

**TOWN OF LOS ALTOS HILLS, CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2010**

# 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, 2010, 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, 2010, 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 December 31, 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.

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California  
December 31, 2010

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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As the management of the Town of Los Altos Hills, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Los Altos Hills for the year ended June 30, 2010.

### FINANCIAL HIGHLIGHTS

- Town assets exceed liabilities at June 30, 2010, by \$41,213,359 (net assets). Of this amount, \$10,451,059 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total unrestricted net assets decreased by \$682,336 during the year ended June 30, 2010, largely due to increased investment in capital assets.
- The Town's unrestricted governmental net assets decreased from \$9,131,068 to \$7,831,794, a decrease of \$1,299,274 or approximately 14%, when compared to prior year. This decrease was the result of continued investment in governmental capital assets net of related debt which grew by \$830,424 in the same time period. Additionally, the Town remitted a one-time payment of \$637,320 to extinguish its direct unfunded pension liability for the fiscal year ended June 30, 2010.
- The Town's unreserved, undesignated General Fund balance increased from \$3,623,779 to \$3,810,511, an increase of \$186,732 or 3.6%, compared to prior year. Additionally, the Town continues to designate unreserved General Fund balance for an Emergency & Disaster Contingency Reserve (\$1,250,000) and an Operating Contingency Reserve (\$350,000).
- At June 30, 2010, the Town's General Fund balance is \$5,410,511, or 109% of operating expenses for the period.

### 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's 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 on changes in the Town's net assets 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, some revenue and expense items are reported in this statement that will result in cash flows impacting future fiscal periods, for example, earned but unused vacation leave.

The government-wide financial statements begin on page 20 of this report.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Los Altos Hills, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the Town's funds 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 used 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 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 22-25 of this report. The budgetary comparison schedule for the General Fund is on 52.

#### Proprietary Funds

The Town 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 is included within governmental activities in the government-wide financial statements.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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Proprietary funds provide more detailed information than the government-wide financial statements. 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 26-28 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 29. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town 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 30-49 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 52-54 of this report.

Combining statements for non-major governmental funds are presented after the required supplementary information on pages 56-57. Budgetary schedules for non-major governmental funds and the Street Capital Projects and Other Capital Projects funds are presented on pages 58-68.



# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

### 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 (net assets) by \$41,213,359 at June 30, 2010, a \$982,450 increase over prior year.

#### Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>						
Current and other assets	\$ 11,627,924	\$ 12,301,527	\$ 5,030,967	\$ 5,727,394	\$ 16,658,891	\$ 18,028,921
Capital assets	25,165,313	24,468,582	4,022,707	2,427,865	29,188,020	26,896,447
<b>Total assets</b>	<b>36,793,237</b>	<b>36,770,109</b>	<b>9,053,674</b>	<b>8,155,259</b>	<b>45,846,911</b>	<b>44,925,368</b>
<b>LIABILITIES</b>						
Current	2,393,326	2,286,850	678,589	725,463	3,071,915	3,012,313
Long term debt	1,556,269	1,682,146	5,368	-	1,561,637	1,682,146
<b>Total liabilities</b>	<b>3,949,595</b>	<b>3,968,996</b>	<b>683,957</b>	<b>725,463</b>	<b>4,633,552</b>	<b>4,694,459</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	23,564,257	22,733,833	4,022,707	2,427,865	27,586,964	25,161,698
Restricted	1,447,591	936,212	1,727,745	2,999,604	3,175,336	3,935,816
Unrestricted	7,831,794	9,131,068	2,619,265	2,002,327	10,451,059	11,133,395
<b>Total net assets</b>	<b>\$ 32,843,642</b>	<b>\$ 32,801,113</b>	<b>\$ 8,369,717</b>	<b>\$ 7,429,796</b>	<b>\$ 41,213,359</b>	<b>\$ 40,230,909</b>

Note: Total assets – liabilities = total net assets

The largest portion of the Town's net assets, 67%, 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. In 2009-10 the Town continued a robust capital improvement program. Compared to prior year, capital assets net of related debt increased \$2,425,266 or 9.6% in 2009-10.

Debt related to capital assets is limited to the financing of the Town Hall facility and related energy efficiency improvements in 2004-05, see Note 5 to the Financial Statements. The total balance of the two debt issues at June 30, 2010, was \$1,601,056.

An additional portion of the Town's net assets, 8%, 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 Note 6 to the Financial Statements. At June 30, 2010, the balance remaining for the construction of the sewer main was \$1,727,745 and is noted as restricted for capital projects on the Statement of Net Assets.

# **TOWN OF LOS ALTOS HILLS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010**

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The remaining balance of unrestricted net assets, \$10,451,059 may be used to meet the Town's ongoing obligations to citizens and creditors. Unrestricted net assets decreased \$682,336 or 3.5%, the result of a one-time payment to CalPERS of \$637,320 and investments in capital assets.

At June 30, 2010, 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. Government-wide net assets increased from \$31,338,743 at June 30, 2004 to \$41,213,359 at June 30, 2010; an increase of \$9,874,616 or 31.5% over the seven year period. The largest contributor to this increase was the result of investments in capital assets marking the Town's strategic goal to revitalize infrastructure. Over the period, infrastructure projects included a new town hall complex, new little league baseball fields, and a seismically safe Parks and Recreation facility. Unrestricted net assets, those available to meet the Town's ongoing obligations to citizens and creditors, have remained relatively steady decreasing from \$10,521,859 at June 30, 2004 to \$10,451,059 at June 30, 2010.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

### 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 \$42,529. Business-type activities increased the Town's net assets by \$939,921.

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 2,469,214	\$ 2,467,334	\$ 1,643,706	\$ 1,892,482	\$ 4,112,920	\$ 4,359,816
Operating contributions/grants	996,454	1,619,218	-	-	996,454	1,619,218
Capital contributions/grants	-	-	272,405	3,013,758	272,405	3,013,758
General revenues						
Property taxes	3,444,173	3,410,921	-	-	3,444,173	3,410,921
Motor vehicle license tax	34,253	38,396	-	-	34,253	38,396
Other taxes	332,189	366,282	-	-	332,189	366,282
Franchise fees	387,803	431,574	-	-	387,803	431,574
Gain on sale of capital assets	242	143,518	-	-	242	143,518
Use of money and property	212,126	498,721	102,876	113,527	315,002	612,248
Other intergovernmental	140,947	108,147	-	-	140,947	108,147
Other unrestricted	303,395	69,520	-	-	303,395	69,520
Total revenues	<u>8,320,796</u>	<u>9,153,631</u>	<u>2,018,987</u>	<u>5,019,767</u>	<u>10,339,783</u>	<u>14,173,398</u>
<b>EXPENSES</b>						
Administration	2,071,985	2,198,029	-	-	2,071,985	2,198,029
Public safety	1,491,760	1,469,522	-	-	1,491,760	1,469,522
Community development	2,660,434	2,422,892	-	-	2,660,434	2,422,892
Parks and recreation	1,279,596	1,240,406	-	-	1,279,596	1,240,406
Drainage and street operations	830,146	558,980	-	-	830,146	558,980
Sewer	-	-	947,450	1,097,072	947,450	1,097,072
Solid waste	-	-	-	387,335	-	387,335
Interest on long-term debt	75,962	82,603	-	-	75,962	82,603
Total expenses	<u>8,409,883</u>	<u>7,972,432</u>	<u>947,450</u>	<u>1,484,407</u>	<u>9,357,333</u>	<u>9,456,839</u>
Increase (decrease) in net assets						
before transfers	(89,087)	1,181,199	1,071,537	3,535,360	982,450	4,716,559
Transfers in (out)	<u>131,616</u>	<u>23,196</u>	<u>(131,616)</u>	<u>(23,196)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>42,529</u>	<u>1,204,395</u>	<u>939,921</u>	<u>3,512,164</u>	<u>982,450</u>	<u>4,716,559</u>
Net assets, beginning 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>
Net assets, end of year	<u>\$ 32,843,642</u>	<u>\$ 32,801,113</u>	<u>\$ 8,369,717</u>	<u>\$ 7,429,796</u>	<u>\$ 41,213,359</u>	<u>\$ 40,230,909</u>

A discussion of variances follows.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

### Statement of Activities: Governmental Activities

Governmental Activities encompass all Town functions; general administration (City Council, City Manager, City Clerk, Finance & Administrative Services, and City Attorney); public safety contracts with the County of Santa Clara for law enforcement services and the City of Palo Alto for animal control services; community development (planning, building, engineering); parks and recreation (recreation programs and administration, events, park facilities, pathways; drainage and streets. The sewer enterprise is reported as a Business-type Activity.

### Overview of Net Expenses

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.

	<b>2010</b>			<b>2009</b>		
	Program revenues	Expenses	Net revenue (expenses)	Program revenues	Expenses	Net revenue (expenses)
Administration	\$ -	\$ 2,071,985	\$ (2,071,985)	\$ -	\$ 2,198,029	\$ (2,198,029)
Public safety	100,371	1,491,760	(1,391,389)	101,749	1,469,522	(1,367,773)
Community devel.	1,218,744	2,660,434	(1,441,690)	1,278,407	2,422,892	(1,144,485)
Parks & recreation	541,337	1,279,596	(738,259)	566,446	1,240,406	(673,960)
Drainage/street	1,605,216	830,146	775,070	2,139,950	558,980	1,580,970
Interest on LTD	-	75,962	(75,962)	-	82,603	(82,603)
	<u>\$ 3,465,668</u>	<u>\$ 8,409,883</u>	<u>\$ (4,944,215)</u>	<u>\$ 4,086,552</u>	<u>\$ 7,972,432</u>	<u>\$ (3,885,880)</u>

A combination of lower revenue and higher expense resulted in a \$1,058,335 increase in net expense for 2009-2010.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

### Discussion of Program Revenue

Overall, program revenue for governmental activities in 2009-10 decreased from \$4,086,552 to \$3,465,668, a difference of \$620,884 or 35% when compared the prior year. This decrease is largely due to one-time revenue received from utility companies in 2008-09 as reimbursement for the Town's pilot utility undergrounding project. Additionally, the Town experienced declines in billable transactions attributed to Community Development and Parks & Recreation. In both cases, however, much of the decline in billable transactions was offset by lower expenses.

	Program Revenues		Increase (Decrease)	
	2009-10	2008-09	\$	%
Administration	\$ -	\$ -	\$ -	0%
Public safety	100,371	101,749	(1,378)	-1%
Community development	1,218,744	1,278,407	(59,663)	-5%
Parks & rec	541,337	566,446	(25,109)	-4%
Drain/street	1,605,216	2,139,950	(534,734)	-25%
Interest on LTD	-	-	-	0%
	<u>\$ 3,465,668</u>	<u>\$ 4,086,552</u>	<u>\$ (620,884)</u>	<u>-35%</u>

### Discussion of Program Expenses

Overall, program expenses for governmental activities in 2009-10 increased from \$7,972,432 to \$8,409,883, a difference of \$437,451 or 5.5% when compared the prior year. This increase, however, includes a one-time payment to the California Employees' Retirement System (CalPERS) in the amount of \$637,320 to extinguish the Town's direct unfunded pension liability<sup>1</sup>. A meaningful comparison of expenses year-over-year, therefore, would remove the one-time payment. Comparing Adjusted Expense for 2009-10 to prior year, overall, shows a reduction in expense of \$199,869 or 2.5%.

	2009-10			2008-09	Increase (Decrease)	
	Expenses	CalPERS Payment	Adjusted Expenses	Expenses	\$	%
Administration	\$ 2,071,985	\$ 179,608	\$ 1,892,377	\$ 2,198,029	\$ (305,652)	-13.9%
Public safety	1,491,760	-	1,491,760	1,469,522	22,238	1.5%
Community devel.	2,660,434	289,748	2,370,686	2,422,892	(52,206)	-2.2%
Parks & recreation	1,279,596	101,760	1,177,836	1,240,406	(62,570)	-5.0%
Drainage/street	830,146	66,204	763,942	558,980	204,962	36.7%
Interest on LTD	75,962	-	75,962	82,603	N/A	N/A
	<u>\$ 8,409,883</u>	<u>\$ 637,320</u>	<u>\$ 7,772,563</u>	<u>\$ 7,972,432</u>	<u>(199,869)</u>	<u>-2.5%</u>

<sup>1</sup> The Town may have exposure to a share of the unfunded pension liability held by the CalPERS' Miscellaneous 2% at 55 Risk Pool. As a member of the Risk Pool, a portion of the annual employer contributions (Town included) offset a portion of the Risk Pool's unfunded liability. CalPERS does not furnish the information necessary to provide a reasonable estimate of each member's fair share of the risk pool's unfunded liability.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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Drainage and streets expenses were up by \$204,962 or 36.7% due to higher depreciation expense and increased maintenance efforts over prior period.

Public safety costs increased by \$22,238 or 1.5% in 2009-10 reflecting annual contract adjustments allowed under the Town's contract with the County of Santa Clara Sheriff's office for law enforcement services.

The 13.9% decrease in program expenses for the Administration activity is the result of changes in the net assets reported in the Internal Service Funds. Activity reported in the internal service funds as a proprietary fund are attributed to governmental activities, rather than business type activities, and reported as part of the Administration activity. This "conversion entry" is prescribed by the Government Accounting Standards Board (GASB). In 2008-09, the Internal Service Fund recorded net expense of \$194,260. In 2009-10, the Internal Service Funds recorded net revenue of \$103,244, a year-over-year change of \$297,504.

### **Business-type Activities**

Business-type activities almost exclusively represent the sewer fund. A minor residual balance remains in 2009-10 from the solid waste fund which was authorized to be closed upon the rollout of a new solid waste franchise agreement. Net assets for business-type activities increased \$939,921 in 2009-10. The largest factor in the increase was an operating income in the sewer enterprise from the current year of \$696,256. A more detailed discussion of these transactions is provided in the proprietary fund analysis.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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### FUND FINANCIAL ANALYSIS

As described above, the Town 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, 2010, the Town's governmental funds reported combined ending fund balances of \$8,788,583, a decrease of \$1,026,026 over the previous year. The General Fund's fund balance increased by \$186,732 while the combined fund balances for Non-major Governmental Revenue and Capital Projects Funds decreased by \$1,212,758. This sharp decrease was the result of modified accrual basis of accounting where capital project expenses were fully recognized in the period in which they occurred.

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

	<u>2010</u>	<u>2009</u>	<u>\$ Increase (decrease)</u>
Revenues	\$ 8,320,554	\$ 9,010,113	\$ (689,559)
Expenditures	8,409,883	7,972,432	437,451
Sale of Assets	242	143,518	(143,276)
Net transfers in (out)	131,616	23,196	108,420
Net increase/(decrease)	<u>\$ 42,529</u>	<u>\$ 1,204,395</u>	<u>\$ (1,161,866)</u>

For 2009-10, governmental fund revenues decreased by \$689,559 and expenditures increased by \$437,451 activity. A discussion of revenues and expenditures trends and comparisons is provided in the "Major Funds" section following. Net transfers in to other funds decreased by \$108,420 reflecting return of the sewer fund allocation for general administrative overhead and project charges which had been deferred to offset higher allocation charges in prior years.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

### 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	\$ 5,911,624	\$ -	\$ 323,300	\$ 629,954	\$ 1,455,676	\$ 8,320,554
Expenditures	4,957,863	211,316	1,150,615	1,783,106	1,375,538	9,478,438
Sale of Assets	242	-	-	-	-	242
Net transfers	(767,271)	211,316	-	359,000	328,571	131,616
Net increase/(decrease)	186,732	-	(827,315)	(794,152)	408,709	(1,026,026)
Fund balances, beginning of year	5,223,779	-	1,243,821	2,198,049	1,148,960	9,814,609
Fund balances, end of year	<u>\$ 5,410,511</u>	<u>\$ -</u>	<u>\$ 416,506</u>	<u>\$ 1,403,897</u>	<u>\$ 1,557,669</u>	<u>\$ 8,788,583</u>

The net activity for the governmental fund balances for 2009-10 resulted in a decrease of \$1,026,026 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, 2010, decreased \$388,868, or -6.2%, over the prior fiscal year. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years.

	<u>2010</u>	<u>2009</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Property taxes	\$ 3,438,168	\$ 3,403,586	\$ 34,582	1.0%
Taxes other than property	332,189	366,282	(34,093)	-9.3%
Franchise fees	387,803	431,574	(43,771)	-10.1%
Licenses and permits	625,609	580,332	45,277	7.8%
Intergovernmental	109,537	146,543	(37,006)	-25.3%
Use of money and property	156,013	498,721	(342,708)	-68.7%
Charges for services	771,407	831,553	(60,146)	-7.2%
Other revenues	90,898	41,901	48,997	116.9%
Total	<u>\$ 5,911,624</u>	<u>\$ 6,300,492</u>	<u>\$ (388,868)</u>	<u>-6.2%</u>

- Franchise fees – Franchise fees returned to normal levels in 2009-10 after a \$40,000 spike in 2008-09 due to residual collections and fees remitted to the Town by the former solid waste franchise provider.



## TOWN OF LOS ALTOS HILLS

### MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2010

- Use of money and property – As the single largest contributor to the year-over-year decrease in General Fund revenues, the Town’s investment income continued a considerable decline in 2009-10 reflecting lower yields on short U.S. Treasuries. To protect the Town’s principal, the investment portfolio moved into short US Treasuries during the year. This had the effect of lowering yield considerably. The lower actual earnings coupled with a lower adjustment to mark investments to market as of June 30, 2010, resulted in the sizable decline in investment income by \$356,559 compared to prior period. Additional details on the Town’s investments can be found in Note 2 to the Financial Statements.
- Charges for Services – Compared to prior year, the site development and related planning fees decreased 7.2% indicating a general slowdown in Community Development. The lower activity in 2009-10 is expected to trickle into building permit revenues in 2010-11.
- Other Revenues – Fines and forfeitures recovered to historical levels following a \$38,000 drop in 2008-09 compared to 2007-08.

*General Fund expenditures* - General Fund expenditures for the current year increased \$514,018, or 11.6%, over the prior fiscal year. This increase includes a one-time charge of \$637,320 for pension related liabilities. With this one-time charge reversed, General Fund expenditures decreased \$123,302 year over year.

	<b>2010</b>	<b>2009</b>	<b>\$ Increase (decrease)</b>	<b>% Increase (decrease)</b>
Administration	\$ 1,625,477	\$ 1,434,715	\$ 190,762	13.3%
Public safety	985,002	964,899	20,103	2.1%
Community development	2,025,711	1,792,913	232,798	13.0%
Parks and recreation	321,673	251,318	70,355	28.0%
<b>Total</b>	<b>\$ 4,957,863</b>	<b>\$ 4,443,845</b>	<b>\$ 514,018</b>	<b>11.6%</b>

- Administration – The bulk of the 13.3% increase was due to the one-time payment to CalPERS, \$179,608 of which was allocated to this department in 2009-10. Net of the CalPERS payment, expenditures in this department increased less than 1% or \$11,124.
- Public safety – The 2.1% increase was due to annual increased authorized under the Town’s contract for public safety services with the Santa Clara County Sherriff’s Office.
- Community Development – The bulk of the 13.0% increase was due to the one-time payment to CalPERS, \$289,748 of which was allocated to this department in 2009-10. Net of the CalPERS payment, expenditures in this department decreased \$56,950, or 3.2%, largely due to lower billable services
- Parks & Recreation – The bulk of the 28.0% increase was due to the one-time payment to CalPERS, \$101,760 of which was allocated to this department in 2009-10. Net of the CalPERS payment, expenditures in this department decreased \$31,405, 12.5%, largely due to lower billable services.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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### *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 \$75,962 and principal in the amount of \$133,693 was retired. The balance of the two debts at June 30, 2010 is \$1,601,056; of that amount, \$139,216 is due within one year and the balance, \$1,461,840 is due in more than one year.

### *Street Capital Projects Fund*

Expenditures for street improvements were \$1,150,615 for 2009-10, compared to \$1,147,160 for the prior year. The Town continued 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.

### *Other Capital Projects Fund*

Expenditures for other capital projects were \$1,783,106 for 2009-10, compared to \$2,375,790 for the prior year; continuing strong investments in the Town's parks and recreation facilities and pathways.

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

***Proprietary Fund***

	Sewer		\$ Increase (decrease)	% Increase (decrease)
	June 30, 2010	June 30, 2009		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,497,021	\$ 1,273,697	\$ 223,324	17.5%
Other income	146,685	62,093	84,592	136.2%
Total Operating Revenues	1,643,706	1,335,790	307,916	23.1%
<b>OPERATING EXPENSES</b>				
Salaries and benefits	82,967	72,889	10,078	13.8%
Contract services	657,118	888,123	(231,005)	-26.0%
Operating expenses	109,823	69,327	40,496	58.4%
Depreciation	97,542	66,733	30,809	46.2%
Total Operating Expenses	947,450	1,097,072	(149,622)	-13.6%
Operating Income (Loss)	696,256	238,718	457,538	191.7%
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Interest income	102,876	101,930	946	0.9%
Connection Fees	142,955	194,929	(51,974)	-26.7%
Total Nonoperating Revenue	245,831	296,859	(51,028)	-17.2%
Income Before Contributions and Transfers	942,087	535,577	406,510	75.9%
Contribution from property owners	129,450	3,013,758	(2,884,308)	-95.7%
Transfers out	(120,602)	-	(120,602)	-100.0%
Changes in Net Assets	950,935	3,549,335	(2,598,400)	-73.2%
Total Net Assets, Beginning of Year	7,418,782	3,869,447	3,549,335	91.7%
Total Net Assets, End of Year	\$ 8,369,717	\$ 7,418,782	\$ 950,935	12.8%

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 (RWQCP) located in and operated by the City of Palo Alto. In 2009-10, the Sewer Fund had operating income of \$696,256, compared to \$238,718 for the prior year. 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.

## TOWN OF LOS ALTOS HILLS

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

*Sewer Revenues* – Operating revenues increased in 2009-10 primarily due to the collection of the West Loyola Special Assessment District annual assessments in the amount of \$199,805. Charges for services also increased with the addition of new customers and previously unknown connections. Other income increased as the result of a reimbursement from property owners for the construction of a bypass sewer main required by the Town's sewer conveyance agreement with the City of Los Altos.

*Sewer Expenses* - 2009-10 operating expenses decreased due to lower than expected sewage treatment and conveyance costs at the RWQCP operated by the City of Palo Alto. The RWQCP has budgeted but deferred large capital improvement programs that would ultimately increase the Town's annual sewage treatment and conveyance charges paid to the Cities of Palo Alto and Los Altos. The capital program is moving forward in 2010-11, however the timing of the higher costs is unknown. In 2009-10, the department returned to full staffing which resulted in a year-over-year increase in salary and benefits costs.

*Sewer Assets* - Net assets of the Sewer Fund include \$1,727,745 restricted for construction resulting from a contribution from property owners for the exclusive purpose of constructing the West Loyola sewer main extension in 2008-09. 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 early 2010-11, the disposition of surplus funds will be determined by the City Council in accordance with applicable laws of the State of California.

#### Financial Analysis of the Town's Fund Balances

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:

	<b>General Fund</b>	<b>Street Cap Project</b>	<b>Other Cap Project</b>	<b>Non-major</b>	<b>Total</b>
Reserved for:					
Highways & streets	\$ -	\$ -	\$ -	\$ 1,370,304	\$ 1,370,304
Public safety	-	-	-	77,287	77,287
Parks & recreation	-	-	-	110,078	110,078
Unreserved, designated for:					
Capital projects	-	416,506	1,403,897	-	1,820,403
Other purposes	1,600,000	-	-	-	1,600,000
Unreserved, undesignated	3,810,511	-	-	-	3,810,511
Fund balances, end of year	\$ 5,410,511	\$ 416,506	\$ 1,403,897	\$ 1,557,669	\$ 8,788,583

At June 30, 2010, \$3,810,511 of the combined fund balances of \$8,788,511 was 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 designated unreserved fund balance of \$1,820,403 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, \$1,370,304, public safety, \$77,287, and parks and recreation, \$110,078. These amounts represent revenues from restricted revenue sources.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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At June 30, 2010, the General Fund's fund balance was \$5,410,511. The entire amount was unreserved; however, the City Council designated \$1,600,000 of this balance for emergencies and contingencies. The balance, \$3,810,511, was undesignated.

As a measure of the General Fund's liquidity, it may be useful to compare both unreserved undesignated fund balance and total fund balance to total fund expenditures. At June 30, 2010, the unreserved undesignated fund balance and total fund balance represent 77% and 109% of General Fund expenditures, respectively. If 2009-10 General Fund expenditures were adjusted for the one-time CalPERS payments, the unreserved undesignated fund balance and total fund balance represent 86% and 122% of General Fund expenditures, respectively. At June 30, 2009, the unreserved undesignated fund balance and total fund balance represented 82% and 118% of General Fund expenditures, respectively.

**Proprietary Funds** – Net assets increased \$950,935 as a result of the business-type activities of the Town. In 2008-09, the increase in net assets was largely due to inflow of restricted assets from the West Loyola Special Assessment District. In 2009-10, the increase is a combination of onetime revenues and lower contract services expenses. 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 \$277,998 and budgeted expenditures were increased by \$605,544 largely the result of the CalPERS side-fund payoff. 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, 2010, amounts to \$27,572,912, net of accumulated depreciation - an increase of \$738,255 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.

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

The following table presents summarized information on capital assets net of depreciation for fiscal years 2009 and 2010. 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	
	2010	2009	2010	2009	2010	2009
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	4,426,400	4,558,777	-	-	4,426,400	4,558,777
Office equipment	108,960	131,437	-	-	108,960	131,437
Vehicles	114,001	95,281	-	-	114,001	95,281
Sewer collection system	-	-	2,407,599	2,366,075	2,407,599	2,366,075
Infrastructure	20,265,417	19,432,552	-	-	20,265,417	19,432,552
Total capital assets, net	\$ 25,165,313	\$ 24,468,582	\$ 2,407,599	\$ 2,366,075	\$ 27,572,912	\$ 26,834,657

**Long-term Debt**

The balance of long term debt, excluding compensated absences, at June 30, 2010, was \$1,601,056; of that amount, \$139,216 is due within one year and the balance, \$1,461,840, is due in more than one year.

There is no dedicated source of revenue to fund these debt payments however the payments are funded by the General Fund and 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  
Finance & Administrative Services Department  
26379 Fremont Road  
Los Altos Hills, CA 94022

# TOWN OF LOS ALTOS HILLS

## STATEMENT OF NET ASSETS JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 11,145,790	\$ 3,130,448	\$ 14,276,238
Restricted cash and investments	-	1,727,745	1,727,745
Receivables:			
Accounts receivables	322,290	172,774	495,064
Net OPEB asset	159,844	-	159,844
Total Current Assets	<u>11,627,924</u>	<u>5,030,967</u>	<u>16,658,891</u>
Capital assets:			
Land	250,535	-	250,535
Construction in progress	-	1,615,108	1,615,108
Other capital assets, net of depreciation:			
Buildings	4,426,400	-	4,426,400
Office equipment	108,960	-	108,960
Vehicles	114,001	-	114,001
Land improvements	-	2,407,599	2,407,599
Infrastructure	20,265,417	-	20,265,417
Total Capital Assets	<u>25,165,313</u>	<u>4,022,707</u>	<u>29,188,020</u>
Total Assets	<u>36,793,237</u>	<u>9,053,674</u>	<u>45,846,911</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	620,658	669,887	1,290,545
Other liabilities	10,964	-	10,964
Interest payable	20,220	-	20,220
Refundable deposits	1,573,815	8,702	1,582,517
Compensated absences due within one year	28,453	-	28,453
Current portion of long-term debt	139,216	-	139,216
Total current liabilities	<u>2,393,326</u>	<u>678,589</u>	<u>3,071,915</u>
Non-current liabilities:			
Compensated absences due in more than one year	94,429	5,368	99,797
Long-term debt due in more than one year	1,461,840	-	1,461,840
Total non-current liabilities	<u>1,556,269</u>	<u>5,368</u>	<u>1,561,637</u>
Total Liabilities	<u>3,949,595</u>	<u>683,957</u>	<u>4,633,552</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	23,564,257	4,022,707	27,586,964
Restricted for:			
Highways and streets	1,370,304	-	1,370,304
Public safety	77,287	-	77,287
Restricted for capital projects	-	1,727,745	1,727,745
Unrestricted	7,831,794	2,619,265	10,451,059
Total Net Assets	<u>\$ 32,843,642</u>	<u>\$ 8,369,717</u>	<u>\$ 41,213,359</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, 2010

	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
<b>Governmental Activities:</b>							
Administration	\$ 2,071,985	\$ -	\$ -	\$ -	\$ (2,071,985)	\$ -	\$ (2,071,985)
Public safety	1,491,760	-	100,371	-	(1,391,389)	-	(1,391,389)
Community development	2,660,434	1,218,744	-	-	(1,441,690)	-	(1,441,690)
Parks and recreation	1,279,596	541,337	-	-	(738,259)	-	(738,259)
Drainage and street operations	830,146	709,133	896,083	-	775,070	-	775,070
Interest on long-term debt	75,962	-	-	-	(75,962)	-	(75,962)
<b>Total Governmental Activities</b>	<b>8,409,883</b>	<b>2,469,214</b>	<b>996,454</b>	<b>-</b>	<b>(4,944,215)</b>	<b>-</b>	<b>(4,944,215)</b>
<b>Business-type Activities:</b>							
Sewer	947,450	1,643,706	-	272,405	-	968,661	968,661
<b>Total Business-type Activities</b>	<b>947,450</b>	<b>1,643,706</b>	<b>-</b>	<b>272,405</b>	<b>-</b>	<b>968,661</b>	<b>968,661</b>
<b>Total Primary Government</b>	<b>\$ 9,357,333</b>	<b>\$ 4,112,920</b>	<b>\$ 996,454</b>	<b>\$ 272,405</b>	<b>(4,944,215)</b>	<b>968,661</b>	<b>(3,975,554)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property taxes					3,444,173	-	3,444,173
Motor vehicle license tax					34,253	-	34,253
Other taxes					332,189	-	332,189
Franchise Taxes					387,803	-	387,803
Gain (loss) on sale of capital Assets					242	-	242
Use of money and property					212,126	102,876	315,002
Intergovernmental-unrestricted					140,947	-	140,947
Other unrestricted revenue					303,395	-	303,395
Transfers					131,616	(131,616)	-
<b>Total General Revenues and Transfers</b>					<b>4,986,744</b>	<b>(28,740)</b>	<b>4,958,004</b>
<b>Change in Net Assets</b>					<b>42,529</b>	<b>939,921</b>	<b>982,450</b>
<b>Net Assets, Beginning of Year</b>					<b>32,801,113</b>	<b>7,429,796</b>	<b>40,230,909</b>
<b>Net Assets, End of Year</b>					<b>\$ 32,843,642</b>	<b>\$ 8,369,717</b>	<b>\$ 41,213,359</b>

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



**TOWN OF LOS ALTOS HILLS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2010**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Totals
<b>ASSETS</b>						
Cash and investments	\$ 6,616,007	\$ -	\$ 417,519	\$ 1,638,074	\$ 1,740,531	\$ 10,412,131
Accounts receivable	301,860	-	-	-	20,430	322,290
Due from other funds	139,345	-	-	-	-	139,345
Total Assets	<u>\$ 7,057,212</u>	<u>\$ -</u>	<u>\$ 417,519</u>	<u>\$ 1,638,074</u>	<u>\$ 1,760,961</u>	<u>\$ 10,873,766</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	87,431	-	1,013	234,177	47,238	369,859
Other liabilities	2,164	-	-	-	-	2,164
Refundable deposits	1,557,106	-	-	-	16,709	1,573,815
Due to other funds	-	-	-	-	139,345	139,345
Total Liabilities	<u>1,646,701</u>	<u>-</u>	<u>1,013</u>	<u>234,177</u>	<u>203,292</u>	<u>2,085,183</u>
<b>FUND BALANCES</b>						
Reserved for:						
Highways and streets	-	-	-	-	1,370,304	1,370,304
Public safety	-	-	-	-	77,287	77,287
Parks and recreation	-	-	-	-	110,078	110,078
Unreserved, designated for:						
Capital projects	-	-	416,506	1,403,897	-	1,820,403
Other purpose	1,600,000	-	-	-	-	1,600,000
Unreserved, undesignated	3,810,511	-	-	-	-	3,810,511
Total Fund Balances	<u>5,410,511</u>	<u>-</u>	<u>416,506</u>	<u>1,403,897</u>	<u>1,557,669</u>	<u>8,788,583</u>
Total Liabilities and Fund Balances	<u>\$ 7,057,212</u>	<u>\$ -</u>	<u>\$ 417,519</u>	<u>\$ 1,638,074</u>	<u>\$ 1,760,961</u>	<u>\$ 10,873,766</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, 2010**

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Fund Balances of Governmental Funds	\$ 8,788,583
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.	20,375,952
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.	5,421,200
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(120,817)
Long-term debt	(1,601,056)
Interest payable	(20,220)
Net Assets of Governmental Activities	<u>\$ 32,843,642</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, 2010**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
<b>REVENUES</b>						
Property taxes	\$ 3,438,168	\$ -	\$ -	\$ -	\$ -	\$ 3,438,168
Taxes other than property	332,189	-	-	-	-	332,189
Franchise fees	387,803	-	-	-	-	387,803
Licenses and permits	625,609	-	-	-	106,624	732,233
Intergovernmental	109,537	-	106,979	91,612	348,352	656,480
Use of money and property	156,013	-	-	35,364	20,749	212,126
Charges for services	771,407	-	-	-	979,951	1,751,358
Miscellaneous	90,898	-	216,321	502,978	-	810,197
<b>Total revenues</b>	<b>5,911,624</b>	<b>-</b>	<b>323,300</b>	<b>629,954</b>	<b>1,455,676</b>	<b>8,320,554</b>
<b>EXPENDITURES</b>						
Current:						
Administration	1,625,477	-	3,325	22,342.00	-	1,651,144
Public safety	985,002	-	-	-	107,357	1,092,359
Community development	2,025,711	-	-	-	-	2,025,711
Parks and recreation	321,673	-	-	-	642,571	964,244
Drainage and street operations	-	-	-	-	625,610	625,610
Debt service						
Prinicpal	-	133,693	-	-	-	133,693
Interest	-	77,623	-	-	-	77,623
Capital outlay	-	-	1,147,290	1,760,764	-	2,908,054
<b>Total expenditures</b>	<b>4,957,863</b>	<b>211,316</b>	<b>1,150,615</b>	<b>1,783,106</b>	<b>1,375,538</b>	<b>9,478,438</b>
Excess (Deficiency) of Revenues						
Over Expenditures	953,761	(211,316)	(827,315)	(1,153,152)	80,138	(1,157,884)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of Assets	242	-	-	-	-	242
Transfers in	131,616	211,316	-	1,207,000	459,571	2,009,503
Transfers out	(898,887)	-	-	(848,000)	(131,000)	(1,877,887)
<b>Total Other Financing Sources (Uses)</b>	<b>(767,029)</b>	<b>211,316</b>	<b>-</b>	<b>359,000</b>	<b>328,571</b>	<b>131,858</b>
<b>Net Change in Fund Balances</b>	<b>186,732</b>	<b>-</b>	<b>(827,315)</b>	<b>(794,152)</b>	<b>408,709</b>	<b>(1,026,026)</b>
Fund Balances, Beginning of Year	5,223,779	-	1,243,821	2,198,049	1,148,960	9,814,609
Fund Balances, End of Year	\$ 5,410,511	\$ -	\$ 416,506	\$ 1,403,897	\$ 1,557,669	\$ 8,788,583

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, 2010

---

Net Change in Fund Balances - Total Governmental Funds \$ (1,026,026)

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	2,908,054
Depreciation expense charged to governmental activities	(2,075,499)

Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets.	133,693
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Change in Compensated Absences	(2,598)
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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, 2010	(20,220)
Interest accrual at June 30, 2009	21,881

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>103,244</u>
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Change in Net Assets of Governmental Activities	<u>\$ 42,529</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, 2010  
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2009**

	Business-type Activities - Enterprise Funds				Total June 30, 2010	Governmental Activities - Internal Service Fund
	Sewer		Solid Waste			
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009		
<b>ASSETS</b>						
Current Assets:						
Cash and investments	\$ 3,130,448	\$ 2,693,776	\$ -	\$ 11,014	\$ 3,130,448	\$ 733,659
Restricted Cash	1,727,745	2,999,604	-	-	1,727,745	-
Accounts receivable	172,774	23,000	-	-	172,774	-
Interest receivable	-	-	-	-	-	-
Net OPEB Asset	-	-	-	-	-	159,844
Total Current Assets	5,030,967	5,716,380	-	11,014	5,030,967	893,503
Noncurrent Assets:						
Capital assets, net of accumulated depreciation	4,022,707	2,427,865	-	-	4,022,707	4,789,361
Total Assets	9,053,674	8,144,245	-	11,014	9,053,674	5,682,864
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	669,887	721,668	-	-	669,887	250,799
Other liabilities	-	-	-	-	-	8,800
Compensated absences payable- current	-	-	-	-	-	61
Refundable deposits	8,702	-	-	-	8,702	-
Total current liabilities	678,589	721,668	-	-	678,589	259,660
Noncurrent liabilities:						
Compensated absence payable	5,368	3,795	-	-	5,368	2,004
Total noncurrent liabilities	5,368	3,795	-	-	5,368	2,004
Total Liabilities	683,957	725,463	-	-	683,957	261,664
<b>NET ASSETS</b>						
Invested in capital assets	4,022,707	2,427,865	-	-	4,022,707	4,789,361
Restricted for Construction	1,727,745	2,999,604	-	-	1,727,745	-
Unrestricted	2,619,265	1,991,313	-	11,014	2,619,265	631,839
Total Net Assets	\$ 8,369,717	\$ 7,418,782	\$ -	\$ 11,014	\$ 8,369,717	\$ 5,421,200

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, 2010  
WITH COMPARATIVE AMOUNT FOR THE YEAR ENDED JUNE 30, 2009**

	Business-type Activities - Enterprise Funds				Total June 30, 2010	Governmental Activities - Internal Service Fund
	Sewer		Solid Waste			
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009		
<b>OPERATING REVENUES</b>						
Charges for services	\$ 1,497,021	\$ 1,273,697	\$ -	\$ 339,641	\$ 1,497,021	\$ -
Other income	146,685	62,093	-	22,122	146,685	-
General Services	-	-	-	-	-	550,044
Town Hall services	-	-	-	-	-	467,026
Office services	-	-	-	-	-	2,022
Corporate yard services	-	-	-	-	-	70,035
Vehicle services	-	-	-	-	-	144,974
<b>Total Operating Revenues</b>	<b>1,643,706</b>	<b>1,335,790</b>	<b>-</b>	<b>361,763</b>	<b>1,643,706</b>	<b>1,234,101</b>
<b>OPERATING EXPENSES</b>						
Salaries and benefits	82,967	72,889	-	11,310	82,967	570,746
Contract services	657,118	888,123	-	362,065	657,118	200,251
Operating expenses	109,823	69,327	-	13,960	109,823	180,927
Depreciation	97,542	66,733	-	-	97,542	178,933
<b>Total Operating Expenses</b>	<b>947,450</b>	<b>1,097,072</b>	<b>-</b>	<b>387,335</b>	<b>947,450</b>	<b>1,130,857</b>
<b>Operating Income (Loss)</b>	<b>696,256</b>	<b>238,718</b>	<b>-</b>	<b>(25,572)</b>	<b>696,256</b>	<b>103,244</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>						
Interest income	102,876	101,930	-	11,597	102,876	-
Connection Fees	142,955	194,929	-	-	142,955	-
Intergovernmental	-	-	-	-	-	-
<b>Total Nonoperating Revenue</b>	<b>245,831</b>	<b>296,859</b>	<b>-</b>	<b>11,597</b>	<b>245,831</b>	<b>-</b>
<b>Income Before Contributions and Transfers</b>	<b>942,087</b>	<b>535,577</b>	<b>-</b>	<b>(13,975)</b>	<b>942,087</b>	<b>103,244</b>
Contribution from property owners	129,450	3,013,758	-	-	129,450	-
Transfers in	-	-	-	102,190	-	-
Transfers out	(120,602)	-	(11,014)	(125,386)	(131,616)	-
<b>Changes in Net Assets</b>	<b>950,935</b>	<b>3,549,335</b>	<b>(11,014)</b>	<b>(37,171)</b>	<b>939,921</b>	<b>103,244</b>
<b>Total Net Assets, Beginning of Year</b>	<b>7,418,782</b>	<b>3,869,447</b>	<b>11,014</b>	<b>48,185</b>	<b>7,429,796</b>	<b>5,317,956</b>
<b>Total Net Assets, End of Year</b>	<b>\$ 8,369,717</b>	<b>\$ 7,418,782</b>	<b>\$ -</b>	<b>\$ 11,014</b>	<b>\$ 8,369,717</b>	<b>\$ 5,421,200</b>

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

# TOWN OF LOS ALTOS HILLS

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities			Governmental Activities - Internal Service Fund
	Sewer Fund	Solid Waste Fund	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 1,493,932	\$ -	\$ 1,493,932	\$ 1,234,101
Payments to suppliers	(808,447)	-	(808,447)	(232,771)
Payments to employees	(82,967)	-	(82,967)	(696,129)
Net Cash Provided (Used) by Operating Activities	602,518	-	602,518	305,201
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Connection fee	142,955	-	142,955	-
Transfers in	-	-	-	-
Transfers out	(120,602)	(11,014)	(131,616)	-
Net Cash Provided (Used) by Noncapital Financing Activities	22,353	(11,014)	11,339	-
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital Contributions from property owners	129,450	-	129,450	-
Cash to acquire fixed assets	(1,692,384)	-	(1,692,384)	(42,799)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,562,934)	-	(1,562,934)	(42,799)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	102,876	-	102,876	-
Net Increase (Decrease) in Cash and Investments	(835,187)	(11,014)	(846,201)	262,402
Cash and Cash Equivalents, Beginning of Year	5,693,380	11,014	5,704,394	471,257
Cash and Cash Equivalents, End of Year	\$ 4,858,193	\$ -	\$ 4,858,193	\$ 733,659
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 696,256	\$ -	\$ 696,256	\$ 103,244
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	97,542	-	97,542	178,933
(Increase) decrease in accounts receivable	(149,774)	-	(149,774)	-
(Increase) decrease in OPEB assets	-	-	-	(125,383)
Increase (decrease) in accounts payable	(41,506)	-	(41,506)	148,407
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 602,518</b>	<b>\$ -</b>	<b>\$ 602,518</b>	<b>\$ 305,201</b>

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, 2010**

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**ASSETS**

Restricted Cash and Investments	\$ 204,348
Total Assets	<u>\$ 204,348</u>

**LIABILITIES**

Due to Property Owners	\$ 15,746
Due to bondholders	188,602
Total Liabilities	<u>\$ 204,348</u>

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, 2010

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Description of Reporting Entity

The Town of Los Altos Hills (the Town) was incorporated in 1956, under the provisions of the State of California. As of June 30, 2010, the Town's population was 8,889. 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, 2010

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

#### Fund Financial Statements

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

Proprietary funds distinguish operating revenues and expenses and non-operating 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 non-operating 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, 2010

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

The Town reports the following additional fund types:

- The *Internal Service Fund* is used to account for the maintenance and replacement of vehicles and equipment; the operation, maintenance, and replacement of office equipment used by the Town's departments; costs incurred for printing/reproduction services and mailing services for all of the Town's departments; and the charges against each department for its share of the costs of operations for the Finance Department.
- The *Agency Fund* is used to account for assets held by the Town in the capacity of agent for a special assessment district. The 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. Non-exchange 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, 2010

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

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

#### D. Internal Investment Pool

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

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

#### E. Receivables

During the course of normal operations, the Town carried various receivable balances for franchise fees, interest, license fees, sewer fees, and solid waste fees. Accounts receivable are shown at \$301,860 in the General Fund, \$20,430 in Non Major Governmental Fund, and \$172,774 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, 2010

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

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

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

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

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

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

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

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

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

#### **J. Estimates**

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

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and Investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Cash on hand	\$	692
Deposits with financial institutions		2,094,960
Cash with fiscal agent		188,602
Investments		13,924,077
Total Deposits and Investments	\$	<u>16,208,331</u>

Cash and investment as of June 30, 2010, consist of the following:

Statement of net assets:		
Cash and investments	\$	14,276,238
Restricted cash and investments		1,727,745
Fiduciary funds:		
Cash and investments		204,348
Total Deposits and Investments	\$	<u>16,208,331</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, 2010.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

**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:

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, 2010, the Town had the following investments.

Investment Type	Fair Value	12 Months or Less	13 to 24 Months	25 - 60 Months
Federal Agency Bonds/Notes	\$ 510,307	\$ 510,307	\$ -	\$ -
U.S. Treasury Bonds/Notes	10,915,913	5,407,530	5,255,141	253,242
LAIF	19,101	19,101	-	-
Certificates of Deposit	750,000	750,000	-	-
Money Market	1,728,756	1,728,756	-	-
Total Securities	<u>\$ 13,924,077</u>	<u>\$ 8,415,694</u>	<u>\$ 5,255,141</u>	<u>\$ 253,242</u>

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

**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.

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End	
				AAA	Unrated
U.S. Treasuries	\$ 10,915,913	N/A	\$ 10,915,913	\$ -	\$ -
Federal Agency Bond/Note	510,307	AAA	-	510,307	-
LAIF	19,101	N/A	-	-	19,101
Certificates of Deposit	750,000	N/A	750,000	-	-
Money Market	1,728,756	N/A	1,728,756	-	-
Total	<u>\$ 13,924,077</u>		<u>\$ 13,394,669</u>	<u>\$ 510,307</u>	<u>\$ 19,101</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. There were no 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.

**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, 2010, the Town's bank balance of \$2,892,170, with a reported balance of \$2,069,930, 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 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.



**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

**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, 2010:

<b>Transfers in</b>	<b>Transfers out</b>					<b>Total</b>
	General Fund	Other capital Project Fund	Governmental Non-Major Funds	Sewer Enterprise Fund	Solid Waste Enterprise Fund	
General Fund	\$ -	\$ -	\$ -	\$ 120,602	\$ 11,014	\$ 131,616
Debt Service Fund	211,316	-	-	-	-	211,316
Other Capital Project Fund	228,000	848,000	131,000	-	-	1,207,000
Governmental Non-Major Funds	459,571	-	-	-	-	459,571
<b>Total</b>	<b>\$ 898,887</b>	<b>\$ 848,000</b>	<b>\$ 131,000</b>	<b>\$ 120,602</b>	<b>\$ 11,014</b>	<b>\$ 2,009,503</b>

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 53%, is dedicated to capital improvements ranging from parks & recreation facilities to sewer infrastructure. Operations and debt service account for 30% and 17%, respectively, of the total annual transfers in 2009-10.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Reductions	Adjustment	Balance June 30, 2010
<b>Governmental activities</b>					
<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	66,492,121	2,908,053	-	-	69,400,174
Buildings	5,152,825	-	-	-	5,152,825
Vehicles	439,729	42,795	-	-	482,524
Office equipment	444,411	-	-	-	444,411
Total capital assets being depreciated	<u>72,529,086</u>	<u>2,950,848</u>	<u>-</u>	<u>-</u>	<u>75,479,934</u>
<i>Less accumulated depreciation for:</i>					
Infrastructure	(47,059,568)	(2,075,189)	-	-	(49,134,757)
Buildings	(594,048)	(132,377)	-	-	(726,425)
Vehicles	(344,449)	(24,074)	-	-	(368,523)
Office equipment	(312,975)	(22,476)	-	-	(335,451)
Total accumulated depreciation	<u>(48,311,040)</u>	<u>(2,254,116)</u>	<u>-</u>	<u>-</u>	<u>(50,565,156)</u>
Total capital assets being depreciated, net	<u>24,218,046</u>	<u>696,732</u>	<u>-</u>	<u>-</u>	<u>24,914,778</u>
Governmental activities capital assets, net	<u>\$ 24,468,581</u>	<u>\$ 696,732</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,165,313</u>
<b>Business-type activities</b>					
<i>Capital assets not being depreciated:</i>					
Construction in progress	\$ 61,790	\$ 1,553,318	\$ -	\$ -	\$ 1,615,108
<i>Capital assets being depreciated:</i>					
Sewer collection system	3,929,962	139,066	-	-	4,069,028
Office equipment	1,509	-	-	-	1,509
Total capital assets being depreciated	<u>3,931,470</u>	<u>139,066</u>	<u>-</u>	<u>-</u>	<u>4,070,536</u>
<i>Less accumulated depreciation for:</i>					
Sewer collection system	(1,563,887)	(97,542)	-	-	(1,661,429)
Office equipment	(1,509)	-	-	-	(1,509)
Total accumulated depreciation	<u>(1,565,396)</u>	<u>(97,542)</u>	<u>-</u>	<u>-</u>	<u>(1,662,938)</u>
Total capital assets being depreciated, net	<u>2,366,075</u>	<u>41,524</u>	<u>-</u>	<u>-</u>	<u>2,407,599</u>
Business-type activities capital assets, net	<u>\$ 2,427,865</u>	<u>\$ 1,594,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,022,707</u>

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 521,172
Public safety	399,401
Community development	634,723
Parks and recreation	315,352
Drainage and street operations	204,536
Capital assets held by the Town's Internal Service Fund charged to the various functions based on their usage of the assets	<u>178,932</u>
 Total depreciation - governmental activities	 <u><u>\$ 2,254,116</u></u>

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

Sewer Fund	<u><u>\$ 97,542</u></u>
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**NOTE 5 – LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2009 is as follows:

	Balance June 30, 2009	Additions	Retirement	Balance June 30, 2010	Current portion	Interest rate
<b>Governmental activities:</b>						
Capital Lease	\$ 1,614,148	\$ -	\$ (123,002)	\$ 1,491,146	\$ 128,099	4.65%
California Energy Commission Loan	120,601	-	(10,691)	\$ 109,910	11,118	3.95%
Subtotals	<u>1,734,749</u>	<u>-</u>	<u>(133,693)</u>	<u>1,601,056</u>	<u>139,217</u>	
Compensated Absences	122,516	14,823	(14,456)	122,883	28,453	N/A
Governmental activity long-term liabilities	<u>1,857,265</u>	<u>14,823</u>	<u>(148,149)</u>	<u>1,723,939</u>	<u>167,670</u>	
<b>Business-type activities:</b>						
Compensated Absences	<u>3,795</u>	<u>1,573</u>	<u>-</u>	<u>5,368</u>	<u>-</u>	N/A
<b>Total Governmental and Business-type activity long-term liabilities</b>	<u><u>\$ 1,861,060</u></u>	<u><u>\$ 16,396</u></u>	<u><u>\$ (148,149)</u></u>	<u><u>\$ 1,729,307</u></u>	<u><u>\$ 167,670</u></u>	

The Town's capital assets at June 30, 2010 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, 2010

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### 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
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	153,957	42,009	195,966
2016-2020	787,492	94,349	881,841
Total	<u>\$ 1,491,146</u>	<u>\$ 370,520</u>	<u>\$ 1,861,666</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
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	12,999	2,351	15,350
2016-2019	49,719	4,010	53,729
Total	<u>\$ 109,910</u>	<u>\$ 20,572</u>	<u>\$ 130,482</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, 2010**

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

At June 30, 2010, the balance of the assessment district’s outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/2010
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25%-6.15%	\$ 48,364	2011-2039	<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, 2010, restricted assets consisted of \$1,370,304 for street projects, \$77,287 for public safety grants, and \$1,727,745 for capital projects.

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

There is \$154,000 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, 2010**

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**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)	\$ 1,370,304
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)	77,287
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>110,078</u>
<b>Total Reservations</b>	<u><u>\$ 1,557,669</u></u>

**Designations**

Capital projects is the portion of fund balance designated for capital projects, other than streets. (Other Capital Project Fund)	\$ 1,820,403
Other designations consist of contingencies of \$350,000 and emergency relief of \$1,250,000. (General Fund)	<u>1,600,000</u>
<b>Total Designations</b>	<u><u>\$ 3,420,403</u></u>

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### 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 2009-2010 was 14.694% 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, however, during the June 30, 2010 fiscal year the Town paid approximately \$637,320 to pay off the entire balance of the side fund.

#### C. Annual Pension Cost

For fiscal year 2009-2010, the Town's annual pension cost of \$190,021 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>
6/30/2008	\$ 208,471	100%	\$ -
6/30/2009	217,808	100%	-
6/30/2010	190,021	100%	-

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### 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, 2010 the Town contributed \$63,804 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, 2010, the Town contributed \$77,513 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, 2010, estimated by ABAG was not material.



# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### 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. 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 implementation of this statement did not 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 implementation of this statement did not 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.

In December 2009, GASB issued Statement No. 57, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*”, which expands the use of alternative measurement method to an agent employer government that has an individual-employer OPEB plan with fewer than 100 total plan members. The Statement also provided guidance about the frequency and timing measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The provisions of this Statement related to the use and reporting of the alternative measurement method were effective immediately upon the Statement’s issuance in December 2009. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. The Town is currently evaluating the impact of adopting Statement No. 57.

In June 2009, GASB issued Statement No. 58, “*Accounting and Financial Reporting for Chapter 9 Bankruptcies.*” This Statement establishes accounting and financial reporting guidance for government that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy code. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. This Statement has no impact on the Town’s Financial Statements.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### 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.

#### 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.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

	June 30, 2010
Normal Cost at Year End	\$ 65,000
Amortization of UAAL	89,000
Annual Required Contribution	154,000
Interest on Prior Year Net OPEB Asset	(2,671)
Adjustment to ARC	2,948
Annual OPEB Cost	154,277
Contributions Made	(279,660)
Increase (Decrease) in Net OPEB Obligation	(125,383)
Net OPEB Obligation (Asset)- Beginning of Year	(34,461)
Net OPEB Obligation (Asset)- End of Year	\$ (159,844)

**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)	\$ 1,472,000
Actuarial value of plan assets	345,000
Unfunded actuarial accrued liability (UAAL)	1,817,000
Funded ratio (actuarial value of plan assets/AAL)	23.0%
Covered payroll (active plan members)	1,554,000
UAAL as percentage of covered payroll	73.0%

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, 2008	\$ 203,000	188%	\$ (178,327)
June 30, 2009	204,381	30%	(34,461)
June 30, 2010	154,277	181%	(159,844)

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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

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, 2009 actuarial valuation, the entry age normal actuarial cost method was used with a level percentage of pay amortization method. The actuarial value of asset gains/losses is recognized over 5 years, with a corridor of 80% & 120% of market value. The unfunded liability amortization is based off a 20-year fixed (closed) period for plan changes, a 15-year fixed (closed) period for method and assumption changes. 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 rates for 2009 & 2010, with an 8.4% increase for HMO and 9.0% increase for PPO plans for Non-Medicare eligible premiums. Medicare eligible premiums included a 8.7% increase for HMO and 9.3% 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.
- Participation in the Plan is assumed to be 100% for average premium cap benefits with 70% PEMHCA minimum.
- Retirees will choose same medical plan as active employees.
- Marital Status is the same as current election with 80% married currently waived.
- 10% of the Pre-65 and 0% of post-65 members were assumed to have dependents.
- No current member of the City Council was assumed to be eligible for retiree healthcare benefits.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### NOTE 13 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Deficit Fund Equity

The Parks and Recreation Facilities fund had a deficit fund balance of \$21,389 as of June 30, 2010. 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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property tax	\$ 3,174,158	\$ 3,452,156	\$ 3,438,168	\$ (13,988)
Taxes other than property	299,039	299,039	332,189	33,150
Franchise fees	411,941	411,941	387,803	(24,138)
Licenses and permits	596,125	596,125	625,609	29,484
Intergovernmental	(6,863)	(6,863)	109,537	116,400
Use of money and property	328,771	328,771	156,013	(172,758)
Charges for services	285,378	285,378	771,407	486,029
Miscellaneous	132,856	132,856	90,898	(41,958)
<b>Total Revenues</b>	<b>5,221,405</b>	<b>5,499,403</b>	<b>5,911,624</b>	<b>412,221</b>
<b>EXPENDITURES</b>				
Current:				
Administration	1,603,488	1,834,596	1,625,477	209,119
Public safety	1,009,747	1,009,747	985,002	24,745
Community development	1,754,499	2,100,317	2,025,711	74,606
Parks and recreation	267,404	296,022	321,673	(25,651)
<b>Total Expenditures</b>	<b>4,635,138</b>	<b>5,240,682</b>	<b>4,957,863</b>	<b>282,819</b>
Excess (Deficiency) of Revenues Over Expenditures				
	586,267	258,721	953,761	695,040
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of asset	-	-	242	242
Transfers in	120,602	131,616	131,616	-
Transfers out	(840,240)	(868,240)	(898,887)	(30,647)
<b>Total Other Financing Sources (Uses)</b>	<b>(719,638)</b>	<b>(736,624)</b>	<b>(767,029)</b>	<b>(30,405)</b>
<b>Net Change in Fund Balance</b>	<b>(133,371)</b>	<b>(477,903)</b>	<b>186,732</b>	<b>664,635</b>
Fund Balance, Beginning of Year	5,223,779	5,223,779	5,223,779	-
Fund Balance, End of Year	\$ 5,090,408	\$ 4,745,876	\$ 5,410,511	\$ 664,635

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, 2010**

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)
3/30/2008	\$ 1,594	N/A	\$ 1,594	0.0%	\$ 1,398	114.0%
7/23/2010	\$ 1,472	\$ 345	\$ 1,127	23.4%	\$ 1,554	72.5%

See note to required supplementary information.



# **TOWN OF LOS ALTOS HILLS**

## **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2010**

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### **1- BUDGETARY BASIS OF ACCOUNTING**

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

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

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

This schedule shows the funding progress for the Town's Other Post Employment Benefits 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, 2010

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#### SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

**TOWN OF LOS ALTOS HILLS**

**COMBINING BALANCE SHEET  
NON MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	Special Revenue Funds							Total Nonmajor Governmental	
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS		CLEEP
<b>ASSETS</b>									
Cash and investments	\$ 332,624	\$ 183,878	\$ -	\$ 201	\$ 773,888	\$ 368,723	\$ 75,854	\$ 5,363	\$ 1,740,531
Accounts receivable	-	-	20,430	-	-	-	-	-	20,430
<b>Total Assets</b>	<b>\$ 332,624</b>	<b>\$ 183,878</b>	<b>\$ 20,430</b>	<b>\$ 201</b>	<b>\$ 773,888</b>	<b>\$ 368,723</b>	<b>\$ 75,854</b>	<b>\$ 5,363</b>	<b>\$ 1,760,961</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ 4,235	\$ 6,582	\$ 14,708	\$ -	17,783	\$ -	\$ 3,930	\$ -	\$ 47,238
Other liabilities	-	-	-	-	16,709	-	-	-	16,709
Due to other funds	40,596	46,030	27,111	-	25,608	-	-	-	139,345
<b>Total Liabilities</b>	<b>44,831</b>	<b>52,612</b>	<b>41,819</b>	<b>-</b>	<b>60,100</b>	<b>-</b>	<b>3,930</b>	<b>-</b>	<b>203,292</b>
<b>FUND BALANCES</b>									
Reserved for:									
Pathway Fees									
Highways and streets	287,793	-	-	-	713,788	368,723	-	-	1,370,304
Public safety	-	-	-	-	-	-	71,924	5,363	77,287
Parks and recreation	-	131,266	(21,389)	201	-	-	-	-	110,078
<b>Total Fund Balances</b>	<b>287,793</b>	<b>131,266</b>	<b>(21,389)</b>	<b>201</b>	<b>713,788</b>	<b>368,723</b>	<b>71,924</b>	<b>5,363</b>	<b>1,557,669</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 332,624</b>	<b>\$ 183,878</b>	<b>\$ 20,430</b>	<b>\$ 201</b>	<b>\$ 773,888</b>	<b>\$ 368,723</b>	<b>\$ 75,854</b>	<b>\$ 5,363</b>	<b>\$ 1,760,961</b>

**TOWN OF LOS ALTOS HILLS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES  
NON MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

	Special Revenue Funds							Total Nonmajor Governmental Funds	
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS		CLEEP
<b>REVENUES</b>									
License and permits	\$ -	\$ -	\$ -	\$ -	\$ 106,624	\$ -	\$ -	\$ -	\$ 106,624
Intergovernmental	-	-	-	-	247,981	-	100,371	-	348,352
Use of money and property	-	6,434	8,460	(1,006)	6,528	-	292	41	20,749
Charges for services	98,668	154,066	196,375	27,001	231,069	272,772	-	-	979,951
<b>Total Revenues</b>	<b>98,668</b>	<b>160,500</b>	<b>204,835</b>	<b>25,995</b>	<b>592,202</b>	<b>272,772</b>	<b>100,663</b>	<b>41</b>	<b>1,455,676</b>
<b>EXPENDITURES</b>									
Current:									
Public safety	-	-	-	-	-	-	107,357	-	107,357
Parks and recreation	-	342,407	300,164	-	-	-	-	-	642,571
Drainage and street operations	304,445	-	-	-	321,165	-	-	-	625,610
<b>Total Expenditures</b>	<b>304,445</b>	<b>342,407</b>	<b>300,164</b>	<b>-</b>	<b>321,165</b>	<b>-</b>	<b>107,357</b>	<b>-</b>	<b>1,375,538</b>
Excess (Deficiency) of Revenues Over Expenditures	(205,777)	(181,907)	(95,329)	25,995	271,037	272,772	(6,694)	41	80,138
<b>OTHER FINANCING SOURCES (USES)</b>									
Sale of Asset	-	-	-	-	-	-	-	-	-
Transfers in	180,000	200,000	79,571	-	-	-	-	-	459,571
Transfers out	-	(15,000)	-	(116,000)	-	-	-	-	(131,000)
<b>Total Other Financing Sources (Uses)</b>	<b>180,000</b>	<b>185,000</b>	<b>79,571</b>	<b>(116,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>328,571</b>
<b>Net Change in Fund Balances</b>	<b>(25,777)</b>	<b>3,093</b>	<b>(15,758)</b>	<b>(90,005)</b>	<b>271,037</b>	<b>272,772</b>	<b>(6,694)</b>	<b>41</b>	<b>408,709</b>
Fund Balances, Beginning of year	313,570	128,173	(5,631)	90,206	442,751	95,951	78,618	5,322	1,148,960
Fund Balances, End of Year	\$ 287,793	\$ 131,266	\$ (21,389)	\$ 201	\$ 713,788	\$ 368,723	\$ 71,924	\$ 5,363	\$ 1,557,669

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 80,367	\$ 80,367	\$ 98,668	\$ 18,301
Total Revenues	80,367	80,367	98,668	18,301
<b>EXPENDITURES</b>				
Current:				
Drainage operations	287,529	328,125	304,445	23,680
Total Expenditures	287,529	328,125	304,445	23,680
Excess (Deficiency) of Revenues Over Expenditures	(207,162)	(247,758)	(205,777)	41,981
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	180,000	180,000	180,000	-
Total Other Financing Sources (Uses)	180,000	180,000	180,000	-
Net Change in Fund Balance	(27,162)	(67,758)	(25,777)	41,981
Fund Balance, Beginning of Year	313,570	313,570	313,570	-
Fund Balance, End of Year	\$ 286,408	\$ 245,812	\$ 287,793	\$ 41,981

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ 2,250	\$ 2,250	\$ 6,434	\$ 4,184
Charges for services	69,825	69,825	154,066	84,241
<b>Total Revenues</b>	<b>72,075</b>	<b>72,075</b>	<b>160,500</b>	<b>88,425</b>
<b>EXPENDITURES</b>				
Current:				
Parks and recreation	312,959	358,990	342,407	16,583
<b>Total Expenditures</b>	<b>312,959</b>	<b>358,990</b>	<b>342,407</b>	<b>16,583</b>
Excess (Deficiency) of Revenues Over Expenditures	(240,884)	(286,915)	(181,907)	105,008
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	200,000	200,000	200,000	-
Transfers out	-	(15,000)	(15,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>200,000</b>	<b>185,000</b>	<b>185,000</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(40,884)</b>	<b>(101,915)</b>	<b>3,093</b>	<b>105,008</b>
Fund Balance, Beginning of Year	128,173	128,173	128,173	-
Fund Balance, End of Year	\$ 87,289	\$ 26,258	\$ 131,266	\$ 105,008

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money & property	\$ 339,500	\$ 339,500	\$ 8,460	\$ (331,040)
Miscellaneous Revenue	-	-	196,375	196,375
Total Revenues	339,500	339,500	204,835	(134,665)
EXPENDITURES	388,424	415,535	300,164	115,371
Excess (Deficiency) of Revenues Over Expenditures	(48,924)	(76,035)	(95,329)	(19,294)
OTHER FINANCING SOURCES (USES)				
Transfers In	48,924	48,924	79,571	30,647
Total Other Financing Sources (Uses)	48,924	48,924	79,571	30,647
Net Change in Fund Balance	-	(27,111)	(15,758)	11,353
Fund Balance, Beginning of Year	(5,631)	(5,631)	(5,631)	-
Fund Balance, End of Year	\$ (5,631)	\$ (32,742)	\$ (21,389)	\$ 11,353

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money & property	\$ 2,500	\$ 2,500	\$ (1,006)	\$ (3,506)
Charges for services	55,842	55,842	27,001	(28,841)
<b>Total Revenues</b>	<b>58,342</b>	<b>58,342</b>	<b>25,995</b>	<b>(32,347)</b>
<b>EXPENDITURES</b>				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	58,342	58,342	25,995	(32,347)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(116,000)	(116,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(116,000)</b>	<b>(116,000)</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>58,342</b>	<b>(57,658)</b>	<b>(90,005)</b>	<b>(32,347)</b>
Fund Balance, Beginning of Year	90,206	90,206	90,206	-
<b>Fund Balance, End of Year</b>	<b>\$ 148,548</b>	<b>\$ 32,548</b>	<b>\$ 201</b>	<b>\$ (32,347)</b>



**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ 27,959	\$ 27,959	\$ 106,624	\$ 78,665
Intergovernmental	152,000	152,000	247,981	95,981
Use of money and property	44,000	44,000	6,528	(37,472)
Charges for services	50,000	50,000	231,069	181,069
<b>Total Revenues</b>	<b>273,959</b>	<b>273,959</b>	<b>592,202</b>	<b>318,243</b>
<b>EXPENDITURES</b>				
Current:				
Street operations	375,955	375,955	321,165	54,790
<b>Total Expenditures</b>	<b>375,955</b>	<b>375,955</b>	<b>321,165</b>	<b>54,790</b>
Excess (Deficiency) of Revenues Over Expenditures	(101,996)	(101,996)	271,037	373,033
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(101,996)</b>	<b>(101,996)</b>	<b>271,037</b>	<b>373,033</b>
Fund Balance, Beginning of Year	442,751	442,751	442,751	-
<b>Fund Balance End of Year</b>	<b>\$ 340,755</b>	<b>\$ 340,755</b>	<b>\$ 713,788</b>	<b>\$ 373,033</b>

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 ROADWAY IMPACT FEE FUND  
 FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 285,420	\$ 285,420	\$ 272,772	\$ (12,648)
Total Revenues	285,420	285,420	272,772	(12,648)
<b>EXPENDITURES</b>				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	285,420	285,420	272,772	(12,648)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	285,420	285,420	272,772	(12,648)
Fund Balance, Beginning of Year	95,951	95,951	95,951	-
Fund Balance, End of Year	\$ 381,371	\$ 381,371	\$ 368,723	\$ (12,648)

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,371	\$ 371
Use of money and property	2,100	2,100	292	(1,808)
<b>Total Revenues</b>	<b>102,100</b>	<b>102,100</b>	<b>100,663</b>	<b>(1,437)</b>
<b>EXPENDITURES</b>				
Current:				
Public safety	151,635	151,635	107,357	44,278
<b>Total Expenditures</b>	<b>151,635</b>	<b>151,635</b>	<b>107,357</b>	<b>44,278</b>
Excess (Deficiency) of Revenues Over Expenditures	(49,535)	(49,535)	(6,694)	42,841
Fund Balance, Beginning of Year	78,618	78,618	78,618	-
Fund Balance, End of Year	\$ 29,083	\$ 29,083	\$ 71,924	\$ 42,841

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ -	\$ -	\$ 41	\$ 41
Total Revenues	-	-	41	41
<b>EXPENDITURES</b>				
Current:				
Public safety	4,791	4,791	-	4,791
Total Expenditures	4,791	4,791	-	4,791
Excess (Deficiency) of Revenues Over Expenditures	(4,791)	(4,791)	41	4,832
Fund Balance, Beginning of Year	5,322	5,322	5,322	-
Fund Balance, End of Year	\$ 531	\$ 531	\$ 5,363	\$ 4,832

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
<b>EXPENDITURES</b>				
Current:				
Debt service				
Prinicpal	133,693	133,693	133,693	-
Interest	77,623	77,623	77,623	-
	211,316	211,316	211,316	-
Excess (Deficiency) of Revenues Over Expenditures	(211,316)	(211,316)	(211,316)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	211,316	211,316	211,316	-
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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ 350,000	\$ 350,000	\$ 323,300	\$ (26,700)
EXPENDITURES				
Capital outlay	1,250,000	1,318,000	1,150,615	167,385
Total Expenditures	1,250,000	1,318,000	1,150,615	167,385
Excess (Deficiency) of Revenues Over Expenditures	(900,000)	(968,000)	(827,315)	140,685
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(900,000)	(968,000)	(827,315)	140,685
Fund Balance, Beginning of Year	1,243,821	1,243,821	1,243,821	-
Fund Balance, End of Year	\$ 343,821	\$ 275,821	\$ 416,506	\$ 140,685

**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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ 37,007	\$ 84,007	\$ 629,954	\$ 545,947
EXPENDITURES				
Capital outlay:				
General CIP	100,000	100,000	69,808	30,192
Pathways	400,000	400,000	181,774	218,226
Westwind Barn Projects	880,000	1,437,257	1,531,524	(94,267)
Drainage	270,000	270,000	-	270,000
Total Expenditures	1,650,000	2,207,257	1,783,106	424,151
Excess (Deficiency) of Revenues Over Expenditures	(1,612,993)	(2,123,250)	(1,153,152)	970,098
OTHER FINANCING SOURCES (USES)				
Transfers in	-	359,000	359,000	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	359,000	359,000	-
Net Change in Fund Balance	(1,612,993)	(1,764,250)	(794,152)	970,098
Fund Balance, Beginning of Year	2,198,049	2,198,049	2,198,049	-
Fund Balance, End of Year	\$ 585,056	\$ 433,799	\$ 1,403,897	\$ 970,098