneous employees. Employees vest after five years of service and may receive retirement benefits at the age of 50. These benefits provisions and all other requirements are established by State statute and Town ordinance. Copies of the Fund's annual financial report may be obtained from the CalPERS' executive office: 400 P Street, Sacramento, California, 95814.

#### B. Funding Policy

Active plan members in the Miscellaneous Plan have an obligation to contribute 7% of their salary to the Fund. The Town makes the contributions required of the Town's employees on their behalf and for their account. The Town is required to contribute at an actuarially determined rate. The required employer contribution rate for fiscal year 2007-2008 was 14.253% for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

#### C. Annual Pension Cost

For fiscal year 2007-2008, the Town's annual pension cost of \$208,471 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay.

#### D. Three-Year Trend Information

The following table shows the Town's required contributions and percentage contributed, for the current year and each of the preceding two years.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	\$ 195,674	100%	-
6/30/2007	208,611	100%	-
6/30/2008	208,471	100%	-

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 7 – PENSION PLAN (CONTINUED)

#### E. Social Security

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing system as of January 1, 1992 be covered by either Social Security or an alternative plan. Part-time seasonal and temporary employees are covered under Social Security, which requires these employees and the Town to each contribute 6.2% of the employees' pay.

### NOTE 8 – RISK MANAGEMENT

#### A. Risk Pool

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Town participates in the Association of Bay Area Governments (ABAG). ABAG Plan Corporation (ABAG PLAN) covers general liability claims in an amount up to \$5,000,000 with excess insurance of another \$15,000,000, for a total limit of \$20,000,000. The Town has a deductible or uninsured liability of up to \$25,000 per claim. Once the Town's deductible is met, ABAG PLAN becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2008 the Town contributed \$57,910 for current year coverage.

The ABAG Shared Risk Pool (Pool) covers workers' compensation claims up to \$150,000 each and has coverage above that limit to the statutory maximum. The Town has no deductible for these claims. During the fiscal year ended June 30, 2008, the Town contributed \$100,576 for current year coverage.

Each risk pool is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of each risk pool, including selections of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board. The Town's contributions to each risk pool is equal to the ratio of the Town's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. Financial statements for each agency can be obtained from ABAG, P.O. Box 2050, Oakland, California, 94604.

#### B. Liability for Uninsured Claims

The Town has retained the risk for the deductible or uninsured portion of claims. The Town's liability for uninsured claims at June 30, 2008, estimated by ABAG was not material.

## **TOWN OF LOS ALTOS HILLS**

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

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#### **NOTE 9 – CONTINGENT LIABILITIES**

The Town is subject to litigation arising in the normal course of business. In the opinion of the Town Attorney, there is no pending litigation that is likely to have a material adverse effect on the financial position of the Town.

#### **NOTE 10 – NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has issued Statement No. 49, “Accounting and Financial Reporting for pollution remediation obligations,” which provides guidance on how to calculate and report the costs and obligations associated with pollution clean up efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007. The Town does not expect that the implementation of this statement will have a significant impact on its financial statements.

The GASB has issued Statement No. 51, “Accounting and Financial Reporting for Intangible Assets.” This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The Town does not expect that the implementation of this statement will have a significant impact on its financial statements.

In June 2008, GASB issued GASBS No. 53, “Accounting and Financial Reporting for Derivative Instruments.” This Statement is intended to improve how State and local governments report information about derivative instruments- financial arrangements used by governments to manage specific risks or make investments- in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The Town does not expect that the implementation of this Statement will have a significant impact on its financial statements.

#### **NOTE 11 – ACCOUNTING AND REPORTING CHANGE**

The GASB has also issued Statement No. 48, “Sales and pledges of receivables and future revenue and intra-entity transfers of assets and future revenue.” This statement establishes the criteria that governments will use to ascertain whether certain transactions should be regarded as sales or collateralized borrowing. The statement also includes disclosure requirements for future revenues that are pledge or sold. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2006. The Town has implemented this Statement with no significant impact on its financial statements.

The GASB has issued Statement No. 50, “Pension Disclosures- amendments of GASB Statement No. 25 and No. 27.” This statement more closely aligns the financial reporting requirements for pensions with those for other

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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### NOTE 11 – ACCOUNTING AND REPORTING CHANGE (CONTINUED)

post employment benefits (OPEB) and, in doing so, enhances information disclosed noted to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The Town has implemented this Statement without any significant impact on its financial statements.

In July 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. This Statement requires local governmental employers who provide other post-employment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. It establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of the local governmental employer.

The Statement provides for prospective implementation, i.e. employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The Town has implemented the provisions of this Statement for the fiscal year ended on June 30, 2008 prospectively.

### NOTE 12 – OTHER POST EMPLOYMENT BENEFITS

#### A. Plan Description

The Town's single-employer defined benefit Other Post Employment Benefit (OPEB) Plan provides postretirement healthcare benefits to eligible employees who retire directly from the Town. The Town pays healthcare coverage up to a cap (dependent of coverage) for eligible retirees. Healthcare coverage is with PEMHCA (CalPERS medical program). Dental and vision benefits are not available to retirees. In fiscal year 2007-08, the Town of Los Altos Hill elected to prefund its OPEB liabilities in an irrevocable trust established through California Public Employees Retirement System. The Prefunding Plan (sometimes also referred to as CERBT) is a multi-employer benefit trust fund which is administered by the CalPERS Board of Administration. The trust will be used to accumulate and invest assets necessary to pay for healthcare costs and administrative costs of the Prefunding Plan.

Copies of the Fund's annual financial report may be obtained from the CalPERS' executive office: 400 P Street, Sacramento, California, 95814.

#### B. Funding Policy

Annual required contributions (ARC) are based upon actuarial valuations. The contribution requirements of the ARC are established and may be amended by the Town Council. Plan members do not make contributions to the plan.

#### C. Annual Post Employment Benefit Cost and Net Post Employment Benefit Obligation

The Town's annual OPEB cost (expense) is calculated based upon the ARC, an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding



**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years.

Based upon the valuation dated June 30, 2007, the most recent valuation available, the actuarially required ARC was \$203,000. The components of annual OPEB cost for the current fiscal year, amount actually contributed, and the changes in net post employment benefit obligation are shown in the following table.

<b>(amounts in 000's)</b>	<b>June 30, 2008</b>
Normal Cost at Year End	\$ 78
Amortization of UAAL	125
Annual Required Contribution	203
Interest on Prior Year Net OPEB Obligation	-
Amortization of NOO	-
Annual OPEB Cost	203
Contributions Made	381
Increase (Decrease) in Net OPEB Obligation	(178)
Net OPEB Obligation (Asset)- Beginning of Year	-
Net OPEB Obligation (Asset)- End of Year	\$ (178)

**D. Plan Funded Status and Funding Progress**

This is first year that the Town is following the reporting requirements of GASB 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension Plans. The Town has elected to implement GASB 45 prospectively and therefore shows no OPEB obligation at transition. The Town’s annual OPEB cost (expense) equal to the ARC, the percentage of OPEB cost contributed to the plan, and the Net OPEB obligation for 2008 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost (amount expressed in thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset) (amount expressed in thousands)
June 30, 2006	N/A	N/A	N/A
June 30, 2007	N/A	N/A	N/A
June 30, 2008	\$203	188%	(\$178)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the profitability of occurrence of events far into the future. Examples include assumptions about future

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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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

### NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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 multiyear trend information that shows 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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used included 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.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal cost method. The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits. The unfunded AAL is amortized over 20 years as a level percent of payroll beginning with 2007-08 fiscal year. The Town Retiree Healthcare Plan is assumed to meet the GASB 45 definition of a community rated plan. Therefore, no implied subsidy was determined for this valuation. The actuarial assumptions included a 7.75% investment rate of return, and the Town contributing at least the ARC to the CalPERS OPEB trust. The inflation rate was assumed to be constant at 3% per year. Aggregate payroll increases assumed to be 3.25% per year. The demographics for salary merit, longevity increases, terminations, mortality, disability, and retirement were based upon the CalPERS 1997-2002 Experience Study Rates. Participation in the Plan was assumed to be 100%. Healthcare costs trends included a 10.4% increase for HMO and 11.3% increase for PPO plans for Non-Medicare eligible premiums. Medicare eligible premiums included a 10.8% increase for HMO and 11.7% increase for PPO. Future years were reduced by decrements of 0.7%-0.8% per year to an ultimate rate of 4.5% for HMO and PPO plans by year 2017. It is assumed that everyone will be eligible for Medicare and will elect Part B coverage. Retirees will choose same medical plan as active employees. The age for females assumed to be three years younger than males. Current marital status is assumed for all employees and retirees. 10% of the Pre-65 and 0% of post-65 members were assumed to have dependents. No current member of the City Council was assumed to be eligible for retiree healthcare benefits.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE 13 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Excess of expenditures over appropriations**

Excess of expenditures over appropriations approved by the Town Council occurred in individual funds during the fiscal year 2007-2008 as follows:

Fund	Expenditures	Appropriations	Excess Expenditures Over Appropriations
Street Capital Project Fund	\$ 1,379,404	\$ 1,300,000	\$ 79,404
Parks and Recreation Facility Fund	125,015	113,457	11,558
Citizen's Option for Public Safety (COPS)	185,664	171,606	14,058

**B. Deficit fund equity**

The Parks and Recreation Facilities fund had a deficit fund balance of \$6,113 as of June 30, 2008. The fund has cumulative incurred expenses in excess of revenues generated. Town management believes that future net revenues will offset this deficit. If actual net revenues are not enough to cover this deficit, the Town's general fund will cover the deficit.

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***REQUIRED SUPPLEMENTARY INFORMATION***

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property tax	\$ 3,247,000	\$ 3,247,000	\$ 3,205,734	\$ (41,266)
Taxes other than property	476,945	476,945	434,126	(42,819)
Franchise fees	358,500	358,500	389,224	30,724
Licenses and permits	724,598	723,598	668,489	(55,109)
Intergovernmental	91,500	91,500	146,061	54,561
Use of money and property	517,643	517,643	744,677	227,034
Charges for services	604,500	604,500	605,076	576
Miscellaneous	88,100	88,100	125,554	37,454
Total Revenues	<u>6,108,786</u>	<u>6,107,786</u>	<u>6,318,941</u>	<u>211,155</u>
<b>EXPENDITURES</b>				
Current:				
Administration	1,385,477	1,441,527	1,345,356	96,171
Public safety	932,300	932,300	875,868	56,432
Community development	1,902,500	1,928,150	1,855,950	72,200
Parks and recreation	197,078	199,103	229,246	(30,143)
Total Expenditures	<u>4,417,355</u>	<u>4,501,080</u>	<u>4,306,420</u>	<u>194,660</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,691,431</u>	<u>1,606,706</u>	<u>2,012,521</u>	<u>405,815</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	384,799	384,799	278,824	(105,975)
Transfers out	(2,546,539)	(3,515,254)	(3,515,254)	-
Total Other Financing Sources (Uses)	<u>(2,161,740)</u>	<u>(3,130,455)</u>	<u>(3,236,430)</u>	<u>(105,975)</u>
Net Change in Fund Balance	(470,309)	(1,523,749)	(1,223,909)	299,840
Fund Balance, Beginning of Year	<u>5,788,511</u>	<u>5,788,511</u>	<u>5,788,511</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 5,318,202</u>	<u>\$ 4,264,762</u>	<u>\$ 4,564,602</u>	<u>\$ 299,840</u>

See note to required supplementary information.

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF FUNDING PROGRESS- OTHER POST EMPLOYMENT BENEFITS  
FOR THE YEAR ENDED JUNE 30, 2008**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a) (Amounts expressed in thousands)	Actuarial Value of Assets (b) (Amounts expressed in thousands)	Unfunded AAL (UAAL) (a) - (b) (Amounts expressed in thousands)	Funded Ratio (b)/(a)	Annual Covered Payroll ( c ) (Amounts expressed in thousands)	UAAL As a Percentage of Covered Payroll [(a)-(b)]/( c )
6/30/2005	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2006	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2007	\$1,594	\$ -	\$1,594	0%	\$1,431	111.4%

See note to required supplementary information.

# TOWN OF LOS ALTOS HILLS

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

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### 1- BUDGETARY BASIS OF ACCOUNTING

The Town follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are held to obtain taxpayer comments.
3. The budget is legally enacted through passage of a minute order.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that increase total expenditures of any fund must be approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the fund level without City Council approval.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Amounts presented include amendments approved by the City Council.

### 2- SCHEDULE OF FUNDING PROGRESS- OTHER POST EMPLOYMENT BENEFIT PLAN

This schedule shows the funding progress for the Town's Other Post Employment Benefits as required by current standards.



Combining Statements  
and  
Individual Fund Statements

## TOWN OF LOS ALTOS HILLS

### NON MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

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#### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Storm Drain - This fund is used to account for revenues from drainage fees which are designated for storm drain maintenance, improvement, and construction

Pathway In-Lieu Fee - This fund is used to account for revenues from pathway in-lieu fees which are designated for pathway maintenance, improvement, and construction.

Parks and Recreation Facilities Fee - This fund is used to account for revenues from parks and recreation facilities fees which are designated for park facilities maintenance, improvement, and construction.

Parks and Recreation In-Lieu Fee - This fund is used to account for revenues from parks and recreation in-lieu fees which are designated for park maintenance, improvement, and construction.

Street - This fund is used to account for gas tax revenues and fees for street excavation which are designated for street maintenance, improvement, and construction.

Roadway Impact Fee - This fund is used to account for roadway impact fees which are collected in connection with building permits and refuse collection accounts. The fees are transferred to the Street Operations and Street Capital Projects Funds and designated for street maintenance, improvement, and construction.

Citizens' Option for Public Safety (COPS) - This fund is used to account for revenues from the Citizens' Option for Public Safety program which are designated for public safety.

California Law Enforcement Equipment Program (CLEEP) - This fund is used to account for public safety activities funded by the California Law Enforcement Equipment Program.

**TOWN OF LOS ALTOS HILLS  
COMBINING BALANCE SHEET  
NON MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008**

Special Revenue Funds													Total
ASSETS	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	CLEEP	Nonmajor Governmental				
Cash and investments	\$ 205,889	\$ 209,703	\$ -	\$ 34,203	\$ 205,067	\$ 43,504	\$ 159,416	\$ 17,758	\$ 875,540				
Accounts receivable	-	-	7,665	-	37,664	18,378	1,913	-	65,620				
Interest receivable	-	721	-	-	794	-	272	33	1,820				
<b>Total Assets</b>	<b>\$ 205,889</b>	<b>\$ 210,424</b>	<b>\$ 7,665</b>	<b>\$ 34,203</b>	<b>\$ 243,525</b>	<b>\$ 61,882</b>	<b>\$ 161,601</b>	<b>\$ 17,791</b>	<b>\$ 942,980</b>				
<b>LIABILITIES AND FUND BALANCES</b>													
<b>LIABILITIES</b>													
Accounts payable	-	8,920	7,926	-	7,508	-	31,662	-	56,016				
Other liabilities	-	1	1	-	-	-	-	-	2				
Due to other funds	-	-	5,851	-	-	-	-	-	5,851				
<b>Total Liabilities</b>	<b>-</b>	<b>8,921</b>	<b>13,778</b>	<b>-</b>	<b>7,508</b>	<b>-</b>	<b>31,662</b>	<b>-</b>	<b>61,869</b>				
<b>FUND BALANCES</b>													
Reserved for:													
Highways and streets	205,889	-	-	-	236,017	61,882	-	-	503,788				
Public safety	-	-	-	-	-	-	129,939	17,791	147,730				
Parks and recreation	-	201,503	(6,113)	34,203	-	-	-	-	229,593				
<b>Total Fund Balances</b>	<b>205,889</b>	<b>201,503</b>	<b>(6,113)</b>	<b>34,203</b>	<b>236,017</b>	<b>61,882</b>	<b>129,939</b>	<b>17,791</b>	<b>881,111</b>				
<b>Total Liabilities and Fund Balances</b>	<b>\$ 205,889</b>	<b>\$ 210,424</b>	<b>\$ 7,665</b>	<b>\$ 34,203</b>	<b>\$ 243,525</b>	<b>\$ 61,882</b>	<b>\$ 161,601</b>	<b>\$ 17,791</b>	<b>\$ 942,980</b>				

**TOWN OF LOS ALTOS HILLS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NON MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Special Revenue Funds										Total Nonmajor Governmental Funds	
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	CLEEP				
<b>REVENUES</b>												
License and permits	\$ -	\$ -	\$ -	\$ -	\$ 25,475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,475
Intergovernmental	-	-	-	-	167,348	-	-	101,913	-	-	-	269,261
Use of money and property	-	300	245	6,093	50,267	-	-	11,949	1,268	-	-	70,122
Charges for services	197,714	149,947	7,700	24,640	49,945	361,882	-	-	-	-	-	791,828
<b>Total Revenues</b>	<b>197,714</b>	<b>150,247</b>	<b>7,945</b>	<b>30,733</b>	<b>293,035</b>	<b>361,882</b>	<b>113,862</b>	<b>1,268</b>	<b>1,268</b>	<b>1,156,686</b>		
<b>EXPENDITURES</b>												
Current:												
Public safety	-	-	-	-	-	-	-	185,664	5,737	-	-	191,401
Parks and recreation	-	235,967	125,015	-	-	-	-	-	-	-	-	360,982
Drainage and street operations	161,192	-	-	-	264,387	-	-	-	-	-	-	425,579
<b>Total Expenditures</b>	<b>161,192</b>	<b>235,967</b>	<b>125,015</b>	<b>-</b>	<b>264,387</b>	<b>-</b>	<b>185,664</b>	<b>5,737</b>	<b>5,737</b>	<b>977,962</b>		
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>36,522</b>	<b>(85,720)</b>	<b>(117,070)</b>	<b>30,733</b>	<b>28,648</b>	<b>361,882</b>	<b>(71,802)</b>	<b>(4,469)</b>	<b>(4,469)</b>	<b>178,724</b>		
<b>OTHER FINANCING SOURCES (USES)</b>												
Transfers in	164,673	138,349	110,957	-	111,166	-	-	-	-	-	-	525,145
Transfers out	-	-	-	(90,000)	-	(300,000)	-	-	-	-	-	(390,000)
<b>Total Other Financing Sources (Uses)</b>	<b>164,673</b>	<b>138,349</b>	<b>110,957</b>	<b>(90,000)</b>	<b>111,166</b>	<b>(300,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135,145</b>		
<b>Net Change in Fund Balances</b>	<b>201,195</b>	<b>52,629</b>	<b>(6,113)</b>	<b>(59,267)</b>	<b>139,814</b>	<b>61,882</b>	<b>(71,802)</b>	<b>(4,469)</b>	<b>(4,469)</b>	<b>313,869</b>		
<b>Fund Balances, Beginning of year</b>	<b>4,694</b>	<b>148,874</b>	<b>-</b>	<b>93,470</b>	<b>96,203</b>	<b>-</b>	<b>201,741</b>	<b>22,260</b>	<b>22,260</b>	<b>567,242</b>		
<b>Fund Balances, End of Year</b>	<b>\$ 205,889</b>	<b>\$ 201,503</b>	<b>\$ (6,113)</b>	<b>\$ 34,203</b>	<b>\$ 236,017</b>	<b>\$ 61,882</b>	<b>\$ 129,939</b>	<b>\$ 17,791</b>	<b>\$ 17,791</b>	<b>\$ 881,111</b>		

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
STORM DRAIN FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 125,000	\$ 125,000	\$ 197,714	\$ 72,714
Total Revenues	125,000	125,000	197,714	72,714
<b>EXPENDITURES</b>				
Current:				
Drainage operations	289,674	289,674	161,192	128,482
Total Expenditures	289,674	289,674	161,192	128,482
Excess (Deficiency) of Revenues Over Expenditures	(164,674)	(164,674)	36,522	201,196
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	164,673	164,673	164,673	-
Total Other Financing Sources (Uses)	164,673	164,673	164,673	-
Net Change in Fund Balance	(1)	(1)	201,195	201,196
Fund Balance, Beginning of Year	4,694	4,694	4,694	-
Fund Balance, End of Year	\$ 4,693	\$ 4,693	\$ 205,889	\$ 201,196

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE – BUDGET AND ACTUAL  
PATHWAY IN-LIEU FEES FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ 20,000	\$ 20,000	\$ 300	\$ (19,700)
Charges for services	75,000	75,000	149,947	74,947
Total Revenues	95,000	95,000	150,247	55,247
<b>EXPENDITURES</b>				
Current:				
Parks and recreation	308,444	308,444	235,967	72,477
Total Expenditures	308,444	308,444	235,967	72,477
Excess (Deficiency) of Revenues Over Expenditures	(213,444)	(213,444)	(85,720)	127,724
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	138,349	138,349	138,349	-
Total Other Financing Sources (Uses)	138,349	138,349	138,349	-
Net Change in Fund Balance	(75,095)	(75,095)	52,629	127,724
Fund Balance, Beginning of Year	148,874	148,874	148,874	-
Fund Balance, End of Year	\$ 73,779	\$ 73,779	\$ 201,503	\$ 127,724

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE – BUDGET AND ACTUAL  
PARKS AND RECREATION FACILITIES FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money & property	\$ 2,500	\$ 2,500	\$ 245	\$ (2,255)
Charges for services	-	-	7,700	7,700
Total Revenues	2,500	2,500	7,945	5,445
<b>EXPENDITURES</b>				
	113,457	113,457	125,015	(11,558)
Excess (Deficiency) of Revenues Over Expenditures	(110,957)	(110,957)	(117,070)	(6,113)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	110,957	110,957	110,957	-
Total Other Financing Sources (Uses)	110,957	110,957	110,957	-
Net Change in Fund Balance	-	-	(6,113)	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ (6,113)	\$ (6,113)

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE – BUDGET AND ACTUAL  
PARKS AND RECREATION IN LIEU FEES FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money & property	\$ 2,000	\$ 2,000	\$ 6,093	\$ 4,093
Charges for services	-	-	24,640	24,640
Total Revenues	2,000	2,000	30,733	28,733
<b>EXPENDITURES</b>				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	2,000	2,000	30,733	28,733
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(90,000)	(90,000)	(90,000)	-
Total Other Financing Sources (Uses)	(90,000)	(90,000)	(90,000)	-
Net Change in Fund Balance	(88,000)	(88,000)	(59,267)	28,733
Fund Balance, Beginning of Year	93,470	93,470	93,470	-
Fund Balance, End of Year	\$ 5,470	\$ 5,470	\$ 34,203	\$ 28,733



**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ 20,000	\$ 20,000	\$ 25,475	\$ 5,475
Intergovernmental	169,000	169,000	167,348	(1,652)
Use of money and property	40,000	40,000	50,267	10,267
Charges for services	45,000	45,000	49,945	4,945
<b>Total Revenues</b>	<b>274,000</b>	<b>274,000</b>	<b>293,035</b>	<b>19,035</b>
<b>EXPENDITURES</b>				
Current:				
Street operations	385,166	385,166	264,387	120,779
<b>Total Expenditures</b>	<b>385,166</b>	<b>385,166</b>	<b>264,387</b>	<b>120,779</b>
Excess (Deficiency) of Revenues Over Expenditures	(111,166)	(111,166)	28,648	(101,744)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	111,166	111,166	111,166	-
<b>Total Other Financing Sources (Uses)</b>	<b>111,166</b>	<b>111,166</b>	<b>111,166</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>139,814</b>	<b>139,814</b>
Fund Balance, Beginning of Year	96,203	96,203	96,203	-
<b>Fund Balance End of Year</b>	<b>\$ 96,203</b>	<b>\$ 96,203</b>	<b>\$ 236,017</b>	<b>\$ 139,814</b>

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 ROADWAY IMPACT FEE FUND  
 FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 300,000	\$ 300,000	\$ 361,882	\$ 61,882
Total Revenues	300,000	300,000	361,882	61,882
<b>EXPENDITURES</b>				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	300,000	300,000	361,882	61,882
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(300,000)	(300,000)	(300,000)	-
Total Other Financing Sources (Uses)	(300,000)	(300,000)	(300,000)	-
Net Change in Fund Balance	-	-	61,882	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ 61,882	\$ 61,882

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 CITIZEN’S OPTION FOR PUBLIC SAFETY (COPS)  
 FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 101,913	\$ 1,913
Use of money and property	14,400	14,400	11,949	(2,451)
Total Revenues	114,400	114,400	113,862	(538)
<b>EXPENDITURES</b>				
Current:				
Public safety	140,286	171,606	185,664	(14,058)
Total Expenditures	140,286	171,606	185,664	(14,058)
Excess (Deficiency) of Revenues Over Expenditures	(25,886)	(57,206)	(71,802)	(14,596)
Fund Balance, Beginning of Year	201,741	201,741	201,741	-
Fund Balance, End of Year	\$ 175,855	\$ 144,535	\$ 129,939	\$ (14,596)

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 CALIFORNIA LAW ENFORCEMENT EQUIPMENT PROGRAM (CLEEP)  
 FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ -	\$ -	\$ 1,268	\$ 1,268
Total Revenues	-	-	1,268	1,268
<b>EXPENDITURES</b>				
Current:				
Public safety	12,728	12,728	5,737	6,991
Total Expenditures	12,728	12,728	5,737	6,991
Excess (Deficiency) of Revenues Over Expenditures	(12,728)	(12,728)	(4,469)	8,259
Fund Balance, Beginning of Year	22,260	22,260	22,260	-
Fund Balance, End of Year	\$ 9,532	\$ 9,532	\$ 17,791	\$ 8,259

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
<b>EXPENDITURES</b>				
Current:				
Debt service				
Principial	121,470	121,470	121,470	
Interest	89,846	89,846	89,846	-
	211,316	211,316	211,316	-
Excess (Deficiency) of Revenues Over Expenditures	(211,316)	(211,316)	(211,316)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	211,316	211,316	211,316	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	211,316	211,316	211,316	-
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance End of Year	\$ -	\$ -	\$ -	\$ -

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
STREET CAPITAL PROJECT FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ -	\$ -	\$ 914,361	\$ 914,361
EXPENDITURES				
Capital outlay	1,300,000	1,300,000	1,379,404	(79,404)
Total Expenditures	1,300,000	1,300,000	1,379,404	(79,404)
Excess (Deficiency) of Revenues Over Expenditures	(1,300,000)	(1,300,000)	(465,043)	834,957
OTHER FINANCING SOURCES (USES)				
Transfers in	1,300,000	1,300,000	1,300,000	-
Total Other Financing Sources (Uses)	1,300,000	1,300,000	1,300,000	-
Net Change in Fund Balance	-	-	834,957	834,957
Fund Balance, Beginning of Year	778,024	778,024	778,024	-
Fund Balance, End of Year	\$ 778,024	\$ 778,024	\$ 1,612,981	\$ 834,957

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
OTHER CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ 1,786,000	\$ 1,786,000	\$ 612,626	\$ (1,173,374)
EXPENDITURES				
Capital outlay:				
General CIP	90,000	1,301,200	154,727	1,146,473
Pathways	1,350,000	2,004,680	904,819	1,099,861
Westwind Barn Projects	36,000	1,228,010	128,997	1,099,013
Drainage	150,000	150,000	12,965	137,035
Undergrounding Utilities	900,000	900,000	588,742	311,258
Total Expenditures	2,526,000	5,583,890	1,790,250	3,793,640
Excess (Deficiency) of Revenues Over Expenditures	(740,000)	(3,797,890)	(1,177,624)	2,620,266
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	1,430,776	1,430,776	-
Transfers in	740,000	1,706,690	1,706,690	-
Total Other Financing Sources (Uses)	740,000	1,706,690	3,137,466	-
Net Change in Fund Balance	-	(2,091,200)	1,959,842	4,051,042
Fund Balance, Beginning of Year	1,026,053	1,026,053	1,026,053	-
Fund Balance, End of Year	\$ 1,026,053	\$ (1,065,147)	\$ 2,985,895	\$ 4,051,042



*Town Hall's Heritage Oak*

## Statistical Section

This part of the Town of Los Altos Hills comprehensive annual financial report presents detailed information as a context of understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health. The data contained within these tables have been pulled from the Town's financial statements, unless otherwise noted, and is not audited by the Town's independent auditor.

<b>Contents</b>	<b>Page</b>
<i>Financial Trends</i>	85
<p>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</p>	
<i>Revenue Capacity</i>	89
<p>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</p>	
<i>Debt Capacity</i>	93
<p>These schedules contain information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.</p>	
<i>Demographic and Economic Information</i>	96
<p>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.</p>	
<i>Operating Information</i>	99
<p>These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.</p>	



**TOWN OF LOS ALTOS HILLS**

**NET ASSETS BY COMPONENT  
LAST FIVE FISCAL YEARS  
(Accrual Basis of Accounting)**

	2004*	2005	2006	2007	2008
Governmental activities:					
Invested in capital assets, net of related debt	\$ 19,420,199	\$ 20,346,535	\$ 19,272,946	\$ 19,777,871	\$ 21,225,843
Restricted	746,110	1,348,592	1,090,633	1,102,922	651,518
Unrestricted	7,609,237	5,640,439	6,844,268	7,372,911	9,719,357
 Total governmental activities net assets	 \$ 27,775,546	 \$ 27,335,566	 \$ 27,207,847	 \$ 28,253,704	 \$ 31,596,718
 Business-type activities:					
Invested in capital assets, net of related debt	\$ 539,575	\$ 662,208	\$ 974,302	\$ 1,155,552	\$ 1,172,175
Restricted					
Unrestricted	3,023,622	3,090,517	2,650,690	2,301,817	2,745,457
 Total business-type activities net assets	 \$ 3,563,197	 \$ 3,752,725	 \$ 3,624,992	 \$ 3,457,369	 \$ 3,917,632
 Primary government:					
Invested in capital assets, net of related debt	\$ 19,959,774	\$ 21,008,743	\$ 20,247,248	\$ 20,933,423	\$ 22,398,018
Restricted	746,110	1,348,592	1,090,633	1,102,922	651,518
Unrestricted	10,632,859	8,730,956	9,494,958	9,674,728	12,464,814
 Total net assets	 \$ 31,338,743	 \$ 31,088,291	 \$ 30,832,839	 \$ 31,711,073	 \$ 35,514,350

\* The Town of Los Altos Hills implemented GASB 34 for the fiscal year ended June 30, 2004. Information prior to the implementation of GASB 34 is not available.

# TOWN OF LOS ALTOS HILLS

## CHANGES IN NET ASSETS LAST FIVE FISCAL YEARS (Accrual Basis of Accounting)

	2004*	2005	2006	2007	2008
<b>Expenses:</b>					
Governmental activities:					
Administration	\$ 1,363,115	\$ 1,798,562	\$ 1,916,042	\$ 1,979,197	\$ 1,834,475
Public safety	1,092,757	1,263,433	1,221,699	1,333,011	1,381,626
Community development	1,933,150	2,142,334	2,123,580	2,377,965	2,522,067
Parks and recreation	500,327	442,717	557,503	703,112	802,066
Drainage and street operations	523,813	473,206	535,985	664,229	578,324
Interest on long-term debt					88,539
Total governmental activities expenses	5,413,162	6,120,252	6,354,809	7,057,514	7,207,097
Business-type activities:					
Sewer	690,803	689,701	889,866	1,005,104	1,080,206
Solid waste	1,399,888	1,336,329	1,479,694	1,440,098	1,512,251
Total business-type activities expenses	2,090,691	2,026,030	2,369,560	2,445,202	2,592,457
Total primary government expenses	7,503,853	8,146,282	8,724,369	9,502,716	9,799,554
<b>Program revenues:</b>					
Governmental activities:					
Charges for services:					
Administration	-	-	-	-	-
Public safety	4,560	6,932	10,783	14,651	13,217
Community development	1,093,020	1,022,833	1,061,923	1,095,175	1,255,246
Parks and recreation	196,883	135,184	290,494	279,008	234,258
Drainage and street operations	297,575	278,074	434,090	727,329	722,151
Operating contributions and grants	261,239	262,570	304,114	536,042	1,292,756
Total governmental activities program revenues	1,853,277	1,705,593	2,101,404	2,652,205	3,517,628
Business-type activities:					
Charges for services:					
Sewer	933,900	894,156	983,196	1,136,302	1,511,372
Solid waste	1,481,916	1,400,422	1,411,507	1,399,347	1,472,296
Operating contributions and grants	10,299	7,198	4,900	6,107	7,270
Total business-type activities program revenues	2,426,115	2,301,776	2,399,603	2,541,756	2,990,938
Total primary government program revenues	4,279,392	4,007,369	4,501,007	5,193,961	6,508,566
<b>Net revenues (expenses)</b>					
Government activities	(3,559,885)	(4,414,659)	(4,253,405)	(4,405,309)	(3,689,469)
Business-type activities	335,424	275,746	30,043	96,554	398,481
Total net revenues (expenses)	(3,224,461)	(4,138,913)	(4,223,362)	(4,308,755)	(3,290,988)
<b>General revenues and other changes in net assets:</b>					
Governmental revenues:					
Taxes					
Property taxes	1,983,951	2,336,506	2,492,070	2,998,724	3,216,837
Other taxes	445,996	448,831	493,145	536,746	477,705
Franchise fees	318,134	318,606	336,798	371,717	389,224
Sale of Capital Assets-net					1,430,776
Use of money and property	216,036	271,826	325,514	521,425	744,677
Other intergovernmental revenue	32,552	29,826	94,276	513,899	502,482
Other unrestricted revenue	191,179	408,993	123,235	113,700	154,061
Transfers	481,199	160,090	260,648	394,955	116,721
Total governmental activities	3,669,047	3,974,678	4,125,686	5,451,166	7,032,483
Business-type activities:					
Use of money and property	48,367	73,872	102,872	130,778	178,503
Transfers	(481,199)	(160,090)	(260,648)	(394,955)	(116,721)
Total business-type activities	(432,832)	(86,218)	(157,776)	(264,177)	61,782
Total primary government	3,236,215	3,888,460	3,967,910	5,186,989	7,094,265
<b>Changes in net assets</b>					
Governmental activities	109,162	(439,981)	(127,719)	1,045,857	3,343,014
Business-type activities	(97,408)	189,528	(127,733)	(167,623)	460,263
Total primary government	\$ 11,754	\$ (250,453)	\$ (255,452)	\$ 878,234	\$ 3,803,277

\* The Town of Los Altos Hills implemented GASB 34 for the fiscal year ended June 30, 2004. Information prior to the implementation of GASB 34 is not available.

**TOWN OF LOS ALTOS HILLS**

**FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST SIX FISCAL YEARS  
(Modified Accrual Basis of Accounting)**

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Fund						
Unreserved	\$ 6,090,150	\$ 6,643,435	\$ 4,578,537	\$ 5,302,083	\$ 5,788,511	\$ 4,564,602
Total General Fund	<u>\$ 6,090,150</u>	<u>\$ 6,643,435</u>	<u>\$ 4,578,537</u>	<u>\$ 5,302,083</u>	<u>\$ 5,788,511</u>	<u>\$ 4,564,602</u>
All other governmental funds						
Reserved	\$ 1,915,645	\$ 746,110	\$ 1,686,036	\$ 1,481,409	\$ 1,345,266	\$ 881,111
Unreserved, reported in:						
Debt service funds	-	-	-	5,570	-	-
Other capital projects	574,212	948,575	772,564	981,714	1,026,053	4,598,876
Total all other governmental funds	<u>\$ 2,489,857</u>	<u>\$ 1,694,685</u>	<u>\$ 2,458,600</u>	<u>\$ 2,468,693</u>	<u>\$ 2,371,319</u>	<u>\$ 5,479,987</u>

**TOWN OF LOS ALTOS HILLS**

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST SIX FISCAL YEARS  
(Modified Accrual Basis of Accounting)**

	<b>Fiscal Year</b>					
	2003	2004	2005	2006	2007	2008
<b>Revenues:</b>						
Property taxes	\$ 1,519,938	\$ 1,559,489	\$ 1,756,344	\$ 2,433,918	\$ 2,991,481	\$ 3,205,734
Taxes other than property	368,124	445,996	448,831	493,145	536,746	434,126
Franchise fees	299,122	318,134	318,606	336,798	371,717	389,224
Licenses and permits	509,450	485,901	416,060	472,344	519,492	693,964
Intergovernmental	851,200	714,963	867,516	448,633	1,049,941	1,838,817
Use of money and property	302,909	238,372	309,951	388,826	657,793	851,667
Charges for services	742,172	1,089,494	1,001,407	1,255,116	1,426,492	1,396,904
Miscellaneous	26,164	186,276	405,258	137,662	154,751	192,178
<b>Total revenues</b>	<b>4,619,079</b>	<b>5,038,625</b>	<b>5,523,973</b>	<b>5,966,442</b>	<b>7,708,413</b>	<b>9,002,614</b>
<b>Expenditures</b>						
<b>Current:</b>						
Administration	1,031,408	961,362	1,088,855	1,219,107	1,589,309	1,345,356
Public safety	786,471	753,254	911,093	918,444	1,036,511	1,067,269
Community development	1,320,757	1,351,716	1,544,585	1,547,665	1,773,386	1,855,950
Parks and recreation	323,147	336,581	344,137	389,528	527,075	590,228
Drainage and street operation	403,093	340,100	298,950	377,243	474,274	425,579
<b>Debt service:</b>						
Principal	-	-	-	61,220	116,092	121,470
Interest	-	-	-	145,113	95,224	89,846
Capital outlay	1,564,571	1,662,850	385,542	995,131	2,199,242	3,169,654
<b>Total expenditures</b>	<b>5,429,447</b>	<b>5,405,863</b>	<b>4,573,162</b>	<b>5,653,451</b>	<b>7,811,113</b>	<b>8,665,352</b>
Excess (deficiency) of revenues over (under) expenditures	(810,368)	(367,238)	950,811	312,991	(102,700)	337,262
<b>Other financing sources (uses)</b>						
Sale of assets	-	-	-	-	-	1,430,776
Transfers in	544,526	650,690	6,058,436	1,532,618	2,484,132	4,021,974
Transfers out	(334,579)	(726,530)	(10,310,230)	(1,271,970)	(2,089,178)	(3,905,254)
Proceeds from debt	-	-	2,000,000	160,000	-	-
<b>Other financing sources (uses)</b>	<b>209,947</b>	<b>(75,840)</b>	<b>(2,251,794)</b>	<b>420,648</b>	<b>394,954</b>	<b>1,547,496</b>
<b>Net change in fund balances</b>	<b>\$ (600,421)</b>	<b>\$ (443,078)</b>	<b>\$ (1,300,983)</b>	<b>\$ 733,639</b>	<b>\$ 292,254</b>	<b>\$ 1,884,758</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>4.6%</b>	<b>3.9%</b>	<b>4.0%</b>

New Town Hall facility constructed during fiscal year 2005 accounts for the increase in other financing sources (uses).

*The Town of Los Altos Hills has elected to show data for this schedule beginning with the fiscal year ending June 30, 2003.*

# TOWN OF LOS ALTOS HILLS

## ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXATION PROPERTY LAST TEN YEARS

Fiscal year ended June 30	Population	Secured roll	Unsecured roll	Less exemptions	Taxable assessed value	Total direct tax rate	% change in assessed value
1999	8,247	1,851,137,776	3,019,252	16,643,200	1,870,800,228	0.055%	10.62%
2000	8,303	2,037,655,349	3,045,812	16,471,000	2,057,172,161	0.057%	9.96%
2001	8,017	2,375,386,522	2,985,878	16,357,600	2,394,730,000	0.052%	16.41%
2002	8,007	2,891,880,818	3,043,270	15,944,600	2,910,868,688	0.051%	21.55%
2003	8,229	2,958,895,468	3,999,356	15,829,800	2,978,724,624	0.051%	2.33%
2004	8,355	3,160,236,659	3,751,759	15,495,200	3,179,483,618	0.049%	6.74%
2005	8,452	3,423,691,589	4,494,454	15,596,000	3,443,782,043	0.051%	8.31%
2006	8,482	3,765,613,915	3,401,643	15,335,600	3,784,351,158	0.064%	9.89%
2007	8,607	4,092,720,187	3,994,564	15,283,800	4,111,998,551	0.073%	8.66%
2008	8,837	4,357,239,311	12,144,678	15,300,600	4,384,684,589	0.073%	6.63%

*The total direct tax rate is computed by dividing the amount of property tax revenue recognized in the financial statements by the taxable assessed value.*

*Note: In fiscal year 2008, property tax revenue increased by \$214,253 over the prior fiscal year. This increase resulted from property sales which increased assessed valuation.*

Source: Santa Clara County Tax Rates and Information Publication (2007 - 2008)

**TOWN OF LOS ALTOS HILLS**

**PROPERTY TAX RATES – DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN YEARS**

<u>Fiscal Year</u>	<u>Basic county-wide levy</u>	<u>School district levy</u>	<u>Santa Clara Valley Water District</u>	<u>County and library retirement</u>	<u>Per hundred \$ total</u>
1999	1.0000	0.0791	0.0060	0.0405	1.1256
2000	1.0000	0.0717	0.0068	0.0343	1.1128
2001	1.0000	0.0887	0.0059	0.0380	1.1326
2002	1.0000	0.0719	0.0053	0.0388	1.1160
2003	1.0000	0.0757	0.0063	0.0412	1.1232
2004	1.0000	0.0726	0.0075	0.0412	1.1213
2005	1.0000	0.0732	0.0086	0.0412	1.1230
2006	1.0000	0.0645	0.0069	0.0412	1.1126
2007	1.0000	0.0915	0.0070	0.0412	1.1397
2008	1.0000	0.0687	0.0070	0.0412	1.1169

Source: County of Santa Clara for tax rate area 14-007 (2003-2008)  
County of Santa Clara for tax rate area 14-010 (1997-2003)

**TOWN OF LOS ALTOS HILLS**

**PRINCIPAL TAXPAYERS  
CURRENT YEAR AND TEN YEAR AGO**

Taxpayer	Type of property	2008		1999	
		Assessed value	Percentage of total assessed valuation	Assessed value	Percentage of total assessed valuation
Taxpayer 1	Single family residential	\$ 28,966,490	0.70%		
Taxpayer 2	Single family residential	20,951,075	0.51%		
Taxpayer 3	Single family residential	20,337,186	0.49%		
Taxpayer 4	Single family residential	18,040,536	0.44%		
Taxpayer 5	Single family residential	17,453,141	0.42%		
Taxpayer 6	Single family residential	17,043,143	0.41%		
Taxpayer 7	Single family residential	15,271,245	0.37%		
Taxpayer 8	Single family residential	13,319,900	0.32%		
Taxpayer 9	Single family residential	12,265,000	0.30%		
Taxpayer 10	Single family residential	12,240,000	0.30%		
Taxpayer A	Single family residential			\$ 8,693,832	0.51%
Taxpayer B	Single family residential			7,076,728	0.42%
Taxpayer C	Single family residential			6,511,187	0.38%
Taxpayer D	Single family residential			6,000,000	0.35%
Taxpayer E	Single family residential			5,457,000	0.32%
Taxpayer F	Single family residential			5,166,697	0.31%
Taxpayer G	Single family residential			4,867,699	0.29%
Taxpayer H	Single family residential			4,779,435	0.28%
Taxpayer I	Single family residential			4,000,000	0.24%
Taxpayer J	Single family residential			3,945,000	0.23%
Totals		<u>\$ 175,887,716</u>	<u>4.28%</u>	<u>\$ 56,497,578</u>	<u>3.34%</u>

*Note: There are no commercial or industrial facilities within Town limits; only one of the top ten principal tax year 1999 is included in the top ten taxpayer list for fiscal year 2008.*

Source: Santa Clara County Assessor 2007 - 2008 (HdL)

**TOWN OF LOS ALTOS HILLS**

**PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS**

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<u>Fiscal Year</u>	<u>Property tax levies and collections</u>	<u>Value of property subject to local tax rate</u>
1999	1,031,964	1,870,800,228
2000	1,168,460	2,057,172,161
2001	1,240,586	2,394,730,000
2002	1,475,773	2,910,868,688
2003	1,519,938	2,978,724,624
2004	1,559,489	3,179,483,618
2005	1,756,344	3,443,782,043
2006	2,433,918	3,784,351,158
2007	2,991,481	4,111,998,551
2008	3,205,734	4,384,684,589

*The County of Santa Clara levies, bills, and collects property taxes for the Town. Under the Teeter Bill, the County remits the entire amount levied and handles the delinquencies, retaining interest and penalties.*

Sources: Santa Clara County Tax Rates and Information  
Publication (2007 - 2008)  
Town of Los Altos Hills financial reports



**TOWN OF LOS ALTOS HILLS**

**RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST FOUR FISCAL YEARS**

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Fiscal Year	Capital lease	Loan	Total governmental activities and primary government	Debt per capita	Population
2005	\$2,000,000		\$ 2,000,000	\$ 237	8,452
2006	1,948,518	\$ 150,263	2,098,781	\$ 247	8,482
2007	1,841,934	\$ 140,755	1,982,689	\$ 230	8,607
2008	1,730,337	\$ 130,882	1,861,219	\$ 211	8,837

*Prior to fiscal year 2005, the Town had no debt. Details regarding the Town's outstanding debt can be found in Note #5 to financial statements.*

*The Town entered into a lease agreement in the amount of \$2,000,000 in September, 2004 to finance the new Town Hall project.*

*The Town received a loan in the amount of \$160,000 during fiscal year 2006 to provide funding for energy conservation features of the new building.*

# TOWN OF LOS ALTOS HILLS

## DIRECT AND OVERLAPPING DEBT FOR THE YEAR ENDED JUNE 30, 2008

2007-08 Assessed Valuation: \$4,384,684,589

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/08	% Applic- able (1)	Town's Share of Debt 6/30/08
Foothill-DeAnza Community College District	\$484,814,288	5.303%	\$25,709,702
Palo Alto Unified School District	100,660,000	7.861	7,912,883
Mountain View-Los Altos Union High School District	38,464,160	12.011	4,619,930
Los Altos School District	97,344,000	21.681	21,105,153
El Camino Hospital District	146,365,000	9.724	14,232,533
North County Library District Special Tax Obligations	1,200,000	34.317	411,804
Santa Clara Valley Water District Benefit Assessment District	165,020,000	1.730	2,854,846
<b>Town of Los Altos Hills</b>	<b>0</b>	<b>100.</b>	<b><u>0</u></b>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b><u>\$76,846,851</u></b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>			
Santa Clara County General Fund Obligations	\$895,655,000	1.730%	\$15,494,832
Santa Clara County Pension Obligations	389,484,822	1.730	6,738,087
Santa Clara County Board of Education Certificates of Participation	15,445,000	1.730	267,199
Foothill-DeAnza Community College District Certificates of Participation	27,685,000	5.303	1,468,136
Mountain View-Los Altos Union High School District Certificates of Participation	7,245,000	12.011	870,197
Santa Clara County Vector Control District Certificates of Participation	4,275,000	1.730	73,958
Midpeninsula Regional Park District General Fund Obligations	104,840,193	3.050	<u>3,197,626</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>			<b><u>\$28,110,035</u></b>
 <b>COMBINED TOTAL DEBT</b>		 (2)	 <b><u>\$104,956,886</u></b>

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the Town.

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

Ratios to 2007-08 Assessed Valuation:

**Direct Debt ..... 0.00%**  
 Total Direct and Overlapping Tax and Assessment Debt .... 1.75%  
 Combined Total Debt ..... 2.39%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

Source: California Municipal Statistics, Inc.

## TOWN OF LOS ALTOS HILLS

### LEGAL DEBT MARGIN INFORMATION LAST TEN FISCAL YEARS

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Fiscal year ended June 30	Total assessed valuation	Bonded debt limit - 15% of assessed valuation	Amount of debt subject to limit	Legal debt margin
1999	1,870,800,228	280,620,034	-	280,620,034
2000	2,057,172,161	308,575,824	-	308,575,824
2001	2,394,730,000	359,209,500	-	359,209,500
2002	2,910,868,688	436,630,303	-	436,630,303
2003	2,978,724,624	446,808,694	-	446,808,694
2004	3,179,483,618	476,922,543	-	476,922,543
2005	3,443,782,043	516,567,306	-	516,567,306
2006	3,784,351,158	567,652,674	-	567,652,674
2007	4,111,998,551	616,799,783	-	616,799,783
2008	4,384,684,589	657,702,688	-	657,702,688

*The Government Code of the State of California limits the amount of general bonded indebtedness for public improvements to 15% of the assessed valuation of all real and personal property of the Town.*

*The Town of Los Altos Hills has no general bonded indebtedness.*

Source: Santa Clara County Tax Rates and Information Publication

**TOWN OF LOS ALTOS HILLS**

**PRINCIPAL EMPLOYERS  
CURRENT YEAR**

Employer	2008	
	Number of Employees	Percent of Total Employment
Foothill Community College	352	62.69%
Pinewood School	62	11.04%
Saint Nicholas School	42	7.48%
Fremont Hills Country Club	30	5.34%
Congregation Beth Am	25	4.45%
Town of Los Altos Hills	21	3.74%
Los Altos School District	21	3.74%
Purissima Hills Water	9	1.51%
Totals	562	100.00%

*The agencies listed above have operated in the Town during the past ten years, however, employment information for prior years is not available. There are no commercial or industrial employers in the Town.*

**TOWN OF LOS ALTOS HILLS**

**FULL TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
LAST SIX FISCAL YEARS**

	<b>Full and Part-Time Employees as of June 30</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Administration	3.30	3.30	3.30	3.30	3.30	3.30
Public safety	1.00	1.00	1.00	1.00	1.00	1.00
Community development	10.20	10.30	10.40	10.40	10.40	10.40
Parks and recreation	1.00	1.00	1.00	1.00	1.00	1.00
Pathways	2.00	2.15	2.02	1.85	1.85	1.85
Drainage and street operations	4.00	3.40	2.00	2.62	2.62	2.62
Sewer	0.85	0.85	0.73	0.83	0.83	0.83
Solid waste	0.10	0.10	0.05	0.10	0.10	0.10
	<b>22.35</b>	<b>22.00</b>	<b>20.50</b>	<b>21.00</b>	<b>21.00</b>	<b>21.00</b>

*The Town of Los Altos Hills has elected to show data for this for this schedule beginning with the fiscal year ending June 30, 2003.*

**TOWN OF LOS ALTOS HILLS**

**OPERATING INDICATORS BY FUNCTION  
LAST SIX FISCAL YEARS**

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Building permits issued:						
New homes	30	31	17	20	21	28
Valuation	\$ 22,296,451	\$ 16,613,722	\$ 8,696,466	\$ 12,156,957	\$ 13,570,895	\$ 20,487,100
Additions and remodels	99	107	120	105	60	19
Valuation	\$ 9,542,291	\$ 8,896,584	\$ 10,888,751	\$ 10,794,340	\$ 8,021,100	\$ 5,217,890
Planning permits issued	259	273	248	247	261	305
Streets resurfaced/rehabilitated	2.46	1.80	2.68	3.40	2.50	3.44
Recreation classes and activities offered	12	14	12	16	18	22

*The Town of Los Altos Hills has elected to show data for this schedule beginning with the fiscal year ending June 30, 2003.*

**TOWN OF LOS ALTOS HILLS**

**CAPITAL ASSETS STATISTICS BY FUNCTION  
LAST SIX FISCAL YEARS**

	<b>Fiscal Year</b>					
	2003	2004	2005	2006	2007	2008
<b>Parks and Recreation</b>						
Baseball fields	4	4	4	4	4	4
Playground	1	1	1	1	1	1
Park	1	1	1	1	1	1
Riding Ring	1	1	1	1	1	1
Westwind Barn	1	1	1	1	1	1
Pathways - miles	60	60	62	62	62	62
Open space - acres	55	55	55	55	55	55
<b>Drainage and Street Operations</b>						
Street lights	6	6	6	6	6	6
Traffic lights	3	3	3	3	3	3
Paved roadway - miles	57	50	55	55	55	55
Storm drains - miles	20	20	20	20	20	20
<b>Sewer Operations</b>						
Sanitary sewers - miles	50	50	52	52	52	52

*The Town of Los Altos Hills has elected to show data for this schedule beginning with the fiscal year ending June 30, 2003.*

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