

TOWN OF LOS ALTOS HILLS, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2009**

TOWN OF LOS ALTOS HILLS

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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, 2009, 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, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2010, 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 management's discussion and analysis, budgetary comparison information, and schedule of funding progress for other postemployment benefits 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 individual fund schedules as 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. 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 in relation to the basic financial statements taken as a whole.

Varrinck, Trine, Day & Co., LLP.

Pleasanton, California
March 29, 2010

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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, 2009.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceed its liabilities at June 30, 2009, by \$40,230,909 (net assets). Of this amount, \$10,833,395 (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 \$4,716,559 during the year ended June 30, 2009, \$2,999,604 of which is restricted for the construction of the West Loyola sewer extension project funded solely by special assessments levied by the benefiting property owners.
- The Town's General Fund balance at June 30, 2009, is \$5,223,779 – an increase of \$659,177 over the previous year. The fund balance is approximately 118% 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 begin on page 15 of this report.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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 page 17-20 of this report. The budgetary comparison schedule for the General Fund is on 47.

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.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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 21-23 of this report.

Fiduciary Funds

The Town is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for specified purposes. The fiduciary activities are reported on page 24. 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 25-45 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 retirement benefits to its employees and the General Fund budgetary schedule. Required supplementary information can be found on pages 47-49 of this report.

Combining statements for nonmajor governmental funds are presented after the required supplementary information on pages 51-52. Budgetary schedules for nonmajor governmental funds and the Street Capital Projects and Other Capital Projects funds are presented on pages 53 - 63.

TOWN OF LOS ALTOS HILLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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 \$40,230,909 at June 30, 2009.

Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current and other assets	\$ 12,301,527	\$ 12,951,996	\$ 5,727,394	\$ 3,500,857	\$ 18,028,921	\$ 16,452,853
Capital assets	24,468,582	23,087,065	2,427,865	1,172,175	26,896,447	24,259,240
Total assets	<u>36,770,109</u>	<u>36,039,061</u>	<u>8,155,259</u>	<u>4,673,032</u>	<u>44,925,368</u>	<u>40,712,093</u>
LIABILITIES						
Current	2,286,850	2,614,838	725,463	755,400	3,012,313	3,370,238
Long term debt	1,682,146	1,827,505	-	-	1,682,146	1,827,505
Total liabilities	<u>3,968,996</u>	<u>4,442,343</u>	<u>725,463</u>	<u>755,400</u>	<u>4,694,459</u>	<u>5,197,743</u>
NET ASSETS						
Invested in capital assets, net of related debt	22,733,833	21,225,843	2,427,865	1,172,175	25,161,698	22,398,018
Restricted	1,236,212	651,518	2,999,604	-	4,235,816	651,518
Unrestricted	8,831,068	9,719,357	2,002,327	2,745,457	10,833,395	12,464,814
Total net assets	<u>\$ 32,801,113</u>	<u>\$ 31,596,718</u>	<u>\$ 7,429,796</u>	<u>\$ 3,917,632</u>	<u>\$ 40,230,909</u>	<u>\$ 35,514,350</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 during the current year which provided funding for energy conservation features of the new building. The total balance of the two debt issues at June 30, 2009, is \$1,734,091.

An additional portion of the Town's net assets, 11%, represents resources that are subject to external restrictions on how they may be used. In May 2009, the Town received contributions from property owners, largely from the sale of special assessment bonds in the amount of \$3,143,364, for the exclusive purpose of constructing a sewer main that would benefit the contributing parties. The Town is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the specials assessment district (see Notes to Financial Statements no. 6). At June 30, 2009, the balance remaining for the construction of the sewer main was \$2,999,604 and is noted as restricted for capital projects on the Statement of Net Assets.

The remaining balance of unrestricted net assets, \$10,833,395, may be used to meet the Town's ongoing obligations to citizens and creditors.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

At June 30, 2009, 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.

Statement of Activities

The following schedule shows summarized information for the current and prior year on the changes in net assets. Governmental activities increased the Town's net assets by \$1,204,395. Business-type activities increased the Town's net assets by \$3,512,164 largely due to the contribution from property owners for the construction the West Loyola sewer main.

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
REVENUES						
Program revenues						
Charges for services	\$2,467,334	\$2,224,872	\$1,892,482	\$2,983,668	\$4,359,816	\$5,208,540
Operating contributions/grants	1,619,218	1,292,756		7,270	1,619,218	1,300,026
Capital contributions/grants	-	-	3,013,758	-	3,013,758	-
General revenues						
Property taxes	3,410,921	3,216,837	-	-	3,410,921	3,216,837
Motor vehicle license tax	38,396	43,579	-	-	38,396	43,579
Other taxes	366,282	434,126	-	-	366,282	434,126
Franchise fees	431,574	389,224	-	-	431,574	389,224
Sale of Capital Assets- net	143,518	1,430,776	-	-	143,518	1,430,776
Use of money and property	498,721	744,677	113,527	178,503	612,248	923,180
Other intergovernmental	108,147	502,482	-	-	108,147	502,482
Other unrestricted	69,520	154,061	-	-	69,520	154,061
Total revenues	<u>9,153,631</u>	<u>10,433,390</u>	<u>5,019,767</u>	<u>3,169,441</u>	<u>14,173,398</u>	<u>13,602,831</u>
EXPENSES						
Administration	2,198,029	1,834,475	-	-	2,198,029	1,834,475
Public safety	1,469,522	1,381,626	-	-	1,469,522	1,381,626
Community development	2,422,892	2,522,067	-	-	2,422,892	2,522,067
Parks and recreation	1,240,406	802,066	-	-	1,240,406	802,066
Drainage and street operations	558,980	578,324	-	-	558,980	578,324
Sewer	-	-	1,097,072	1,080,206	1,097,072	1,080,206
Solid waste	-	-	387,335	1,512,251	387,335	1,512,251
Interest on long-term debt	82,603	88,539	-	-	82,603	88,539
Total expenses	<u>7,972,432</u>	<u>7,207,097</u>	<u>1,484,407</u>	<u>2,592,457</u>	<u>9,456,839</u>	<u>9,799,554</u>
Increase (decrease) in net assets						
before transfers	1,181,199	3,226,293	3,535,360	576,984	4,716,559	3,803,277
Transfers in (out)	23,196	116,721	(23,196)	(116,721)	-	-
Change in net assets	<u>1,204,395</u>	<u>3,343,014</u>	<u>3,512,164</u>	<u>460,263</u>	<u>4,716,559</u>	<u>3,803,277</u>
Net assets, beginning of year	<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>
Net assets, end of year	<u>\$32,801,113</u>	<u>\$31,596,718</u>	<u>\$7,429,796</u>	<u>\$3,917,632</u>	<u>\$40,230,909</u>	<u>\$35,514,350</u>

TOWN OF LOS ALTOS HILLS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Governmental Activities

The table below compares expenses by function with the corresponding program revenues for governmental activities. Program revenues are considered those revenues with a direct relationship to a service or program offered by the Town. The Town uses general revenues, comprised primarily of taxes, to provide for Town services where program revenues are insufficient. In the table below, a Net Expense represents a demand on general revenues. In 2008-09, total general revenues were \$5,090,275.

Program Revenues and Expenses – Governmental Activities

	2009			2008		
	Program revenues	Expenses	Net revenue (expenses)	Program revenues	Expenses	Net revenue (expenses)
Administration	\$ -	\$ 2,198,029	\$ (2,198,029)	\$ -	\$ 1,834,471	\$ (1,834,471)
Public safety	101,749	1,469,522	(1,367,773)	115,130	1,381,626	(1,266,496)
Community development	1,278,407	2,422,892	(1,144,485)	1,255,246	2,522,067	(1,266,821)
Parks & rec	566,446	1,240,406	(673,960)	234,258	802,066	(567,808)
Drain/street	2,139,950	558,980	1,580,970	1,912,994	578,324	1,334,670
Interest on LTD	-	82,603	(82,603)	-	88,539	(88,539)
	<u>\$ 4,086,552</u>	<u>\$ 7,972,432</u>	<u>\$ (3,885,880)</u>	<u>\$ 3,517,628</u>	<u>\$ 7,207,093</u>	<u>\$ (3,689,465)</u>

Overall, net expenses for governmental activities for fiscal year 2009 increased from \$3,689,465 to \$3,885,880, a difference of \$196,415 or 5.3%, from the previous year. The greatest increase in net revenue, \$332,188, was in the Town’s parks and recreation programs. The increase is due to increased parks and recreation program offerings and is largely offset by an increase in program expenses. The increase in storm drain and streets is the result of the completion of a major undergrounding project where utility companies contributed a large share of the construction costs. The significant change in net expense for administration primarily represents an increase in the operating loss in the internal service funds, an adjustment to compensated absences, and an increase in depreciation expense.

Business-type Activities

Net assets for business-type activities increased \$3,512,164 in 2008-09. The largest contribution to the increase in net assets is a \$3,013,758 contribution from property owners for the exclusive purpose of constructing the West Loyola sewer main extension. Additionally, business-type activities generated operating income and non-operating revenue totaling \$521,602.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

FUND FINANCIAL ANALYSIS

Governmental Funds: Statement of Revenues, Expenditures, and Changes in Fund Balances

The following is a schedule of revenues, expenditures and changes in fund balances for each of the major governmental and aggregate non-major governmental funds on the modified accrual basis:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Street Cap Project</u>	<u>Other Cap Project</u>	<u>Non-major</u>	<u>Total</u>
Revenues	\$ 6,300,492	\$ -	\$ 178,000	\$ 1,199,945	\$ 1,331,676	\$ 9,010,113
Expenditures	4,443,845	211,316	1,147,160	2,375,790	1,228,696	9,406,807
Sale of Assets	4,300				139,218	143,518
Net transfers	<u>(1,201,770)</u>	<u>211,316</u>	<u>600,000</u>	<u>387,999</u>	<u>25,651</u>	<u>23,196</u>
Net increase/(decrease)	659,177	-	(369,160)	(787,846)	267,849	(229,980)
Fund balances, beginning of year	<u>4,564,602</u>	<u>-</u>	<u>1,612,981</u>	<u>2,985,895</u>	<u>881,111</u>	<u>10,044,589</u>
Fund balances, end of year	<u>\$ 5,223,779</u>	<u>\$ -</u>	<u>\$ 1,243,821</u>	<u>\$ 2,198,049</u>	<u>\$ 1,148,960</u>	<u>\$ 9,814,609</u>

The net activity for the governmental fund balances for 2008-09 resulted in a decrease of \$229,980 compared to prior year. This decrease results primarily from investments in capital infrastructure most notably streets capital projects and parks and recreation capital projects (classified under other capital projects).

General Fund

General Fund revenues - General Fund revenues for the year ended June 30, 2009, decreased \$18,449, or -0.3%, over the prior fiscal year. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years.

	<u>2009</u>	<u>2008</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Property taxes	\$ 3,403,586	\$ 3,205,734	\$ 197,852	6.2%
Taxes other than property	366,282	434,126	(67,844)	-15.6%
Franchise fees	431,574	389,224	42,350	10.9%
Licenses and permits	580,332	668,489	(88,157)	-13.2%
Intergovernmental	146,543	146,061	482	0.3%
Use of money and property	498,721	744,677	(245,956)	-33.0%
Charges for services	831,553	605,076	226,477	37.4%
Other revenues	<u>41,901</u>	<u>125,554</u>	<u>(83,653)</u>	<u>-66.6%</u>
Total	<u>\$ 6,300,492</u>	<u>\$ 6,318,941</u>	<u>\$ (18,449)</u>	<u>-0.3%</u>

- Use of money and property – While the Town’s pooled investments remained relatively consistent with prior year, the fair market value adjustment and declining interest rates for authorized investments contributed substantially to the \$245,956 decrease, -33.0%, in this revenue source.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

- Charges for services – The Town’s expanded parks and recreation fee program offerings generated a large share of the period over period \$226,477 increase, 37.4%, in this revenue category.
- Licenses and permits – The \$88,157 decrease, -13.2%, in this revenue category is the result of lower than anticipated building permit revenue.

General Fund expenditures - General Fund expenditures for the current year increased \$137,425, or 3.2%, over the prior fiscal year.

	<u>2009</u>	<u>2008</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Administration	\$ 1,434,715	\$ 1,345,356	\$ 89,359	6.6%
Public safety	964,899	875,868	89,031	10.2%
Community development	1,792,913	1,855,950	(63,037)	-3.4%
Parks and recreation	251,318	229,246	22,072	9.6%
Total	<u>\$ 4,443,845</u>	<u>\$ 4,306,420</u>	<u>\$ 137,425</u>	<u>3.2%</u>

- Public safety – The 10.2% increase is due to full utilization of the Town’s contract hours with the Santa Clara County Sherriff’s Office and the City of Palo Alto’s animal control services.
- Parks and recreation – The 9.6% increase represents an increased number of programs and events offered to the community.

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 2008 to provide funding for energy conservation features of the new building. Interest payments during the current year totaled \$84,188 and principal in the amount of \$127,128 was retired. The balance of the two debts at June 30, 2009 is \$1,734,091; of that amount, \$133,693 is due within one year and the balance, \$1,601,056, is due in more than one year.

Street Capital Projects Fund

Expenditures for street improvements were \$1,147,160 for fiscal year 2009, compared to \$1,379,404 for the prior year. While a decrease from prior year, the Town continues its aggressive street resurfacing and repair project adopted by the City Council in 2009. The project is funded through a combination of gas tax revenues, roadway impact fees, grants, and use of general fund unreserved-undesignated fund balance.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Other Capital Projects Fund

Expenditures for other capital projects were \$2,375,790 for fiscal year 2009, compared to \$1,790,250 for the prior year. The significant increase in capital expenditures is attributable to the Town's investments in parks and recreation facilities and pathways.

Proprietary Funds

The Town's primary proprietary fund provides sanitary sewer to roughly half of the parcels within the jurisdiction. Operating revenues are collected annually from those properties benefiting from the service and were last adjusted in 2007-08. Operating expenses provide largely for contracts to maintain the sewer system and convey and treat the sewage at the Regional Water Quality Control Plant located in and operated by the City of Palo Alto. In 2008-09, the Sewer Fund had operating income of \$238,718, compared to \$142,111 for the prior year. The Town's efforts to collect sewer service fees from previously unknown sewer users provided the largest boost to operating revenue, \$62,093 reported as other income. Connection fees, or fees paid by new users to connect to the sewer main for future capital improvements to the system, are reported as non-operating revenues.

When the Town's franchise with Los Altos Garbage Company expired on September 30, 2008, there was no longer a need for the fund. The new franchise with GreenWaste Recovery, Inc. removed the Town from collecting service fees and paying landfill expenses. As a result of this change, a year-to-year comparison of activity in the solid waste fund is not a relevant analysis.

Net assets of the Sewer Fund increased \$3,549,335 during the fiscal year. Of the increase, \$535,577 is result of operating and non-operating activities in the fund. The balance, \$3,013,758, is a contribution from property owners for the exclusive purpose of constructing the West Loyola sewer main extension. The Town is managing the extension project and therefore is guided by GASB Statement No. 6 to record the financial transaction for this project in the Sewer fund. Upon completion of the project, anticipated in late 2009-10, any surplus funds will be returned to the property owners in accordance with applicable laws of the State of California.

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, 2009, the Town's governmental funds reported combined ending fund balances of \$9,814,609 – a decrease of \$229,980 over the previous year. The General Fund's fund balance increased by \$659,177 while the combined fund balances for Special Revenue and Capital Projects Funds decreased by \$889,157.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

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

	2009	2008	\$ Increase (decrease)
Revenues	\$ 9,010,113	\$ 9,002,614	\$ 7,499
Expenditures	7,972,432	7,207,097	765,335
Sale of Assets	143,518	1,430,776	(1,287,258)
Net transfers in (out)	23,196	116,721	(93,525)
Net increase/(decrease)	\$ 1,204,395	\$ 3,343,014	\$ (851,361)

For fiscal year 2009, governmental fund revenues increased by \$7,499 and expenditures increased by \$765,335, reflecting continued investment in capital improvement activity. A discussion of revenues and expenditures trends and comparisons is provided in the “Major Funds” section above. Net transfers out to other funds decreased by \$93,525 reflecting lower than anticipated available resources in the solid waste fund to offset general fund costs of franchise negotiation and management.

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:

	General Fund	Street Cap Project	Other Cap Project	Non-major	Total
Reserved for:					
Highways & streets	\$ -	\$ -	\$ -	\$ 852,272	\$ 852,272
Public safety	-	-	-	83,940	83,940
Parks & recreation	-	-	-	212,748	212,748
Unreserved, designated for:					
Capital projects	-	1,243,821	2,198,049	-	3,441,870
Other purposes	1,600,000	-	-	-	1,600,000
Unreserved, undesignated	3,623,779	-	-	-	3,623,779
Fund balances, end of year	\$ 5,223,779	\$ 1,243,821	\$ 2,198,049	\$ 1,148,960	\$ 9,814,609

At June 30, 2009, \$3,623,779 of the combined fund balances of \$9,814,609 is unreserved and undesignated, which means that this amount is available for the City Council to program for future spending at its discretion. In addition to unreserved and undesignated funds, the City Council has designated unreserved fund balance of \$3,441,870 for capital projects, and \$1,600,000 for emergencies and contingencies. The City Council may increase, decrease or eliminate these designations by a majority vote at a public meeting. Additional portions of the fund balances are reserved for the repair, maintenance and construction of streets, \$852,272, public safety, \$83,940, and parks and recreation, \$212,748. These amounts represent revenues from restricted revenue sources.

At June 30, 2009, the General Fund’s fund balance is \$5,223,779. The entire amount is unreserved; however, the City Council has designated \$1,600,000 of this balance for emergencies and contingencies. The balance, \$3,623,779, is undesignated.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

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, 2009, the unreserved undesignated fund balance and total fund balance represent 82% and 118% of General Fund expenditures, respectively. At June 30, 2008, the unreserved undesignated fund balance and total fund balance represented 69% and 106% of General Fund expenditures, respectively.

Proprietary Funds – Net assets increased \$3,512,164 as a result of the business-type activities of the Town. Of this increase, only \$498,406 is an increase in unrestricted net assets. 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.

Budgeted revenues were increased from original estimates by \$777,482 and budgeted expenditures were increased by \$263,720 for a excess of revenue over expenditures of \$1,856,647 for 2008-09. 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, 2009, amounts to \$26,834,657, net of accumulated depreciation - an increase of \$1,381,521 over the prior year resulting largely from the City Council’s intensive 3-year capital improvement program to enhance the Town’s park and recreation facilities. Capital assets include land, buildings, equipment and infrastructure.

The following table presents summarized information on capital assets net of depreciation for fiscal years 2008 and 2009. 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	4,558,777	4,691,148	-	-	4,558,777	4,691,148
Office equipment	131,437	164,630	-	-	131,437	164,630
Vehicles	95,281	69,886	-	-	95,281	69,886
Sewer collection system	-	-	2,366,075	1,172,176	2,366,075	1,172,176
Infrastructure	19,432,552	17,910,862	-	-	19,432,552	17,910,862
Total capital assets, net	\$ 24,468,582	\$ 23,087,061	\$ 2,366,075	\$ 1,172,176	\$ 26,834,657	\$ 24,259,237

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Long-term Debt

The balance of long term debt, excluding compensated absences, at June 30, 2009, is \$1,734,091; of that amount, \$133,693 is due within one year and the balance, \$1,601,056, is due in more than one year.

There is no dedicated source of revenue to fund these debt payments however the payments are appropriated annually as part of the Town's operating budget.

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 11,952,261	\$ 2,704,790	\$ 14,657,051
Restricted cash and investments	-	2,999,604	2,999,604
Accounts receivables	314,805	23,000	337,805
Net OPEB asset	34,461	-	34,461
Capital assets			
Land	250,535	-	250,535
Construction in progress	-	61,790	61,790
Other capital assets, net of depreciation:			
Buildings	4,558,777	-	4,558,777
Office equipment	131,437	-	131,437
Vehicles	95,280	-	95,280
Land improvements	-	2,366,075	2,366,075
Infrastructure	19,432,553	-	19,432,553
Total Assets	<u>36,770,109</u>	<u>8,155,259</u>	<u>44,925,368</u>
LIABILITIES			
Accounts payable	362,374	721,668	1,084,042
Other liabilities	140,962	-	140,962
Interest payable	21,881	-	21,881
Refundable deposits	1,586,514	-	1,586,514
Compensated absences due within one year	41,426	-	41,426
Current portion of long-term debt	133,693	-	133,693
Non-current liabilities:			
Compensated absences due in more than one year	81,090	3,795	84,885
Long-term debt due in more than one year	1,601,056	-	1,601,056
Total Liabilities	<u>3,968,996</u>	<u>725,463</u>	<u>4,694,459</u>
NET ASSETS			
Invested in capital assets, net of related debt	22,733,833	2,427,865	25,161,698
Restricted for:			
Highways and streets	852,272	-	852,272
Public safety	83,940	-	83,940
Restricted for capital projects	-	2,999,604	2,999,604
Unrestricted	9,131,068	2,002,327	11,133,395
Total Net Assets	<u>\$ 32,801,113</u>	<u>\$ 7,429,796</u>	<u>\$ 40,230,909</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, 2009

	Program Revenues				Net Revenue (Expense) and Change in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Administration	\$ 2,198,029	\$ -	\$ -	\$ -	\$ (2,198,029)	\$ -	\$ (2,198,029)
Public safety	1,469,522	1,958	99,791	-	(1,367,773)	-	(1,367,773)
Community development	2,422,892	1,278,407	-	-	(1,144,485)	-	(1,144,485)
Parks and recreation	1,240,406	566,446	-	-	(673,960)	-	(673,960)
Drainage and street operations	558,980	620,523	1,519,427	-	1,580,970	-	1,580,970
Interest on long-term debt	82,603	-	-	-	(82,603)	-	(82,603)
Total Governmental Activities	7,972,432	2,467,334	1,619,218	-	(3,885,880)	-	(3,885,880)
Business-type Activities:							
Sewer	1,097,072	1,335,790	-	3,208,687	-	3,447,405	3,447,405
Solid waste	387,335	361,763	-	-	-	(25,572)	(25,572)
Total Business-type Activities	1,484,407	1,697,553	-	3,208,687	-	3,421,833	3,421,833
Total Primary Government	\$ 9,456,839	\$ 4,164,887	\$ 1,619,218	\$ 3,208,687	(3,885,880)	3,421,833	(464,047)
General Revenues:							
Taxes:							
Property taxes				3,410,921	-		3,410,921
Motor vehicle license tax				38,396	-		38,396
Other taxes				366,282	-		366,282
Franchise Taxes				431,574	-		431,574
Gain (loss) on sale of capital Assets				143,518	-		143,518
Use of money and property				498,721	113,527		612,248
Intergovernmental-unrestricted				108,147	-		108,147
Other unrestricted revenue				69,520	-		69,520
Transfers				23,196	(23,196)		-
Total General Revenues and Transfers				5,090,275	90,331		5,180,606
Change in Net Assets				1,204,395	3,512,164		4,716,559
Net Assets, Beginning of Year				31,596,718	3,917,632		35,514,350
Net Assets, End of Year				\$ 32,801,113	\$ 7,429,796		\$ 40,230,909

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

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 6,924,897	\$ -	\$ 1,247,321	\$ 2,181,166	\$ 1,127,620	\$ 11,481,004
Accounts receivable	115,074	-	-	151,731	48,000	314,805
Total Assets	<u>\$ 7,039,971</u>	<u>\$ -</u>	<u>\$ 1,247,321</u>	<u>\$ 2,332,897</u>	<u>\$ 1,175,620</u>	<u>\$ 11,795,809</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 185,254	\$ -	\$ 3,500	134,848	\$ 26,402	\$ 350,004
Other liabilities	44,424	-	-	-	258	44,682
Refundable deposits	1,586,514	-	-	-	-	1,586,514
Total Liabilities	<u>1,816,192</u>	<u>-</u>	<u>3,500</u>	<u>134,848</u>	<u>26,660</u>	<u>1,981,200</u>
FUND BALANCES						
Reserved for:						
Highways and streets	-	-	-	-	852,272	852,272
Public safety	-	-	-	-	83,940	83,940
Parks and recreation	-	-	-	-	212,748	212,748
Unreserved, designated for:						
Capital projects	-	-	1,243,821	2,198,049	-	3,441,870
Other purpose	1,600,000	-	-	-	-	1,600,000
Unreserved, undesignated	3,623,779	-	-	-	-	3,623,779
Total Fund Balances	<u>5,223,779</u>	<u>-</u>	<u>1,243,821</u>	<u>2,198,049</u>	<u>1,148,960</u>	<u>9,814,609</u>
Total Liabilities and Fund Balances	<u>\$ 7,039,971</u>	<u>\$ -</u>	<u>\$ 1,247,321</u>	<u>\$ 2,332,897</u>	<u>\$ 1,175,620</u>	<u>\$ 11,795,809</u>

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, 2009**

Fund Balances of Governmental Funds	\$ 9,814,609
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.	19,543,088
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.	5,317,954
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(117,908)
Long-term debt	(1,734,749)
Interest payable	(21,881)
Net Assets of Governmental Activities	<u>\$ 32,801,113</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, 2009

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
REVENUES						
Property taxes	\$ 3,403,586	\$ -	\$ -	\$ -	\$ -	\$ 3,403,586
Taxes other than property	366,282	-	-	-	-	366,282
Franchise fees	431,574	-	-	-	-	431,574
Licenses and permits	580,332	-	-	-	31,760	612,092
Intergovernmental	146,543	-	178,000	258,116	306,550	889,209
Use of money and property	498,721	-	-	38,383	75,798	612,902
Charges for services	831,553	-	-	-	917,568	1,749,121
Miscellaneous	41,901	-	-	903,446	-	945,347
Total revenues	6,300,492	-	178,000	1,199,945	1,331,676	9,010,113
EXPENDITURES						
Current:						
Administration	1,434,715	-	9,000	38,168	-	1,481,883
Public safety	964,899	-	-	-	165,539	1,130,438
Community development	1,792,913	-	-	-	-	1,792,913
Parks and recreation	251,318	-	-	-	649,532	900,850
Drainage and street operations	-	-	-	-	413,625	413,625
Debt service						
Principal	-	127,128	-	-	-	127,128
Interest	-	84,188	-	-	-	84,188
Capital outlay	-	-	1,138,160	2,337,622	-	3,475,782
Total expenditures	4,443,845	211,316	1,147,160	2,375,790	1,228,696	9,406,807
Excess (Deficiency) of Revenues Over Expenditures						
	1,856,647	(211,316)	(969,160)	(1,175,845)	102,980	(396,694)
OTHER FINANCING SOURCES (USES)						
Sale of Assets	4,300	-	-	-	139,218	143,518
Transfers in	264,604	211,316	600,000	487,999	511,220	2,075,139
Transfers out	(1,466,374)	-	-	(100,000)	(485,569)	(2,051,943)
Total Other Financing Sources (Uses)	(1,197,470)	211,316	600,000	387,999	164,869	166,714
Net Change in Fund Balances	659,177	-	(369,160)	(787,846)	267,849	(229,980)
Fund Balances, Beginning of Year	4,564,602	-	1,612,981	2,985,895	881,111	10,044,589
Fund Balances, End of Year	\$ 5,223,779	\$ -	\$ 1,243,821	\$ 2,198,049	\$ 1,148,960	\$ 9,814,609

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, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (229,980)

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	3,475,782
Depreciation expense charged to governmental activities	(1,954,092)

Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets.	127,128
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Change in Compensated Absences	(21,768)
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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, 2009	(21,881)
Interest accrual at June 30, 2008	23,466

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>(194,260)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 1,204,395</u>
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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, 2009
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2008**

	Business-type Activities - Enterprise Funds				Total June 30, 2009	Governmental Activities - Internal Service Fund
	Sewer		Solid Waste			
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008		
ASSETS						
Current Assets:						
Cash and investments	\$ 2,693,776	\$ 3,297,432	\$ 11,014	\$ 120,118	\$ 2,704,790	\$ 471,257
Restricted Cash	2,999,604	-	-	-	2,999,604	-
Accounts receivable	23,000	23,965	-	56,373	23,000	-
Interest receivable	-	2,451	-	518	-	-
Net OPEB Asset	-	-	-	-	-	34,461
Total Current Assets	5,716,380	3,323,848	11,014	177,009	5,727,394	505,718
Noncurrent Assets:						
Capital assets, net of accumulated depreciation	2,427,865	1,172,175	-	-	2,427,865	4,925,494
Total Assets	8,144,245	4,496,023	11,014	177,009	8,155,259	5,431,212
LIABILITIES						
Current Liabilities:						
Accounts payable	721,668	598,607	-	128,824	721,668	12,370
Other liabilities	-	151	-	-	-	96,280
Compensated absences payable- current	-	166	-	-	-	3,656
Refundable deposits	-	23,843	-	-	-	-
Total current liabilities	721,668	622,767	-	128,824	721,668	112,306
Noncurrent liabilities:						
Compensated absence payable	3,795	3,809	-	-	3,795	952
Total noncurrent liabilities	3,795	3,809	-	-	3,795	952
Total Liabilities	725,463	626,576	-	128,824	725,463	113,258
NET ASSETS						
Invested in capital assets	2,427,865	1,172,175	-	-	2,427,865	4,925,494
Restricted for Construction	2,999,604	-	-	-	2,999,604	-
Unrestricted	1,991,313	2,697,272	11,014	48,185	2,002,327	392,460
Total Net Assets	\$ 7,418,782	\$ 3,869,447	\$ 11,014	\$ 48,185	\$ 7,429,796	\$ 5,317,954

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, 2009
WITH COMPARATIVE AMOUNT FOR THE YEAR ENDED JUNE 30, 2008**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Sewer		Solid Waste		Total	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008		
OPERATING REVENUES						
Charges for services	\$ 1,273,697	\$ 1,222,317	\$ 339,641	\$ 1,418,464	\$ 1,613,338	\$ -
Other income	62,093	-	22,122	53,832	84,215	-
General Services	-	-	-	-	-	342,722
Town Hall services	-	-	-	-	-	533,825
Office services	-	-	-	-	-	50,792
Corporate yard services	-	-	-	-	-	118,092
Vehicle services	-	-	-	-	-	159,359
Total Operating Revenues	1,335,790	1,222,317	361,763	1,472,296	1,697,553	1,204,790
OPERATING EXPENSES						
Salaries and benefits	72,889	64,071	11,310	8,857	84,199	714,327
Contract services	888,123	891,674	362,065	1,465,832	1,250,188	189,477
Operating expenses	69,327	79,094	13,960	37,562	83,287	307,826
Depreciation	66,733	45,367	-	-	66,733	187,420
Total Operating Expenses	1,097,072	1,080,206	387,335	1,512,251	1,484,407	1,399,050
Operating Income (Loss)	238,718	142,111	(25,572)	(39,955)	213,146	(194,260)
NONOPERATING REVENUE (EXPENSES)						
Interest income	101,930	160,469	11,597	18,034	113,527	-
Connection Fees	194,929	289,055	-	-	194,929	-
Intergovernmental	-	-	-	7,270	-	-
Total Nonoperating Revenue	296,859	449,524	11,597	25,304	308,456	-
Income Before Contributions and Transfers	535,577	591,635	(13,975)	(14,651)	521,602	(194,260)
Contribution from property owners	3,013,758	-	-	-	3,013,758	-
Transfers in	-	1,550,000	102,190	-	102,190	-
Transfers out	-	(1,550,000)	(125,386)	(116,721)	(125,386)	-
Changes in Net Assets	3,549,335	591,635	(37,171)	(131,372)	3,512,164	(194,260)
Total Net Assets, Beginning of Year	3,869,447	3,277,812	48,185	179,557	3,917,632	5,512,214
Total Net Assets, End of Year	\$ 7,418,782	\$ 3,869,447	\$ 11,014	\$ 48,185	\$ 7,429,796	\$ 5,317,954

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, 2009**

	Business-type Activities			Governmental
	Sewer Fund	Solid Waste Fund	Total	Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,336,755	\$ 418,136	\$ 1,754,891	\$ 1,204,790
Payments to suppliers	(858,563)	(504,849)	(1,363,412)	(535,241)
Payments to employees	(72,889)	(11,310)	(84,199)	(570,461)
Net Cash Provided (Used) by Operating Activities	405,303	(98,023)	307,280	99,088
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES				
Connection fee	194,929	-	194,929	-
Transfers in	-	102,190	102,190	-
Transfers out	-	(125,386)	(125,386)	-
Net Cash Provided (Used) by Noncapital Financing Activities	194,929	(23,196)	171,733	-
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Contributions from property owners	3,013,758	-	3,013,758	-
Cash to acquire fixed assets	(1,322,423)	-	(1,322,423)	(47,250)
Net Cash Provided (Used) by Capital and Related Financing Activities	1,691,335	-	1,691,335	(47,250)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	104,381	12,115	116,496	-
Net Increase (Decrease) in Cash and Investments	2,395,948	(109,104)	2,286,844	51,838
Cash and Cash Equivalents, Beginning of Year	3,297,432	120,118	3,417,550	419,419
Cash and Cash Equivalents, End of Year	\$ 5,693,380	\$ 11,014	\$ 5,704,394	\$ 471,257
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 238,718	\$ (25,572)	\$ 213,146	\$ (194,260)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	66,733	-	66,733	187,420
(Increase) decrease in accounts receivable	965	56,373	57,338	-
(Increase) decrease in OPEB assets	-	-	-	143,866
Increase (decrease) in accounts payable	98,887	(128,824)	(29,937)	(37,938)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 405,303	\$ (98,023)	\$ 307,280	\$ 99,088

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, 2009**

ASSETS

Restricted cash and investments	\$ 365,515
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LIABILITIES

Due to property owners	\$ 15,745
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Due to bondholders	349,770
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Total liabilities	\$ 365,515
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The accompanying notes are an integral part of these financial statements.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

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, 2009, the Town's population was 8,837. 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, 2009

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, 2009

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 Town's Agency Fund includes Sewer Assessment District #11 and West Loyola Sewer Assessment District #1.
- 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, 2009

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 \$115,074 in the General Fund, \$151,731 in Other Capital Projects Fund, \$48,000 in Non Major Governmental Fund, and \$23,000 in the Sewer Fund.

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, 2009

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, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and Investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Cash on hand	\$	760
Deposits with financial institutions		3,550,591
Cash with fiscal agent		349,770
Investments		14,121,049
Total Deposits and Investments	\$	<u>18,022,170</u>

Cash and investment as of June 30, 2009, consist of the following:

Statement of net assets:		
Cash and investments	\$	14,657,051
Restricted cash and investments		2,999,604
Fiduciary funds:		
Cash and investments		365,515
Total Deposits and Investments	\$	<u>18,022,170</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, 2009.

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, 2009**

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, 2009, the Town had the following investments.

Investment Type	Fair Value	Weighted Average Maturity
Federal Agency Bonds/Notes	\$ 2,342,051	Sept 2009- July 2010
U.S. Treasury Bonds/Notes	10,612,929	Aug 2009- Oct 2011
LAIF	1,094,829	235 Days
Money Market	71,240	Less than 1 month
Total Securities	<u>\$ 14,121,049</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, 2009**

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	\$ 10,612,929	N/A	\$ 10,612,929	\$ -	\$ -	\$ -	\$ -
Federal Agency Bond/Note	2,342,051	AAA	-	2,342,051	-	-	-
LAIF	1,094,829	N/A	-	-	-	-	1,094,829
Money Market	71,240	N/A	71,240	-	-	-	-
Total	<u>\$ 14,121,049</u>		<u>\$ 10,684,169</u>	<u>\$ 2,342,051</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 1,094,829</u>

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	\$ 1,039,095
FHLMC	Federal Agency Securities	529,214
FNMA	Federal Agency Securities	518,417
FFCB	Federal Agency Securities	255,326
Total		<u>\$ 2,342,051</u>

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, 2009, the Town's bank balance of \$3,911,114, with a reported balance of \$3,550,591, is insured for the first \$250,000 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

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 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, 2009:

Transfers in	Transfers out				Total
	General Fund	Other capital Project Fund	Governmental Non-Major Funds	Solid Waste Enterprise Fund	
General Fund	\$ -	\$ -	\$ 139,218	\$ 125,386	\$ 264,604
Debt Service Fund	211,316	-	-	-	211,316
Street Capital Project Fund	300,000	-	300,000	-	600,000
Other Capital Project Fund	341,648	100,000	46,351	-	487,999
Governmental Non-Major Funds	511,220	-	-	-	511,220
Solid Waste Enterprise Fund	102,190	-	-	-	102,190
Total	\$ 1,466,374	\$ 100,000	\$ 485,569	\$ 125,386	\$ 2,177,329

The Town’s annual inter-fund transfers provide for operating, capital, and debt service activities to funds without sufficient revenue sources to provide for the expenditures included in the City Council approved budget. The largest share of the transfers, approximately 55%, is dedicated to capital improvements ranging from parks & recreation facilities to sewer infrastructure. Operations and debt service account for 35% and 10%, respectively, of the total annual transfers in 2008-09.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Reductions	Adjustment	Balance June 30, 2009
Governmental activities					
<i>Capital assets not being depreciated:</i>					
Land	\$ 250,535	\$ -	\$ -	\$ -	\$ 250,535
Total capital assets not being depreciated	<u>250,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,535</u>
<i>Capital assets being depreciated:</i>					
Infrastructure	63,016,339	3,475,782	-	-	66,492,121
Buildings	5,152,825	-	-	-	5,152,825
Vehicles	392,504	73,988	(9,593)	(17,170)	439,729
Office equipment	444,411	-	-	-	444,411
Total capital assets being depreciated	<u>69,006,079</u>	<u>3,549,770</u>	<u>(9,593)</u>	<u>(17,170)</u>	<u>72,529,086</u>
<i>Less accumulated depreciation for:</i>					
Infrastructure	(45,105,476)	(1,954,092)	-	-	(47,059,568)
Buildings	(461,677)	(132,371)	-	-	(594,048)
Vehicles	(322,618)	(21,864)	9,593	(9,559)	(344,448)
Office equipment	(279,782)	(33,185)	-	(8)	(312,975)
Total accumulated depreciation	<u>(46,169,553)</u>	<u>(2,141,512)</u>	<u>9,593</u>	<u>(9,567)</u>	<u>(48,311,039)</u>
Total capital assets being depreciated, net	<u>21,510,025</u>	<u>1,408,258</u>	<u>-</u>	<u>(26,737)</u>	<u>24,218,047</u>
Governmental activities capital assets, net	<u>\$ 23,087,061</u>	<u>\$ 1,408,258</u>	<u>\$ -</u>	<u>\$ (26,737)</u>	<u>\$ 24,468,582</u>
Business-type activities					
<i>Capital assets not being depreciated:</i>					
Construction in progress	\$ -	\$ 61,790	\$ -	\$ -	\$ 61,790
<i>Capital assets being depreciated:</i>					
Sewer collection system	\$ 2,669,330	\$ 1,260,632	\$ -	\$ -	\$ 3,929,962
Office equipment	1,509	-	-	-	1,509
Total capital assets being depreciated	<u>2,670,839</u>	<u>1,260,632</u>	<u>-</u>	<u>-</u>	<u>3,931,470</u>
<i>Less accumulated depreciation for:</i>					
Sewer collection system	(1,497,154)	(66,733)	-	-	(1,563,887)
Office equipment	(1,509)	-	-	-	(1,509)
Total accumulated depreciation	<u>(1,498,663)</u>	<u>(66,733)</u>	<u>-</u>	<u>-</u>	<u>(1,565,396)</u>
Total capital assets being depreciated, net	<u>1,172,176</u>	<u>1,193,899</u>	<u>-</u>	<u>-</u>	<u>2,366,075</u>
Business-type activities capital assets, net	<u>\$ 1,172,176</u>	<u>\$ 1,255,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,427,865</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 500,118
Public safety	339,084
Community development	629,979
Parks and recreation	339,556
Drainage and street operations	145,355
Capital assets held by the Town's Internal Service Fund charged to the various functions based on their usage of the assets	<u>187,420</u>
Total depreciation - governmental activities	<u><u>\$ 2,141,512</u></u>

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

Sewer Fund	<u><u>\$ 66,733</u></u>
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NOTE 5 – LONG-TERM LIABILITIES

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

	Balance June 30, 2008	Additions	Retirement	Balance June 30, 2009	Current portion	Interest rate
Governmental activities:						
Capital Lease	\$ 1,730,337	\$ -	\$ (116,189)	\$ 1,614,148	\$ 122,344	4.65%
California Energy Commission Loan	130,882	-	(10,281)	120,601	10,691	3.95%
Subtotals	1,982,689	-	(126,470)	1,734,749	133,035	
Compensated Absences	100,849	22,936	(1,269)	122,516	41,426	N/A
Governmental activity long-term liabilities	<u>2,083,538</u>	<u>22,936</u>	<u>(127,739)</u>	<u>1,857,265</u>	<u>174,461</u>	
Business-type activities:						
Compensated Absences	3,975	-	(180)	3,795	-	N/A
Total Governmental and Business-type activity long-term liabilities	<u><u>\$ 2,087,513</u></u>	<u><u>\$ 22,936</u></u>	<u><u>\$ (127,739)</u></u>	<u><u>\$ 1,857,265</u></u>	<u><u>\$ 174,461</u></u>	

The Town's capital assets at June 30, 2009 include \$2 million of building costs obtained under a capital lease. The building is being depreciated over its estimated useful life.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE 5 – LONG-TERM LIABILITIES (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
2010	\$ 122,344	\$ 73,621	\$ 195,965
2011	128,099	67,866	195,965
2012	134,124	61,840	195,964
2013	140,434	55,531	195,965
2014	147,040	48,925	195,965
2015-2019	660,659	123,201	783,860
2020	281,448	13,157	294,605
Total	<u>\$ 1,614,148</u>	<u>\$ 444,141</u>	<u>\$ 2,058,289</u>

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
2010	\$ 10,691	\$ 4,660	\$ 15,351
2011	11,118	4,233	15,351
2012	11,551	3,800	15,351
2013	12,022	3,329	15,351
2014	12,501	2,849	15,350
2015-2019	62,718	9,062	71,780
Total	<u>\$ 120,601</u>	<u>\$ 27,933</u>	<u>\$ 148,534</u>

NOTE 6 – SPECIAL ASSESSMENT DEBT WITHOUT TOWN COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. The Town acts solely as the collecting and paying agent for the District's debt which is not included in the general debt of the Town. The bonds are not general obligation of the Town. The Town is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment district.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 6 – SPECIAL ASSESSMENT DEBT WITHOUT TOWN COMMITMENT (CONTINUED)

At June 30, 2009, the balance of the assessment district’s outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/2009
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25%-6.15%	\$48,364-\$215,000	2010-2039	<u>\$ 3,143,364</u>

NOTE 7 – 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 provisions or enabling legislation. At June 30, 2009, restricted assets consisted of \$1,152,272 for street projects, \$83,940 for public safety grants, and \$2,999,604 for capital projects.

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

There are \$203,000 in unrestricted net assets that are designated for payment of the annual required contribution for other post employment benefits in the internal service funds.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 7 – NET ASSETS/FUND BALANCES (CONTINUED)

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)	\$ 852,272
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)	83,940
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>212,748</u>
Total Reservations	<u><u>\$ 1,148,960</u></u>

Designations

Capital projects is the portion of fund balance designated for capital projects, other than streets. (Other Capital Project Fund)	\$ 3,441,870
Other designations consist of contingencies of \$350,000 and emergency relief of \$1,250,000. (General Fund)	<u>1,600,000</u>
Total Designations	<u><u>\$ 5,041,870</u></u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE 8 – 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 2008-2009 was 14.098% 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. Included in the employer contribution rate is the amortization of Side Funds which were created to account for the difference between the funded status of the pool and the funded status of the Town Plan at the time of joining the risk pool. As of June 30, 2009, the estimated balance of the Side Fund for the plan was approximately \$660,000.

C. Annual Pension Cost

For fiscal year 2008-2009, the Town's annual pension cost of \$217,808 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>
6/30/2007	\$ 208,611	100%	-
6/30/2008	208,471	100%	-
6/30/2009	217,808	100%	-

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE 8 – 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 9 – 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, 2009 the Town contributed \$54,221 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, 2009, the Town contributed \$83,204 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 contribution 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, 2009, estimated by ABAG was not material.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE 10 – 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 11 – 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 cleanup efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007. The Town implemented Statement No. 49 in fiscal year 2008-09 with no significant impact to the financial statements.

The GASB has issued Statement No. 50, “*Pension Disclosure*.” This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The requirements of this statement become effective for fiscal periods beginning after June 15, 2007. The Town believes that as a cost-sharing multiple-employer, the current report is in compliance with this statement’s requirements.

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 requirements of this statement become effective for fiscal periods beginning after June 15, 2009. 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.

In March 2009, the GASB issued GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*.” The objective of this statement is to enhance the usefulness of fund balance information by providing the existing governmental type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. The Town is currently evaluating the impact of adopting Statement No. 54.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In April 2009, the GASB issued GASB Statement No. 55, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*” The objective of this statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into GASB authoritative literature. The “GAAP” hierarchy” consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 was effective immediately and did not have any impact on the financial statements.

In April 2009, the GASB issued GASB Statement No. 56, “*Codification of Accounting and Financial Reporting guidance Contained in the AICPA Statements on Auditing Standards.*” The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. The statement addresses three issues included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 was effective immediately and did not have any impact on the financial statements.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The Town’s agent multiple-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 an agent multiple-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.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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 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.

	<u>June 30, 2009</u>
Normal Cost at Year End	\$ 78,000
Amortization of UAAL	125,000
Annual Required Contribution	203,000
Interest on Prior Year Net OPEB Asset	(13,375)
Adjustment to ARC	14,756
Annual OPEB Cost	204,381
Contributions Made	(60,515)
Increase (Decrease) in Net OPEB Obligation	143,866
Net OPEB Obligation (Asset)- Beginning of Year	(178,327)
Net OPEB Obligation (Asset)- End of Year	<u>\$ (34,461)</u>

D. Plan Funded Status and Funding Progress

This is second 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*. As of June 30, 2007, the latest valuation date, the funded status of the Town, was as follows:

Actuarial accrued liability (AAL)	\$ 1,594,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	1,594,000
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	1,431,000
UAAL as percentage of covered payroll	111.4%

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The Town’s annual OPEB cost (expense), the percentage of OPEB cost contributed to the plan, and the Net OPEB obligation for 2009 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2007	N/A	N/A	N/A
June 30, 2008	\$203,000	188%	(\$178,327)
June 30, 2009	204,381	30%	(34,461)

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 employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.

In the June 30, 2007 actuarial valuation, the entry age normal actuarial cost method was used with a twenty (20) year closed amortization period beginning with 2007-08 fiscal year and level percentage of pay. There were no assets in the plan as of the valuation date. The actuarial assumptions are as follows:

- The CPI was assumed to be a constant at 3% per year.
- Investment rate of return is assumed to be 7.75%. Assets in the plan will be invested in a moderately conservative money market portfolio that will provide current income with capital appreciation as a secondary objective.
- Aggregate payroll increase is assumed to be 3.25% per year.
- Healthcare costs trends utilized actual rated for 2007 and 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 to an ultimate rate 4.5% for both HMO and PPO plans by 2017.
- Everyone will be eligible for Medicare and will elect Part B coverage.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

- Participation in the Plan is assumed to be 100%.
- 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.

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 2008-2009 as follows:

Fund	Expenditures	Appropriations	Excess Expenditures Over Appropriations
Cal Law Enforcement Equipment Program	\$ 12,782	\$ 7,260	\$ 5,522

B. Deficit fund equity

The Parks and Recreation Facilities fund had a deficit fund balance of \$5,631 as of June 30, 2009. 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.

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property tax	\$ 3,367,710	\$ 3,367,710	\$ 3,403,586	\$ 35,876
Taxes other than property	382,192	382,192	366,282	(15,910)
Franchise fees	369,376	369,376	431,574	62,198
Licenses and permits	639,000	639,000	580,332	(58,668)
Intergovernmental	(18,090)	(18,090)	146,543	164,633
Use of money and property	429,820	429,820	498,721	68,901
Charges for services	294,602	294,602	831,553	536,951
Miscellaneous	58,400	58,400	41,901	(16,499)
Total Revenues	<u>5,523,010</u>	<u>5,523,010</u>	<u>6,300,492</u>	<u>777,482</u>
EXPENDITURES				
Current:				
Administration	1,627,113	1,631,463	1,434,715	196,748
Public safety	992,300	992,300	964,899	27,401
Community development	1,815,407	1,815,407	1,792,913	22,494
Parks and recreation	268,395	268,395	251,318	17,077
Total Expenditures	<u>4,703,215</u>	<u>4,707,565</u>	<u>4,443,845</u>	<u>263,720</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>819,795</u>	<u>815,445</u>	<u>1,856,647</u>	<u>1,041,202</u>
OTHER FINANCING SOURCES (USES)				
Sale of asset	-	-	4,300	4,300
Transfers in	360,252	360,252	264,604	(95,648)
Transfers out	<u>(1,430,129)</u>	<u>(1,187,351)</u>	<u>(1,466,374)</u>	<u>(279,023)</u>
Total Other Financing Sources (Uses)	<u>(1,069,877)</u>	<u>(827,099)</u>	<u>(1,197,470)</u>	<u>(370,371)</u>
Net Change in Fund Balance	(250,082)	(11,654)	659,177	670,831
Fund Balance, Beginning of Year	4,564,602	4,564,602	4,564,602	-
Fund Balance, End of Year	<u>\$ 4,314,520</u>	<u>\$ 4,552,948</u>	<u>\$ 5,223,779</u>	<u>\$ 670,831</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, 2009**

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)
6/30/2007	\$1,594	N/A	\$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, 2009

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 whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits as required by current standards. There are no factors that significantly affect the identification of trends in the amount reported. Only year when actuarial valuation was performed is shown. Additional years will be included as subsequent valuations are performed.

TOWN OF LOS ALTOS HILLS

NON MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2009

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, 2009**

		Special Revenue Funds										Total	
		Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	CLEEP			Nonmajor Governmental	
ASSETS													
Cash and investments	\$	314,153	\$ 136,017	\$ 6,112	\$ 90,206	\$ 444,594	\$ 100,035	\$ 31,181	\$ 5,322	\$	\$	1,127,620	
Accounts receivable		-	-	-	-	-	-	48,000	-	-	-	48,000	
Total Assets	\$	314,153	\$ 136,017	\$ 6,112	\$ 90,206	\$ 444,594	\$ 100,035	\$ 79,181	\$ 5,322	\$	\$	1,175,620	
LIABILITIES AND FUND BALANCES													
LIABILITIES													
Accounts payable	\$	583	\$ 7,844	\$ 11,485	\$ -	\$ 1,843	\$ 4,084	\$ 563	\$ -	\$	\$	26,402	
Other liabilities		-	-	258	-	-	-	-	-	-	-	258	
Total Liabilities		583	7,844	11,743	-	1,843	4,084	563	-	-	-	26,660	
FUND BALANCES													
Reserved for:													
Highways and streets		313,570	-	-	-	442,751	95,951	-	-	-	-	852,272	
Public safety		-	-	-	-	-	-	78,618	5,322	-	-	83,940	
Parks and recreation		-	128,173	(5,631)	90,206	-	-	-	-	-	-	212,748	
Total Fund Balances		313,570	128,173	(5,631)	90,206	442,751	95,951	78,618	5,322			1,148,960	
Total Liabilities and Fund Balances	\$	314,153	\$ 136,017	\$ 6,112	\$ 90,206	\$ 444,594	\$ 100,035	\$ 79,181	\$ 5,322	\$	\$	1,175,620	

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, 2009**

	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			
REVENUES											
License and permits	\$ -	\$ -	\$ -	\$ -	\$ 31,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,760
Intergovernmental	-	-	-	-	206,759	-	-	99,791	-	-	306,550
Use of money and property	-	7,987	1,351	7,019	57,483	-	-	1,645	313	-	75,798
Charges for services	99,546	86,700	295,777	48,984	52,492	334,069	-	-	-	-	917,568
Total Revenues	99,546	94,687	297,128	56,003	348,494	334,069	101,436	313	-	-	1,331,676
EXPENDITURES											
Current:											
Public safety	-	-	-	-	-	-	152,757	12,782	-	-	165,539
Parks and recreation	-	221,666	427,866	-	-	-	-	-	-	-	649,532
Drainage and street operations	171,865	-	-	-	241,760	-	-	-	-	-	413,625
Total Expenditures	171,865	221,666	427,866	-	241,760	-	152,757	12,782	-	-	1,228,696
Excess (Deficiency) of Revenues Over Expenditures	(72,319)	(126,979)	(130,738)	56,003	106,734	334,069	(51,321)	(12,469)	-	-	102,980
OTHER FINANCING SOURCES (USES)											
Sale of Asset	-	-	-	139,218	-	-	-	-	-	-	139,218
Transfers in	180,000	100,000	131,220	-	100,000	-	-	-	-	-	511,220
Transfers out	-	(46,351)	-	(139,218)	-	(300,000)	-	-	-	-	(485,569)
Total Other Financing Sources (Uses)	180,000	53,649	131,220	-	100,000	(300,000)	-	-	-	-	164,869
Net Change in Fund Balances	107,681	(73,330)	482	56,003	206,734	34,069	(51,321)	(12,469)	-	-	267,849
Fund Balances, Beginning of year	205,889	201,503	(6,113)	34,203	236,017	61,882	129,939	17,791	-	-	881,111
Fund Balances, End of Year	\$ 313,570	\$ 128,173	\$ (5,631)	\$ 90,206	\$ 442,751	\$ 95,951	\$ 78,618	\$ 5,322	\$ -	\$ -	\$ 1,148,960

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 125,000	\$ 125,000	\$ 99,546	\$ (25,454)
Total Revenues	125,000	125,000	99,546	(25,454)
EXPENDITURES				
Current:				
Drainage operations	309,137	309,137	171,865	137,272
Total Expenditures	309,137	309,137	171,865	137,272
Excess (Deficiency) of Revenues Over Expenditures	(184,137)	(184,137)	(72,319)	111,818
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	180,000	180,000
Total Other Financing Sources (Uses)	-	-	180,000	180,000
Net Change in Fund Balance	(184,137)	(184,137)	107,681	291,818
Fund Balance, Beginning of Year	205,889	205,889	205,889	-
Fund Balance, End of Year	\$ 21,752	\$ 21,752	\$ 313,570	\$ 291,818

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 19,320	\$ 19,320	\$ 7,987	\$ (11,333)
Charges for services	75,000	75,000	86,700	11,700
Total Revenues	94,320	94,320	94,687	367
EXPENDITURES				
Current:				
Parks and recreation	302,354	302,354	221,666	80,688
Total Expenditures	302,354	302,354	221,666	80,688
Excess (Deficiency) of Revenues Over Expenditures	(208,034)	(208,034)	(126,979)	81,055
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	100,000	-
Transfers out	-	(20,000)	(46,351)	(26,351)
Total Other Financing Sources (Uses)	100,000	80,000	53,649	(26,351)
Net Change in Fund Balance	(108,034)	(128,034)	(73,330)	54,704
Fund Balance, Beginning of Year	201,503	201,503	201,503	-
Fund Balance, End of Year	\$ 93,469	\$ 73,469	\$ 128,173	\$ 54,704

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money & property	\$ 2,500	\$ 2,500	\$ 1,351	\$ (1,149)
Charges for services	154,489	305,545	295,777	(9,768)
Total Revenues	156,989	308,045	297,128	(10,917)
EXPENDITURES	269,408	440,608	427,866	12,742
Excess (Deficiency) of Revenues Over Expenditures	(112,419)	(132,563)	(130,738)	1,825
OTHER FINANCING SOURCES (USES)				
Transfers In	112,419	112,419	131,220	18,801
Total Other Financing Sources (Uses)	112,419	112,419	131,220	18,801
Net Change in Fund Balance	-	(20,144)	482	20,626
Fund Balance, Beginning of Year	(6,113)	(6,113)	(6,113)	-
Fund Balance, End of Year	\$ (6,113)	\$ (26,257)	\$ (5,631)	\$ 20,626

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money & property	\$ 4,830	\$ 4,830	\$ 7,019	\$ 2,189
Charges for services	25,000	25,000	48,984	23,984
Total Revenues	29,830	29,830	56,003	26,173
EXPENDITURES				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	29,830	29,830	56,003	26,173
OTHER FINANCING SOURCES (USES)				
Sale of assets	-	139,218	139,218	-
Transfers out	-	-	(139,218)	(139,218)
Total Other Financing Sources (Uses)	-	139,218	-	(139,218)
Net Change in Fund Balance	29,830	169,048	56,003	(113,045)
Fund Balance, Beginning of Year	34,203	34,203	34,203	-
Fund Balance, End of Year	\$ 64,033	\$ 203,251	\$ 90,206	\$ (113,045)

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses and permits	\$ 19,000	\$ 19,000	\$ 31,760	\$ 12,760
Intergovernmental	127,000	127,000	206,759	79,759
Use of money and property	29,980	29,980	57,483	27,503
Charges for services	45,000	45,000	52,492	7,492
Total Revenues	220,980	220,980	348,494	127,514
EXPENDITURES				
Current:				
Street operations	378,641	403,641	241,760	161,881
Total Expenditures	378,641	403,641	241,760	161,881
Excess (Deficiency) of Revenues Over Expenditures	(157,661)	(182,661)	106,734	289,395
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	100,000	-
Transfers out	-	(26,000)	-	26,000
Total Other Financing Sources (Uses)	100,000	74,000	100,000	26,000
Net Change in Fund Balance	(57,661)	(108,661)	206,734	315,395
Fund Balance, Beginning of Year	236,017	236,017	236,017	-
Fund Balance End of Year	\$ 178,356	\$ 127,356	\$ 442,751	\$ 315,395

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 300,000	\$ 300,000	\$ 334,069	\$ 34,069
Total Revenues	300,000	300,000	334,069	34,069
EXPENDITURES				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	300,000	300,000	334,069	34,069
OTHER FINANCING SOURCES (USES)				
Transfers out	(300,000)	(300,000)	(300,000)	-
Total Other Financing Sources (Uses)	(300,000)	(300,000)	(300,000)	-
Net Change in Fund Balance	-	-	34,069	34,069
Fund Balance, Beginning of Year	61,882	61,882	61,882	-
Fund Balance, End of Year	\$ 61,882	\$ 61,882	\$ 95,951	\$ 34,069

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 99,791	\$ (209)
Use of money and property	9,660	14,400	1,645	(12,755)
Total Revenues	109,660	114,400	101,436	(12,964)
EXPENDITURES				
Current:				
Public safety	156,835	156,835	152,757	4,078
Total Expenditures	156,835	156,835	152,757	4,078
Excess (Deficiency) of Revenues Over Expenditures	(47,175)	(42,435)	(51,321)	(8,886)
Fund Balance, Beginning of Year	129,939	129,939	129,939	-
Fund Balance, End of Year	<u>\$ 82,764</u>	<u>\$ 87,504</u>	<u>\$ 78,618</u>	<u>\$ (8,886)</u>

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ -	\$ -	\$ 313	\$ 313
Total Revenues	-	-	313	313
EXPENDITURES				
Current:				
Public safety	7,260	7,260	12,782	(5,522)
Total Expenditures	7,260	7,260	12,782	(5,522)
Excess (Deficiency) of Revenues Over Expenditures	(7,260)	(7,260)	(12,469)	(5,209)
Fund Balance, Beginning of Year	17,791	17,791	17,791	-
Fund Balance, End of Year	\$ 10,531	\$ 10,531	\$ 5,322	\$ (5,209)

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES				
Current:				
Debt service				
Prinicpal	127,128	127,128	127,128	-
Interest	84,188	84,188	84,188	-
	211,316	211,316	211,316	-
Excess (Deficiency) of Revenues Over Expenditures	(211,316)	(211,316)	(211,316)	-
OTHER FINANCING SOURCES (USES)				
Transfers in	211,316	211,316	211,316	-
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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ 400,000	\$ 400,000	\$ 178,000	\$ (222,000)
EXPENDITURES				
Capital outlay	1,000,000	1,300,000	1,147,160	152,840
Total Expenditures	1,000,000	1,300,000	1,147,160	152,840
Excess (Deficiency) of Revenues Over Expenditures	(600,000)	(900,000)	(969,160)	(69,160)
OTHER FINANCING SOURCES (USES)				
Transfers in	600,000	600,000	600,000	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	600,000	600,000	600,000	-
Net Change in Fund Balance	-	(300,000)	(369,160)	(69,160)
Fund Balance, Beginning of Year	1,612,981	1,612,981	1,612,981	-
Fund Balance, End of Year	\$ 1,612,981	\$ 1,312,981	\$ 1,243,821	\$ (69,160)

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ 1,376,000	\$ 1,970,246	\$ 1,199,945	\$ (770,301)
EXPENDITURES				
Capital outlay:				
General CIP	1,220,000	1,220,000	1,263,311	(43,311)
Pathways	715,000	1,250,024	776,314	473,710
Westwind Barn Projects	844,000	994,000	236,509	757,491
Drainage	395,000	395,000	-	395,000
Undergrounding Utilities	700,000	700,000	99,656	600,344
Total Expenditures	3,874,000	4,559,024	2,375,790	2,183,234
Excess (Deficiency) of Revenues Over Expenditures	(2,498,000)	(2,588,778)	(1,175,845)	1,412,933
OTHER FINANCING SOURCES (USES)				
Transfers in	300,000	588,778	487,999	(100,779)
Transfers out	(100,000)	(100,000)	(100,000)	-
Total Other Financing Sources (Uses)	200,000	488,778	387,999	(100,779)
Net Change in Fund Balance	(2,298,000)	(2,100,000)	(787,846)	1,312,154
Fund Balance, Beginning of Year	2,985,895	2,985,895	2,985,895	-
Fund Balance, End of Year	\$ 687,895	\$ 885,895	\$ 2,198,049	\$ 1,312,154

