

**TOWN OF LOS ALTOS HILLS, CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2011**

**TOWN OF LOS ALTOS HILLS**  
**June 30, 2011**

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**June 30, 2011**

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

VALUE THE DIFFERENCE

## INDEPENDENT AUDITOR'S REPORT

City 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, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the Notes to the financial statements, the Town has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2011, 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  
November 29, 2011

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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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, 2011.

### FINANCIAL HIGHLIGHTS

- The Town's government-wide assets exceed its liabilities at June 30, 2011, by \$40,262,766 (net assets) a decrease of \$950,594 from the prior year. Of this amount, \$10,511,200 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors; an increase from prior year's unrestricted net assets of \$60,141 or 0.6%. It is important to note that \$2,856,291 of the net assets is restricted to Sewer Operations.
- The Town's unrestricted cash and investments at June 30, 2011 totaled \$13,599,855, a decrease of \$676,383, or 4.7%, compared to the prior year. This decrease is largely the result of capital expenditures as reflected in the year-over-year increase in capital assets, net of depreciation, of \$1,108,583.
- The Town's General Fund balance at June 30, 2011, is \$5,777,882, an increase of \$367,370, or 6.8% over the previous year. The General Fund's fund balance is approximately 130% of General Fund operating expenditures.
- In the fiscal year ended June 30, 2011, the Town's General Fund transferred \$1,456,857 to other funds. Total transfers were up by \$557,970 compared to prior year. This increase was due largely to an increase in General Fund support for the Street Capital Project Fund and Nonmajor Funds' operations.
- Fund balances at June 30, 2011 in the Town's Street Capital Projects and Other Capital Projects Funds, decreased by a total of \$508,651, or 27.9%, from prior year as the result of continued spending on capital improvement projects.
- Fund balances at June 30, 2011 in the Town's Nonmajor Governmental Fund, the aggregate of a number of special revenue funds that provide for specific operations such as street maintenance, decreased \$596,927, or 38.3%, from prior year. This decrease is the result of transfers out to capital improvement funds and operations expenditures exceeding revenues.
- The Town's Sewer Fund unrestricted net assets at June 30, 2011, are \$2,856,291, an increase from the prior year of \$237,026 or 9.1%.
- The Town's Sewer Fund restricted net assets at June 30, 2011, are \$0, a decrease from prior year of \$1,727,745 due to the completion of the West Loyola Sewer Project and a return of surplus bond proceeds to the property owners.

### 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.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### **Government-wide Financial Statements**

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

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

The Statement of Activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, for example, earned but unused vacation leave. These government-wide financial statements begin on page 24 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Los Altos Hills, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of the Town of Los Altos Hills can be divided into two categories: governmental funds and proprietary funds.

#### *Governmental Funds*

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

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

The Town maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Debt Service Fund, Street Capital Projects Fund and Other Capital Projects Fund (which includes capital project funds for General Facilities and Equipment, Pathways, Westwind Barn, and Storm Drainage), which are considered to be major funds. Data from the other eight governmental funds (which includes Storm Drain, Pathway, Parks & Recreation Facilities, Street, Roadway Impact Fee, and COPS 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.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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The Town of Los Altos Hills adopts an annual appropriated budget for all Funds. A budgetary comparison statement has been provided in the Required Supplementary Information to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on page 26-28 of this report. The budgetary comparison schedules for the governmental funds begin on page 57.

### Proprietary Funds

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the internal service fund and sewer operations. The basic proprietary fund financial statements can be found on pages 30-32 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 33. 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 34-55 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 57-59 of this report.

Combining statements for Nonmajor Governmental Funds are presented after the required supplementary information on pages 61-62. Budgetary schedules for Nonmajor Governmental Funds and the Street Capital Projects and Other Capital Projects funds are presented on pages 63-74.



# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$40,262,766 at June 30, 2011.

#### Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
<b>ASSETS</b>						
Current and other assets	\$ 10,505,457	\$ 11,627,924	\$ 3,715,279	\$ 5,030,967	\$ 14,220,736	\$ 16,658,891
Capital assets	<u>25,927,459</u>	<u>25,165,313</u>	<u>4,369,141</u>	<u>4,022,707</u>	<u>30,296,600</u>	<u>29,188,020</u>
Total assets	<u>36,432,916</u>	<u>36,793,237</u>	<u>8,084,420</u>	<u>9,053,674</u>	<u>44,517,336</u>	<u>45,846,911</u>
<b>LIABILITIES</b>						
Current	1,942,440	2,393,326	853,496	678,589	2,795,936	3,071,915
Long term debt	<u>1,453,142</u>	<u>1,556,269</u>	<u>5,492</u>	<u>5,368</u>	<u>1,458,634</u>	<u>1,561,637</u>
Total liabilities	<u>3,395,582</u>	<u>3,949,595</u>	<u>858,988</u>	<u>683,957</u>	<u>4,254,570</u>	<u>4,633,552</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	24,421,688	23,564,257	4,369,141	4,022,707	28,790,829	27,586,964
Restricted	960,737	1,447,591	-	1,727,745	960,737	3,175,336
Unrestricted	<u>7,654,909</u>	<u>7,831,794</u>	<u>2,856,291</u>	<u>2,619,265</u>	<u>10,511,200</u>	<u>10,451,059</u>
Total net assets	<u>\$ 33,037,334</u>	<u>\$ 32,843,642</u>	<u>\$ 7,225,432</u>	<u>\$ 8,369,717</u>	<u>\$ 40,262,766</u>	<u>\$ 41,213,359</u>

Note: Total assets – liabilities = total net assets

The largest portion of the Town's net assets, 71.5%, reflects its investment in capital assets – land, buildings, machinery, equipment and infrastructure. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The lease financing of the Town Hall facility construction in 2004 had a principal balance at June 30, 2011 of \$1,363,047, with annual principal and interest payments on this obligation totals \$195,965 through September 16, 2019. Subsequent to June 30, 2011, the City Council approved full repayment of this liability in the amount of \$1,322,691, including a prepayment premium of \$25,935. The decision to repay the liability early was based on an analysis that the Town held sufficient cash and the interest rate on the note far exceeded the interest rate that could be earned on the cash if held in the Town's pooled investments.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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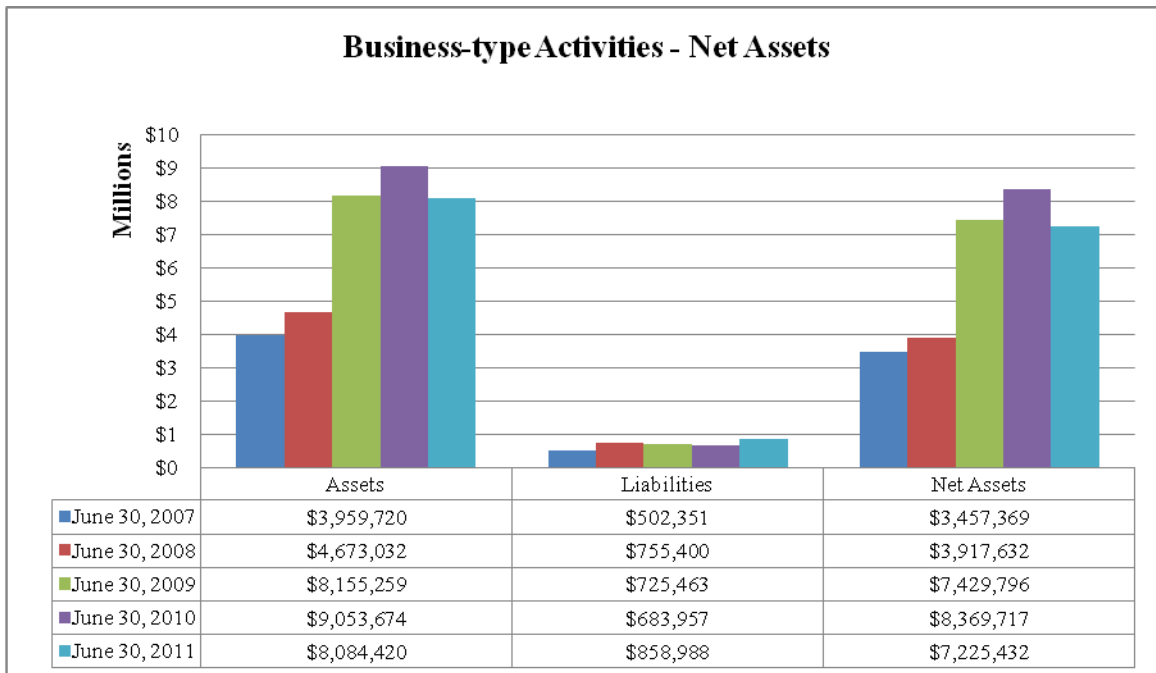
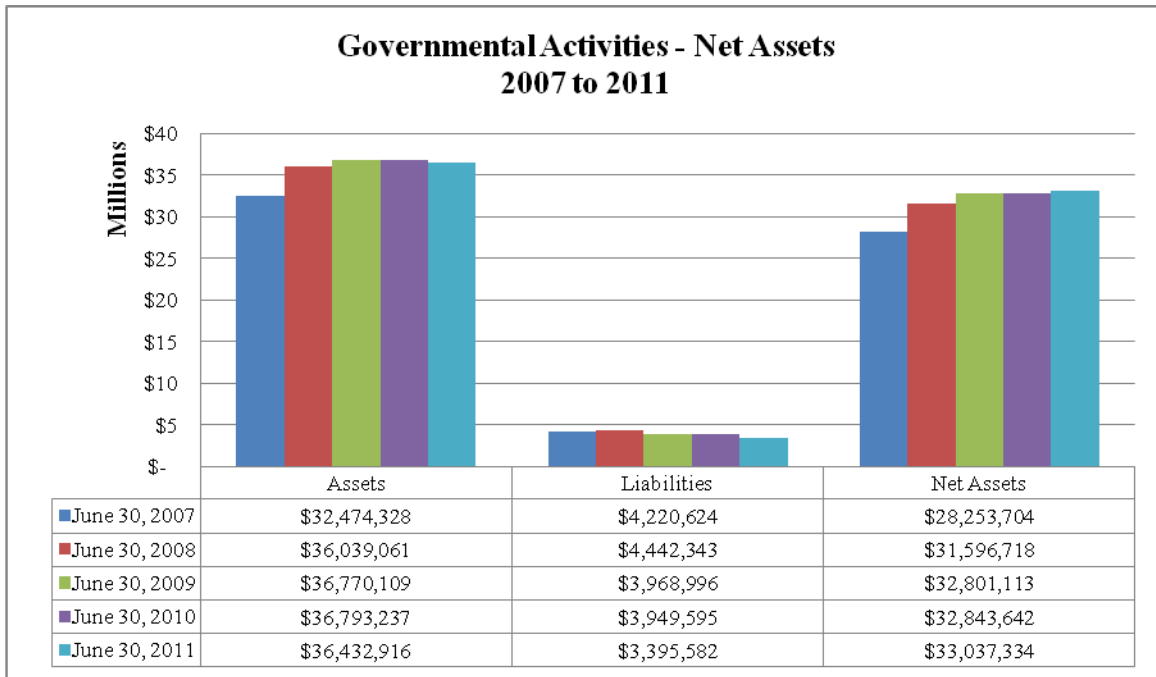
An additional portion of the Town's net assets, \$960,737 or 2.4% of total net assets, represents resources that are subject to external restrictions on how they may be used. Restricted assets declined \$2,214,599 or 70% from the prior year. In the governmental activities, restricted assets decreased \$486,854 due to capital improvements in the Street Capital Project Fund. In the business-type activities, a decrease of \$1,727,745 resulted from the completion of the West Loyola Sewer Project which had been recorded as restricted for capital projects at June 20, 2010. In 2010-11, the Town declared \$1,402,336 of surplus funds related to the West Loyola Special Assessment District. The surplus funds were used to pay project closeout costs, the interest portion of the September 2011 and March 2012 debt service payments, and the balance was used to call bonds. While 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 (see Notes to Financial Statements # 6) the proceeds from the sale of these bonds were recorded as Contributions from Property Owners in the June 30, 2009 financial statements. At June 30, 2011, the surplus was transferred from the sewer fund, reported as a refund to property owners, to the fiduciary fund where it is reported as a due to bond holders.

The remaining balance of unrestricted net assets, \$10,511,200 may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2011, the Town is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. Note that the Town's Internal Service Fund is reported as a part of Governmental Activities in the Government-wide Financial Statements.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011



# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

### 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 \$193,692. Business-type activities decreased the Town's net assets by \$1,144,286 largely the result of the disposition of the West Loyola Sewer project surplus funds discussed in the previous section. Significant changes year-over-year are discussed in subsequent sections.

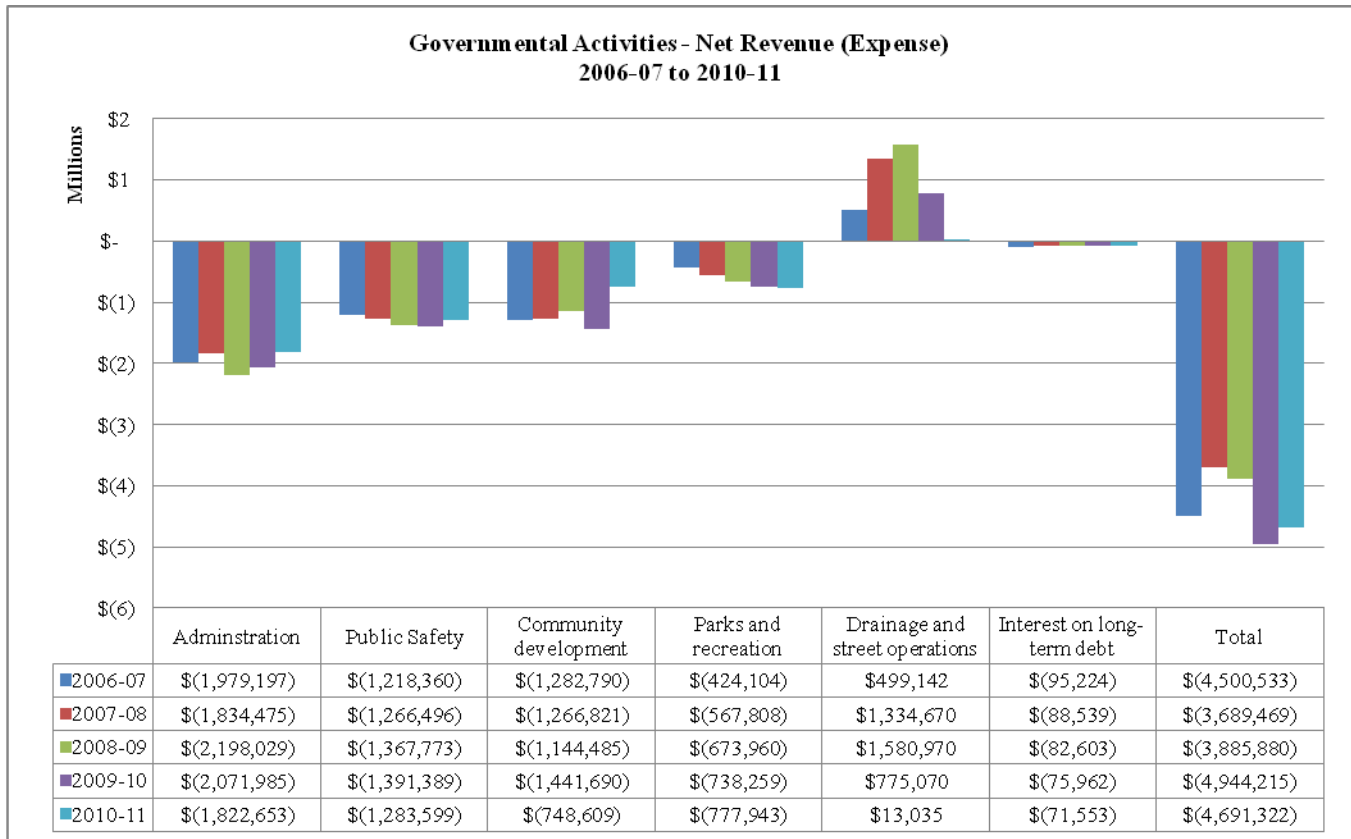
			Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 2,496,633	\$ 2,469,214	\$ 1,406,130	\$ 1,335,680	\$ 3,902,763	\$ 4,112,920
Operating contributions/grants	101,005	996,454	-	-	101,005	996,454
Capital contributions/grants	346,712	-	(1,486,331)	580,432	(1,139,619)	272,405
General revenues						
Property taxes	3,393,604	3,444,173	-	-	3,393,604	3,444,173
Motor vehicle license tax	40,326	34,253	-	-	40,326	34,253
Other taxes	503,766	332,189	-	-	503,766	332,189
Franchise fees	428,332	387,803	-	-	428,332	387,803
Gain on sale of capital assets	6,600	242	-	-	6,600	242
Use of money and property	178,450	212,126	29,585	102,877	208,035	315,002
Other intergovernmental	69,166	140,947	-	-	69,166	140,947
Other unrestricted	193,425	303,395	-	-	193,425	303,395
Total revenues	<u>7,758,019</u>	<u>8,320,796</u>	<u>(50,616)</u>	<u>2,018,989</u>	<u>7,707,403</u>	<u>10,339,783</u>
<b>EXPENSES</b>						
Administration	1,822,653	2,071,985	-	-	1,822,653	2,071,985
Public safety	1,384,604	1,491,760	-	-	1,384,604	1,491,760
Community development	2,111,541	2,660,434	-	-	2,111,541	2,660,434
Parks and recreation	1,310,566	1,279,596	-	-	1,310,566	1,279,596
Drainage and street operations	934,755	830,146	-	-	934,755	830,145
Sewer	-	-	1,022,325	947,450	1,022,325	947,450
Solid waste	-	-	-	-	-	-
Interest on long-term debt	71,553	75,962	-	-	71,553	75,962
Total expenses	<u>7,635,672</u>	<u>8,409,883</u>	<u>1,022,325</u>	<u>947,450</u>	<u>8,657,997</u>	<u>9,357,332</u>
Increase (decrease) in net assets						
before transfers	122,347	(89,087)	(1,072,941)	1,071,537	(950,594)	982,450
Transfers in (out)	71,345	131,616	(71,345)	(131,616)	-	-
Change in net assets	<u>193,692</u>	<u>42,529</u>	<u>(1,144,286)</u>	<u>939,921</u>	<u>(950,594)</u>	<u>982,450</u>
Net assets, beginning of year	<u>32,843,642</u>	<u>32,801,113</u>	<u>8,369,718</u>	<u>7,429,797</u>	<u>41,213,360</u>	<u>40,230,910</u>
Net assets, end of year	<u>\$ 33,037,334</u>	<u>\$ 32,843,642</u>	<u>\$ 7,225,432</u>	<u>\$ 8,369,718</u>	<u>\$40,262,766</u>	<u>\$ 41,213,360</u>

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

### Governmental Activities - Program Revenues and 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. In 2010-11, total general revenues were \$4,884,731.



**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

Overall, net expenses for governmental activities for 2010-11 decreased from \$4,944,215 to \$4,691,322, a difference of \$252,893 or 5.1%, from the previous year. The primary driver of this reduction was lower expenses due to the one-time \$637,320 payment to CalPERS for the pension side fund in 2009-10. For comparative purposes, if 2010 Governmental Activity expenses are adjusted to remove the one-time expense of \$637,320, total expenses for 2011 decreased \$136,891, or 1.8%, year-over-year. The lower expenses, however, were partially offset by a reduction in street grant revenues of \$548,737. The net effect of the reduction in grant revenues and the decrease in expenses, when compared to prior year adjusted to remove the one-time payment, results in a year-over-year increase in Net Expenses of \$381,427.

	<b>2011</b>			<b>2010</b>		
	Program revenues	Expenses	Net revenue (expenses)	Program revenues	Expenses	Net revenue (expenses)
Administration	\$ -	\$ 1,822,653	\$(1,822,653)	\$ -	\$ 2,071,985	\$(2,071,985)
Public safety	101,005	1,384,604	(1,283,599)	100,371	1,491,760	(1,391,389)
Community development	1,362,932	2,111,541	(748,609)	1,218,744	2,660,434	(1,441,690)
Parks & recreation	532,623	1,310,566	(777,943)	541,337	1,279,596	(738,259)
Drain/street	947,790	934,755	13,035	1,605,216	830,146	775,070
Interest expense	-	71,553	(71,553)	-	75,962	(75,962)
	<u>\$2,944,350</u>	<u>\$7,635,672</u>	<u>\$(4,691,322)</u>	<u>\$3,465,668</u>	<u>\$8,409,883</u>	<u>\$(4,944,215)</u>

**Business-type Activities**

The Town’s sole business-type activity is the sewer fund. In 2010-11, the sewer operations experienced a net income before contributions and transfers of \$383,805, down from \$388,231 for a decrease of \$4,426 or 1.1%. Prior year revenues reflect reclassifications for comparative purposes.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

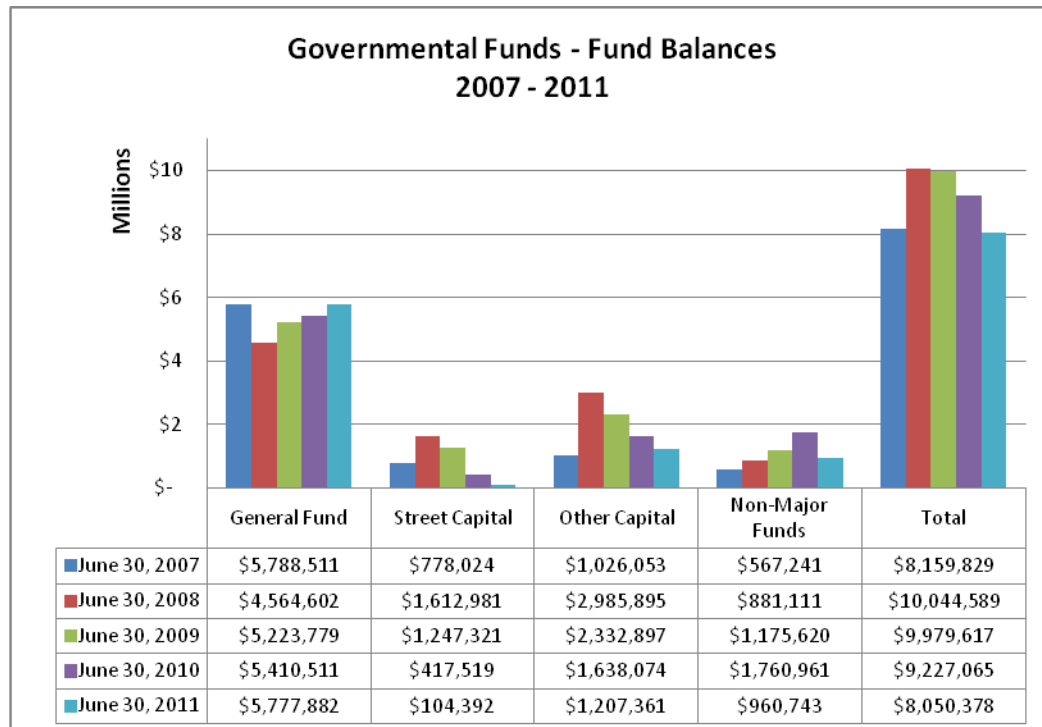
### FUND FINANCIAL ANALYSIS

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

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

	General Fund	Debt Service	Street Cap Project	Other Cap Project	Non-major	Total
Revenues	\$6,179,712	\$ -	\$ 53,100	\$ 169,382	\$1,349,225	\$7,751,419
Expenditures	4,433,430	215,549	1,558,317	763,235	1,644,041	8,614,572
Debt proceeds	-	-	-	47,000	-	47,000
Sale of Assets	6,600	-	-	-	-	6,600
Net transfers	(1,385,512)	215,549	1,193,102	350,317	(302,111)	71,345
Net increase/(decrease)	367,370	-	(312,115)	(196,536)	(596,927)	(738,208)
Fund balances, beginning of year	5,410,512	-	416,507	1,403,897	1,557,670	8,788,586
Fund balances, end of year	<u>\$5,777,882</u>	<u>\$ -</u>	<u>\$ 104,392</u>	<u>\$1,207,361</u>	<u>\$ 960,743</u>	<u>\$8,050,378</u>

The net activity for the governmental fund balances for 2010-11 resulted in a decrease of \$738,208 compared to prior year. Part of this decrease is the result of \$2,321,552 in capital outlay expenditures in 2010-11. Further drawdown on the Non-Major Funds' fund balances resulted, in large part, from a transfer of restricted revenues funds to offset capital outlay expenses.

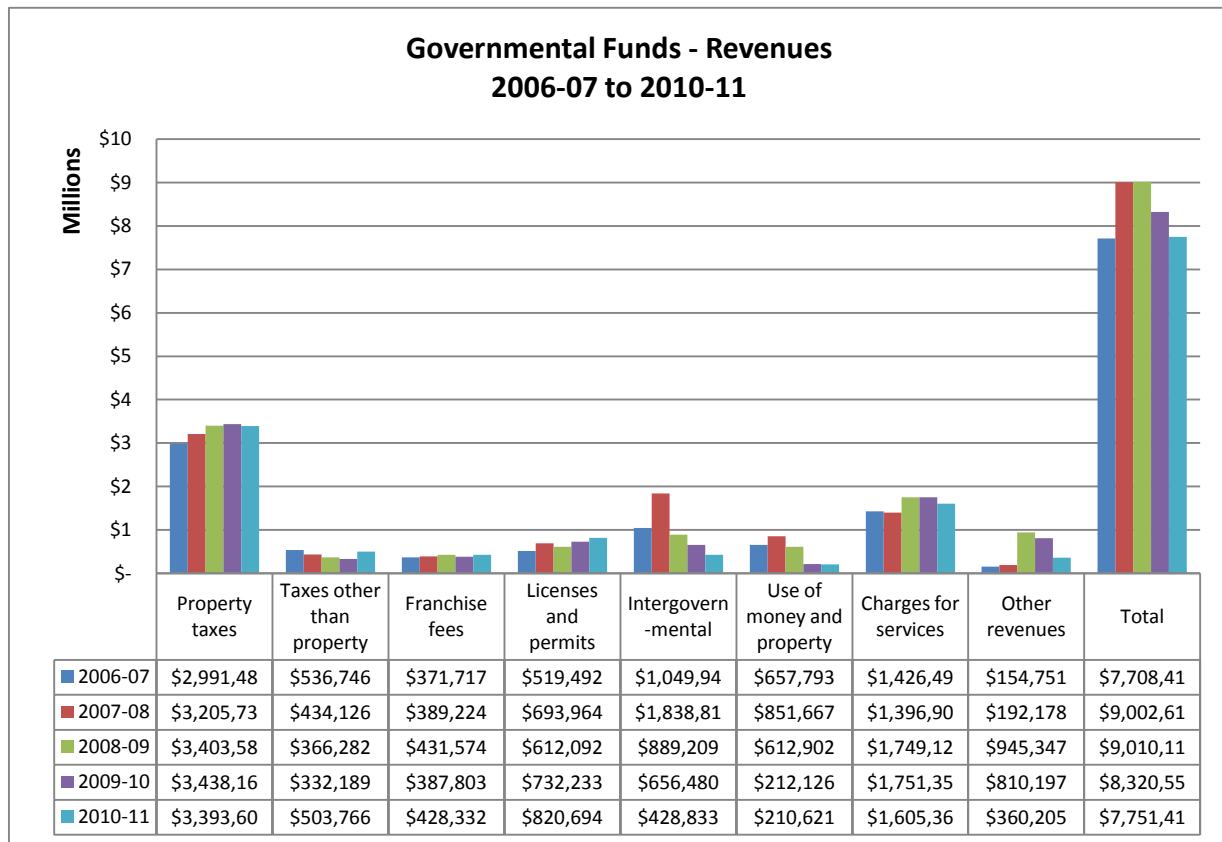


# TOWN OF LOS ALTOS HILLS

## MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2011

### *Governmental Funds – Revenues*

Overall, revenues in all Governmental Funds decreased by \$569,135, or 6.8%, compared to prior year, primarily due to a reduction in the Town’s revenue from grants. Property taxes recorded a minor decrease year-over-year of 1.3% or \$44,564. This decrease was the result of temporary reductions in assessed valuations due to declines in median sales price and other economic factors. Property taxes are projected to rebound in 2011-12 fueled by an increase in the number of property sales. Additional discussion follows on more specific fluctuations. The chart below is provided to demonstrate significant trends in Town revenues over the past five fiscal years.



**Intergovernmental revenues** – This category reports revenue received from the State of California and Federal Government for both operational and capital expenditures. In 2007-08, this revenue category recorded grant revenue of \$1,190,843 the bulk of which was generated by drainage and street grants from the State of California (Proposition 1B infrastructure bonds) and the County of Santa Clara’s one-time payment to the Town of \$469,000 for paving projects in the newly annexed West Loyola neighborhood. Important to note, the offsetting capital outlay for the one-time payment from the County was made in fiscal year 2010-11. The paving project was deferred until the West Loyola sewer main construction was complete to avoid cutting the newly paved road for the sewer project. As grant opportunities decrease, so has the revenue received by the Town.



# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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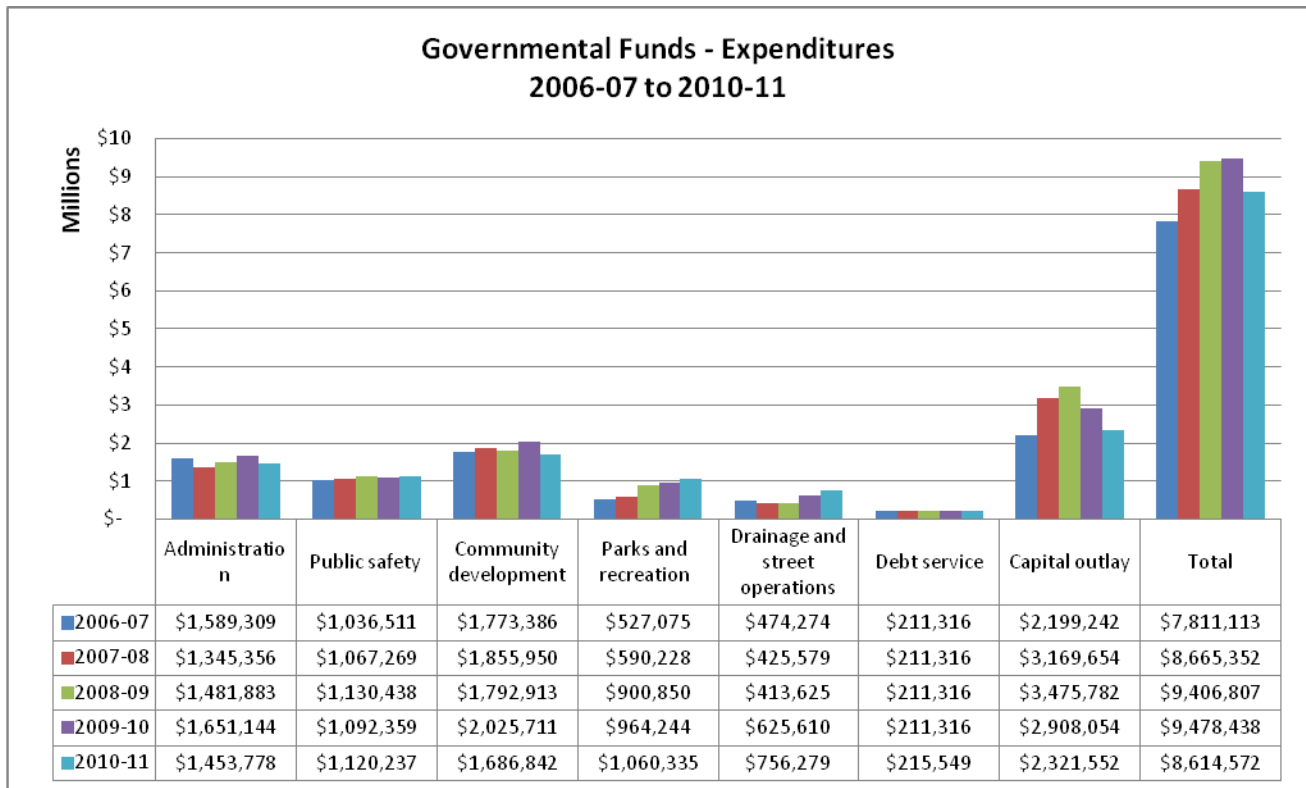
- **Use of money and property** reports investment income earnings and rents charged for exclusive use of Town owned land or facilities. The most notable rental income is generated by the cellular telephone antenna towers located on Town lands. The significant decrease in this category over the past several years is the result of dramatic decreases in the yield earned on investments and lower cash balances. The Town's investments are governed by California Government Code and the City Council adopted Investment Policy. Consequently, allowable investments are significantly limited and weighted more toward low risk bonds. Unfortunately, bond yields have dropped dramatically over the past two years and the impact of this reduction is clearly visible in the Town's investment earnings. With Federal Reserve policymakers declaring that bond yields will remain near zero through August 2013, the City Council approved a recommendation to pay off the Town Hall facility lease financing obligation. The decision to repay the liability early was based on an analysis that the Town held sufficient cash and the interest rate on the note far exceeded the interest rate that could be earned on the cash if held in the Town's pooled investments.
- **Other revenues**, reports, fines and forfeitures, donations, and other miscellaneous receipts. In 2008-09 and 2009-10, this category also reported grant revenue of \$903,446 and \$719,299 respectively. Grant revenues are not properly recorded in this category and, with the financial software conversion; adjustments were made to the account number rollups that are reported in this category. The significant decline from 2009-10 to 2010-11 is in part due to this presentation rollup and more accurately reflects revenue in the proper categories.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2011

### *Governmental Funds – Expenditures*

Overall expenditures in all Governmental Funds decreased by \$863,866, or 9.1% compared to prior year, reflecting the impact of the one-time side fund payment to CalPERS in 2009-10 and a reduction in capital outlay. If expenditures were adjusted for the one-time payment of \$637,320 to CalPERS, expenditures decreased \$225,946 or 2.6% year over year. The chart below identifies significant trends in expenditures over the past five fiscal years.



- Parks and recreation** expenditures demonstrate the largest increase over the five year period nearly doubling to reflect the addition of Westwind Community Barn as a parks and recreation facility. Additionally, the Town’s capital outlay in 2007-08 at Purissima Park for the renovation of the ball fields has increased maintenance costs to ensure proper care of the new facilities. Also included in this category’s growth are increases in recreation programming and increased maintenance on the Town’s pathways system. While Westwind Community Barn, Purissima Park, and recreation programming all have a cost recovery component, the revenues are not sufficient to offset their costs thereby increasing demand on the Town’s general revenues.
- Drainage and street operations** also demonstrate a considerable increase in expenditures over the five year period. Most notably, the \$130,669 increase from 2009-10 to 2010-11, reflects increased maintenance of both drainage and streets to improve safety.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

### General Fund

As the Town's primary operating fund, the General Fund receives unrestricted revenues such as property taxes and fee revenue. The General Fund provides Town administrative services (City Council, City Attorney, City Manager, City Clerk, and Finance), law enforcement and animal control services, and land development related services such as planning, building, and engineering. An analysis of revenues and expenditures is provided below.

**General Fund revenues** - General Fund revenues for the year ended June 30, 2011, increased \$268,088, or 4.5%, over the prior year. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years.

	<u>2011</u>	<u>2010</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Property taxes	\$ 3,393,604	\$ 3,438,168	\$ (44,564)	-1.3%
Taxes other than property	503,766	332,189	171,577	51.7%
Franchise fees	428,332	387,803	40,529	10.5%
Licenses and permits	780,014	625,609	154,405	24.7%
Intergovernmental	83,446	109,537	(26,091)	-23.8%
Use of money and property	174,253	156,013	18,240	11.7%
Charges for services	618,320	771,407	(153,087)	-19.8%
Other revenues	197,977	90,898	107,079	117.8%
<b>Total</b>	<u>\$ 6,179,712</u>	<u>\$ 5,911,624</u>	<u>\$ 268,088</u>	<u>4.5%</u>

- **Taxes other than property** reflected a 51.7% increase year-over-year attributed to growth in property transfer taxes, up \$171,577 year-over-year. Historically, transfer taxes fluctuate significantly with the Town receiving \$204,075 in 2006-07 and \$233,870 in 2010-11 with the intervening years averaging about \$109,000 each year. Additionally, business license revenue increased by \$47,318 year-over-year. Business license revenues had been in decline for the past several years.
- **Franchise fees** increased \$40,529, or 10.5%, in 2010-11 when compared to prior year. This increase was split about evenly between Pacific Gas & Electric and GreenWaste Recovery. Franchise fees are charged as a percentage of gross revenue.
- **Licenses and permits** also experienced a significant increase year-over-year of \$154,405. This increase is the result of higher building permit activity when compared to prior year.
- **Charges for services** recorded a decrease of \$153,087 in 2010-11 when compared to prior year. This is the result of an accounting change related to pass-through billings and their corresponding reimbursement for land development projects. For land development projects, the Town requires the builder/permit applicant to cover costs incurred by the Town as a result of the project. The Town's new accounting software allows vendor payments for land development projects to post directly to applicable development deposit. In previous years, vendor payments were recorded as General Fund expense and then a manual journal entry charged the deposit for reimbursement of the General Fund's expense. The reimbursement was previously recorded as revenue. The streamlined process significantly reduces the margin for accounting errors by eliminating the manual journal entry. As a result of this change, both charges for services revenues and community development expenditures are lower in 2010-11 and will

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2011

see a further decline in 2011-12 since seven months of 2010-11 were processed in the legacy finance system.

- **Other Revenues** increased by \$107,079, or 119% over the prior year, as the result of increases in fines and forfeitures and reimbursements received for the implementation of risk management best practices identified by the Town’s liability insurer.

**General Fund expenditures** - General Fund expenditures for the current year decreased \$524,433, or 10.6%, over the prior fiscal year. This is due almost entirely to the one-time payment made to CalPERS in 2009-10 to extinguish the Town’s known pension liability (referred to as the “side fund”) in the amount of \$637,320. The one-time payment did not have an impact on the public safety expenditures. Community development and administration have the highest number of personnel and therefore received the bulk of the side fund allocation.

	<u>2011</u>	<u>2010</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Administration	\$ 1,453,778	\$ 1,625,477	\$ (171,699)	-10.6%
Public safety	1,009,014	985,002	24,012	2.4%
Community development	1,686,842	2,025,711	(338,869)	-16.7%
Parks and recreation	<u>283,796</u>	<u>321,673</u>	<u>(37,877)</u>	<u>-11.8%</u>
 Total	 <u>\$ 4,433,430</u>	 <u>\$ 4,957,863</u>	 <u>\$ (524,433)</u>	 <u>-10.6%</u>

### Debt Service Fund

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. In 2010-11, the Town began debt service on a \$47,000 loan from the California Energy Commission for energy efficiency improvements at Westwind Community Barn. Interest payments during the current year totaled \$73,264 and principal in the amount of \$142,285 was retired. The balance of the three debts at June 30, 2011 is \$1,505,771; of that amount, \$148,609 is due within one year and the balance, \$1,357,162, is due in more than one year. Subsequent to June 30, 2011, the City Council authorized a payment of \$1,322,691 to fully extinguish the outstanding lease financing of Town Hall. The decision was based on the interest expenses far exceeding projected investment income for the balance of the loan.

Obligation	Principal Balances of June 20, 2011	Interest Rate	Payoff
2004 Town Hall capital lease	\$1,363,047	4.65%	9/2019
2004 CA Energy Commission loan	98,792	3.95%	12/2018
2010 CA Energy Commission loan	43,932	3.00%	12/2023
Total	\$1,505,771		

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### Street Capital Projects Fund

Street Capital Projects fund provides for all revenue, expenditures, and net transfers required to perform the Town's annual street capital improvement program. In an analysis conducted by the Town's in-house staff, it was determined that an annual program between \$800,000 and \$1,000,000 per year would replace aging roadway infrastructure. The 2010-11 capital improvement program totaled \$1,558,317. The higher than required capital program in 2010-11 was the result of a deferred project in the West Loyola neighborhood. In 2007-08, the Town annexed the West Loyola neighborhood and, as part of the annexation agreement, the Town received a one-time payment of \$469,000 from the County of Santa Clara to repair the area's roadways. The project was deferred until 2010-11 due to major construction work for the West Loyola Sewer Main project.

Revenue sources for the street capital improvement program are somewhat limited. The cornerstone funding source for this program is the roadway impact fee assessed to offset the wear and tear of Town roadways. The fee is charged on larger building permits and the garbage franchise holder. In 2010-11, this revenue source generated \$417,637. Revenues for the roadway impact fee are recorded in a separate fund that rolls up to Nonmajor Governmental Funds column in the financial statements. In 2010-11 however, the full balance of the roadway impact fee fund, \$786,290, was transferred to the streets capital fund to fund the annual capital improvement program in 2010-11. This practice resulted in a decrease in overall fund balances of \$368,653 in the roadway impact fee fund.

### Other Capital Projects Fund

Expenditures for other capital projects were \$763,235 for fiscal year 2011, compared to \$1,760,764 for the prior year. The significant decrease in capital expenditures is marks the completion of the Town's three-year capital improvement program for parks and recreation facilities and pathways. Major work areas reported in Other Capital Projects included:

Facility Improvements.....	\$394,931
Corporation Yard, Purissima Park, Westwind Barn	
Pathway Improvements .....	\$280,250
C-2, Fremont Road, Page Mill, and Robleda	
Drainage Improvements .....	\$88,054
Annual program, O'Keefe Ln., La Paloma	

### Nonmajor Governmental Funds

Expenditures in the Nonmajor Governmental Funds, the aggregate of the Town's remaining special revenues funds as detailed in the Required Supplementary Information section of the financial statements, increased by \$286,503, or 19.5%, to \$1,644,041 year-over-year. The increase was largely experienced in the Parks & Recreation facilities and Streets where the Town increased minor maintenance efforts to improve safety of public facilities. Transfers-out to other funds increased by \$747,419 to \$878,419 when compared to the prior fiscal year. This increase is due to the transfer of accumulated Roadway Impact Fee fund balance to the Street Capital Fund in the amount of \$786,290 representing two years of fee revenue. The annual transfer from the Roadway Impact Fee Fund to the Street Capital Fund was not recorded in 2009-10.

**TOWN OF LOS ALTOS HILLS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**Proprietary Fund**

	Sewer		<b>\$ Increase (decrease)</b>
	June 30, 2011	June 30, 2010	
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,382,814	\$ 1,297,216	\$ 85,598
Other income	23,316	38,464	(15,148)
Total Operating Revenues	<u>1,406,130</u>	<u>1,335,680</u>	<u>70,450</u>
<b>OPERATING EXPENSES</b>			
Salaries and benefits	77,977	82,967	(4,990)
Contract services	758,354	657,118	101,236
Operating expenses	84,268	109,823	(25,555)
Depreciation	101,726	97,542	4,184
Total Operating Expenses	<u>1,022,325</u>	<u>947,450</u>	<u>74,875</u>
Operating Income (Loss)	<u>383,805</u>	<u>388,230</u>	<u>(4,425)</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>			
Investment income	29,585	102,876	(73,291)
Income Before Contributions and Transfers	413,390	491,106	(77,716)
Contribution (to) from property owners (net)	(1,486,331)	580,431	(2,066,762)
<b>Transfers</b>			
Transfers out	(71,345)	(120,602)	49,257
Changes in Net Assets	(1,144,286)	950,935	(2,095,221)
Total Net Assets, Beginning of Year	<u>8,369,718</u>	<u>7,418,783</u>	<u>950,935</u>
Total Net Assets, End of Year	<u>\$ 7,225,432</u>	<u>\$ 8,369,718</u>	<u>\$ (1,144,286)</u>

The Town's sole proprietary fund provides sanitary sewer to roughly half of the parcels within the jurisdiction. Service fees are collected annually from those properties benefiting from the service and were last adjusted in 2007-08. Contract services increased \$101,236 or 15.4% from the prior year to \$758,354 resulting from sewer treatment and conveyance costs. Operating expenses decreased \$25,555 or 23.3 % from the prior year to \$84,268 the result of lower internal allocations and claims settlements. In 2010-11, the Sewer Fund had an operating income of \$383,805, compared to \$388,230 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 capital contributions and were up by \$155,158 compared to the prior year due to recording of connection fees paid as the result of the West Loyola Sewer Main extension project.

When the Town's franchise with Los Altos Garbage Company expired on September 30, 2008, there was no longer a need for the solid waste fund. There was no activity in the Solid Waste Fund in 2010-11. However, due to the two-year comparison used in the financial statements for the proprietary funds, the Solid Waste Fund continues to show due to activity in 2009-10.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

As of June 30, 2011, the Town's governmental funds reported combined ending fund balances of \$8,050,378 – a decrease of \$738,208 over the previous year. The General Fund's fund balance increased by \$367,370 while the combined fund balances for Special Revenue and Capital Projects Funds decreased by \$1,105,578.

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

	<u>2011</u>	<u>2010</u>	<u>\$ Increase (decrease)</u>
Revenues	\$ 7,751,419	\$ 8,320,554	\$ (569,135)
Expenditures	8,614,572	9,478,430	863,858
Sale of Assets and Proceeds from Debt	53,600	242	53,358
Net transfers in (out)	71,345	131,616	(60,271)
Net increase/(decrease)	<u>\$ (738,208)</u>	<u>\$ (1,026,018)</u>	<u>\$ 287,810</u>

For fiscal year 2011, governmental fund revenues decreased by \$569,135, or 6.8%, and expenditures decreased by \$863,868. A discussion of revenues and expenditures trends and comparisons is provided in the "Major Funds" section above.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

The following table presents information about fund balance components. 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>
Restricted for:					
Other capital projects	\$ -	\$ -	\$ -	\$ 430,767	\$ 430,767
Street and road repairs	-	-	-	462,444	462,444
Law enforcement	-	-	-	67,526	67,526
Committed for:					
Pension contributions	70,000	-	-	-	70,000
Sewer connect incentive program	100,000	-	-	-	100,000
Park and recreation	-	-	-	6	6
Other capital projects	-	-	1,207,361	-	1,207,361
Street and road repairs	-	104,392	-	-	104,392
Unassigned	5,607,882	-	-	-	5,607,882
	<b>\$5,777,882</b>	<b>\$ 104,392</b>	<b>\$1,207,361</b>	<b>\$ 960,743</b>	<b>\$8,050,378</b>

At June 30, 2011, \$5,607,882 of the combined fund balances of \$8,050,378 is unassigned, which means that this amount is available for the City Council to program for future spending at its discretion. In addition to unassigned funds, the City Council has committed fund balances of \$1,481,759. The City Council may increase, decrease or eliminate these commitments by a majority vote at a public meeting. Additional portions of the fund balances are restricted for the repair, maintenance and construction of streets, \$462,444; other capital projects, \$430,767, and law enforcement, \$67,526. These amounts represent revenues from restricted revenue sources that must be used for a specific purpose.

At June 30, 2011, the General Fund's fund balance is \$5,777,882. This includes committed fund balance for the sewer connection incentive, \$100,000, and the pension contingency fund of \$70,000. The City Council adopted a sewer connection incentive program to encourage privately funded sewer main extensions in the Town. With only 50% of the Town connected to sanitary sewer, the City Council found a general health and safety benefit of residences transitioning to public sewer. The incentive is applicable to sewer reimbursement districts and provides a discounted connection fee paid by the Town's General Fund to the Sewer Fund for properties connecting to the privately funded sewer main within a fixed timeframe. The City Council also adopted a pension contingency fund to protect the Town from unanticipated charges from CalPERS to fund the pension's unfunded liability. CalPERS assets are insufficient to meet its actuarial liabilities however CalPERS has not provided an estimate of the Town's share of the unfunded liability.

As a measure of the General Fund's liquidity, it may be useful to compare each component of fund balance and total fund balance to total fund expenditures. At June 30, 2011, the unassigned fund balance and total fund balance represent 126% and 130% of General Fund expenditures, respectively. At June 30, 2010, the unassigned fund balance and total fund balance represented 122% and 122% of General Fund expenditures, respectively after the one-time adjustment for the CalPERS payment in 2009-10 and adjustments for GASB 54 regarding fund balance designations.

Proprietary fund net assets decreased \$1,144,286 as a result of the business-type activities of the Town. Factors contributing to the net decrease are described in the "Proprietary funds" section above.



# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### Budgetary Summaries

A comparison of the final budget to actual revenues, expenditures, and fund balances for the all funds is presented in the Required Supplementary Information section of this report. The most sizable negative variance was observed in the Street Fund where interest income was close to zero because of the fund balance draw down and an overestimation of gas tax revenues in the budgetary review. The most sizable positive variance was recorded in the Other Capital Projects Funds where pathway and drainage projects

Fund	Amended Budget Ending Fund Balance	Actual Ending Fund Balance	Positive (Negative) Variance
General	\$5,631,441	\$5,777,882	\$146,441
Storm Drain	\$85,473	\$120,847	\$35,374
Pathway In-Lieu Fees	\$293,168	\$309,920	\$16,752
Parks & Recreation Facilities	(\$47,351)	\$0	\$47,351
Parks & Recreation In-lieu Fees	\$36,351	\$6	(\$36,345)
Street Fund	\$529,931	\$462,374	(\$67,557)
Roadway Impact Fee	(\$46,977)	\$70	\$47,047
COPS Grant	\$73,635	\$67,526	(\$6,109)
CLEEP Grant	\$5,363	\$0	(\$5,363)
Street Capital	\$117,151	\$104,392	(\$12,759)
Other Capital Projects	\$826,406	\$1,207,361	\$380,955
Sewer	\$7,664,092	\$7,225,432	(\$324,207)

### Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$28,790,829, net of accumulated depreciation - an increase of \$1,203,865 over the prior year reflecting the Town's capital outlay. Capital assets include land, buildings, equipment and infrastructure. No changes were recorded in land for the fiscal year. The bulk of the additions occurred to infrastructure including the sewer collection system. One vehicle was added to the fleet during the year replacing a vehicle that has been removed from service.

# TOWN OF LOS ALTOS HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

The following table presents summarized information on capital assets net of depreciation for fiscal years 2010 and 2011. 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	
	2011	2010	2011	2010	2011	2010
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	4,295,566	4,426,400	-	-	4,295,566	4,426,400
Office equipment	90,992	108,960	-	-	90,992	108,960
Vehicles	204,998	114,001	-	-	204,998	114,001
Sewer collection system	-	-	4,369,141	2,407,599	4,369,141	2,407,599
Infrastructure	21,085,368	20,265,417	-	-	21,085,368	20,265,417
Total capital assets, net	<u>\$ 25,927,459</u>	<u>\$ 25,165,313</u>	<u>\$ 4,369,141</u>	<u>\$ 2,407,599</u>	<u>\$ 30,296,600</u>	<u>\$ 27,572,912</u>

### **Long-term Debt**

The balance of long term debt, excluding compensated absences, at June 30, 2011, is \$1,505,771; of that amount, \$148,609 is due within one year and the balance is due in more than one year. Subsequent to June 30, 2011, the City Council authorized a payment of \$1,322,691 to fully extinguish the outstanding lease financing of Town Hall. The decision was based on the interest expenses far exceeding projected investment income for the balance of the loan.

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

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

### **REQUESTS FOR INFORMATION**

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

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

**TOWN OF LOS ALTOS HILLS**

**GOVERNMENTAL FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 10,065,853	\$ 3,534,002	\$ 13,599,855
Receivables:			
Accounts receivables	267,892	181,277	449,169
Net OPEB asset	171,712	-	171,712
Total Current Assets	<u>10,505,457</u>	<u>3,715,279</u>	<u>14,220,736</u>
Capital assets:			
Land	250,535	-	250,535
Other capital assets, net of depreciation:			
Buildings	4,295,566	-	4,295,566
Office equipment	90,992	-	90,992
Vehicles	204,998	-	204,998
Land improvements	-	4,369,141	4,369,141
Infrastructure	21,085,368	-	21,085,368
Total Capital Assets	<u>25,927,459</u>	<u>4,369,141</u>	<u>30,296,600</u>
Total Assets	<u>36,432,916</u>	<u>8,084,420</u>	<u>44,517,336</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	424,657	776,478	1,201,135
Other liabilities	59,898	77,018	136,916
Interest payable	18,509	-	18,509
Refundable deposits	1,277,771	-	1,277,771
Compensated absences due within one year	12,996	-	12,996
Current portion of long-term debt	148,609	-	148,609
Total current liabilities	<u>1,942,440</u>	<u>853,496</u>	<u>2,795,936</u>
Non-current liabilities:			
Compensated absences due in more than one year	95,980	5,492	101,472
Long-term debt due in more than one year	1,357,162	-	1,357,162
Total non-current liabilities	<u>1,453,142</u>	<u>5,492</u>	<u>1,458,634</u>
Total Liabilities	<u>3,395,582</u>	<u>858,988</u>	<u>4,254,570</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	24,421,688	4,369,141	28,790,829
Restricted for:			
Highways and streets	462,444	-	462,444
Public safety	67,526	-	67,526
Restricted for capital projects	430,767	-	430,767
Unrestricted	7,654,909	2,856,291	10,511,200
Total Net Assets	<u>\$ 33,037,334</u>	<u>\$ 7,225,432</u>	<u>\$ 40,262,766</u>

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

**TOWN OF LOS ALTOS HILLS**

**GOVERNMENTAL FUNDS  
STATEMENT OF ACTIVITIES  
JUNE 30, 2011**

	Program Revenues				Net Revenue (Expense) and Change in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Administration	\$ 1,822,653	\$ -	\$ -	\$ -	\$ (1,822,653)	\$ -	\$ (1,822,653)
Public safety	1,384,604	-	101,005	-	(1,283,599)	-	(1,283,599)
Community development	2,111,541	1,362,932	-	-	(748,609)	-	(748,609)
Parks and recreation	1,310,566	532,623	-	-	(777,943)	-	(777,943)
Drainage and street operations	934,755	601,078	-	346,712	13,035	-	13,035
Interest on long-term debt	71,553	-	-	-	(71,553)	-	(71,553)
<b>Total Governmental Activities</b>	<b>7,635,672</b>	<b>2,496,633</b>	<b>101,005</b>	<b>346,712</b>	<b>(4,691,322)</b>	<b>-</b>	<b>(4,691,322)</b>
Business-type Activities:							
Sewer	1,022,325	1,406,130	-	(1,486,331)	-	(1,102,526)	(1,102,526)
<b>Total Business-type Activities</b>	<b>1,022,325</b>	<b>1,406,130</b>	<b>-</b>	<b>(1,486,331)</b>	<b>-</b>	<b>(1,102,526)</b>	<b>(1,102,526)</b>
<b>Total Primary Government</b>	<b>\$ 8,657,997</b>	<b>\$ 3,902,763</b>	<b>\$ 101,005</b>	<b>\$ (1,139,619)</b>	<b>(4,691,322)</b>	<b>(1,102,526)</b>	<b>(5,793,848)</b>
General Revenues:							
Taxes:							
Property taxes					3,393,604	-	3,393,604
Motor vehicle license tax					40,326	-	40,326
Other taxes					503,766	-	503,766
Franchise Taxes					428,332	-	428,332
Gain (loss) on sale of capital assets					6,600	-	6,600
Use of money and property					178,450	29,585	208,035
Intergovernmental-unrestricted					69,166	-	69,166
Other unrestricted revenue					193,425	-	193,425
Transfers					71,345	(71,345)	-
<b>Total General Revenues and Transfers</b>					<b>4,885,014</b>	<b>(41,760)</b>	<b>4,843,254</b>
Change in Net Assets					193,692	(1,144,286)	(950,594)
Net Assets, Beginning of Year					32,843,642	8,369,718	41,213,360
Net Assets, End of Year					<b>\$ 33,037,334</b>	<b>\$ 7,225,432</b>	<b>\$ 40,262,766</b>

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

**TOWN OF LOS ALTOS HILLS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Totals
<b>ASSETS</b>						
Cash and investments	\$ 7,022,308	\$ -	\$ 199,743	\$ 1,265,744	\$ 1,004,206	\$ 9,492,001
Accounts receivable	195,060	-	-	1,154	71,340	267,554
Total Assets	<u>\$ 7,217,368</u>	<u>\$ -</u>	<u>\$ 199,743</u>	<u>\$ 1,266,898</u>	<u>\$ 1,075,546</u>	<u>\$ 9,759,555</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 148,181	\$ -	\$ 62,424	\$ 59,537	\$ 101,518	\$ 371,660
Other liabilities	26,819	-	32,927	-	-	59,746
Refundable deposits	1,264,486	-	-	-	13,285	1,277,771
Total Liabilities	<u>1,439,486</u>	<u>-</u>	<u>95,351</u>	<u>59,537</u>	<u>114,803</u>	<u>1,709,177</u>
<b>FUND BALANCES</b>						
Restricted	-	-	-	-	960,737	960,737
Committed	170,000	-	104,392	1,207,361	6	1,481,759
Unassigned	5,607,882	-	-	-	-	5,607,882
Total Fund Balances	<u>5,777,882</u>	<u>-</u>	<u>104,392</u>	<u>1,207,361</u>	<u>960,743</u>	<u>8,050,378</u>
Total Liabilities and Fund Balances	<u>\$ 7,217,368</u>	<u>\$ -</u>	<u>\$ 199,743</u>	<u>\$ 1,266,898</u>	<u>\$ 1,075,546</u>	<u>\$ 9,759,555</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, 2011

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Fund Balances of Governmental Funds	\$ 8,050,378
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.	21,195,900
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	(105,864)
Long-term debt	(1,505,771)
Interest payable	(18,509)
Net Assets of Governmental Activities	<u>\$ 33,037,334</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, 2011**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
<b>REVENUES</b>						
Property taxes	\$ 3,393,604	\$ -	\$ -	\$ -	\$ -	\$ 3,393,604
Taxes other than property	503,766	-	-	-	-	503,766
Franchise fees	428,332	-	-	-	-	428,332
Licenses and permits	780,014	-	-	-	40,680	820,694
Intergovernmental	83,446	-	-	27,800	317,587	428,833
Use of money and property	174,253	-	-	32,454	4,197	210,904
Charges for services	618,320	-	-	-	986,761	1,605,081
Miscellaneous	197,977	-	53,100	109,128	-	360,205
<b>Total revenues</b>	<b>6,179,712</b>	<b>-</b>	<b>53,100</b>	<b>169,382</b>	<b>1,349,225</b>	<b>7,751,419</b>
<b>EXPENDITURES</b>						
Current:						
Administration	1,453,778	-	-	-	-	1,453,778
Public safety	1,009,014	-	-	-	111,223	1,120,237
Community development	1,686,842	-	-	-	-	1,686,842
Parks and recreation	283,796	-	-	-	776,539	1,060,335
Drainage and street operations	-	-	-	-	756,279	756,279
Debt service						
Prinicipal	-	142,285	-	-	-	142,285
Interest	-	73,264	-	-	-	73,264
Capital outlay	-	-	1,558,317	763,235	-	2,321,552
<b>Total expenditures</b>	<b>4,433,430</b>	<b>215,549</b>	<b>1,558,317</b>	<b>763,235</b>	<b>1,644,041</b>	<b>8,614,572</b>
Excess (Deficiency) of Revenues Over Expenditures	1,746,282	(215,549)	(1,505,217)	(593,853)	(294,816)	(863,153)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of Assets	6,600	-	-	-	-	6,600
Proceeds from issuance of debt	-	-	-	47,000	-	47,000
Transfers in	71,345	215,549	1,193,102	350,317	576,308	2,406,621
Transfers out	(1,456,857)	-	-	-	(878,419)	(2,335,276)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,378,912)</b>	<b>215,549</b>	<b>1,193,102</b>	<b>397,317</b>	<b>(302,111)</b>	<b>124,945</b>
<b>Net Change in Fund Balances</b>	<b>367,370</b>	<b>-</b>	<b>(312,115)</b>	<b>(196,536)</b>	<b>(596,927)</b>	<b>(738,208)</b>
Fund Balances, Beginning of Year	5,410,512	-	416,507	1,403,897	1,557,670	8,788,586
<b>Fund Balances, End of Year</b>	<b>\$ 5,777,882</b>	<b>\$ -</b>	<b>\$ 104,392</b>	<b>\$ 1,207,361</b>	<b>\$ 960,743</b>	<b>\$ 8,050,378</b>

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, 2011

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Net Change in Fund Balances - Total Governmental Funds \$ (738,208)

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	2,278,444
Depreciation expense charged to governmental activities	(1,458,493)

Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets.	142,285
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Governmental funds report receipt of debt principal as other source, but an increase in long-term liabilities in the Government-wide Statement of Net Assets.	(47,000)
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Change in Compensated Absences	14,953
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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, 2011	(18,509)
Interest accrual at June 30, 2010	20,220

Change in Net Assets of Governmental Activities	<u>\$ 193,692</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, 2011  
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2010**

	Business-type Activities - Enterprise Funds				Total June 30, 2011	Governmental Activities - Internal Service Fund
	Sewer		Solid Waste			
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010		
<b>ASSETS</b>						
Current Assets:						
Cash and investments	\$ 3,534,002	\$ 3,130,448	\$ -	\$ -	\$ 3,534,002	\$ 573,852
Restricted cash and investments	-	1,727,745	-	-	-	-
Accounts receivable	181,277	172,775	-	-	181,277	338
Net OPEB Asset	-	-	-	-	-	171,712
Total Current Assets	<u>3,715,279</u>	<u>5,030,968</u>	<u>-</u>	<u>-</u>	<u>3,715,279</u>	<u>745,902</u>
Noncurrent Assets:						
Capital assets, net of accumulated depreciation	4,369,141	4,022,707	-	-	4,369,141	4,731,559
Total Assets	<u>8,084,420</u>	<u>9,053,675</u>	<u>-</u>	<u>-</u>	<u>8,084,420</u>	<u>5,477,461</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	776,478	669,887	-	-	776,478	52,997
Other liabilities	77,018	-	-	-	77,018	152
Refundable deposits	-	8,702	-	-	-	-
Total current liabilities	<u>853,496</u>	<u>678,589</u>	<u>-</u>	<u>-</u>	<u>853,496</u>	<u>53,149</u>
Noncurrent liabilities:						
Compensated absence payable	5,492	5,368	-	-	5,492	3,112
Total noncurrent liabilities	<u>5,492</u>	<u>5,368</u>	<u>-</u>	<u>-</u>	<u>5,492</u>	<u>3,112</u>
Total Liabilities	<u>858,988</u>	<u>683,957</u>	<u>-</u>	<u>-</u>	<u>858,988</u>	<u>56,261</u>
<b>NET ASSETS</b>						
Invested in capital assets	4,369,141	4,022,707	-	-	4,369,141	4,731,559
Restricted for construction	-	1,727,745	-	-	-	-
Unrestricted	2,856,291	2,619,266	-	-	2,856,291	689,641
Total Net Assets	<u>\$ 7,225,432</u>	<u>\$ 8,369,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,225,432</u>	<u>\$ 5,421,200</u>

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, 2011  
WITH COMPARATIVE AMOUNT FOR THE YEAR ENDED JUNE 30, 2010**

	Business-type Activities - Enterprise Funds				Total June 30, 2011	Governmental Activities - Internal Service Fund
	Sewer		Solid Waste			
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010		
<b>OPERATING REVENUES</b>						
Charges for services	\$ 1,382,814	\$ 1,297,216	\$ -	\$ -	\$ 1,382,814	\$ -
Other income	2,321	38,464	-	-	2,321	-
General Services	20,995	-	-	-	20,995	-
Town Hall services	-	-	-	-	-	514,133
Corporate yard services	-	-	-	-	-	81,709
Vehicle services	-	-	-	-	-	190,040
<b>Total Operating Revenues</b>	<b>1,406,130</b>	<b>1,335,680</b>	<b>-</b>	<b>-</b>	<b>1,406,130</b>	<b>785,882</b>
<b>OPERATING EXPENSES</b>						
Salaries and benefits	77,977	82,967	-	-	77,977	142,682
Contract services	758,354	657,118	-	-	758,354	191,237
Operating expenses	84,268	109,823	-	-	84,268	283,868
Depreciation	101,726	97,542	-	-	101,726	168,095
<b>Total Operating Expenses</b>	<b>1,022,325</b>	<b>947,450</b>	<b>-</b>	<b>-</b>	<b>1,022,325</b>	<b>785,882</b>
<b>Operating Income (Loss)</b>	<b>383,805</b>	<b>388,230</b>	<b>-</b>	<b>-</b>	<b>383,805</b>	<b>-</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>						
Interest income	29,585	102,876	-	-	29,585	-
<b>Income Before Contributions and Transfers</b>	<b>413,390</b>	<b>491,106</b>	<b>-</b>	<b>-</b>	<b>413,390</b>	<b>-</b>
Contribution from (refunds to) property owners	(1,784,444)	437,477	-	-	(1,784,444)	-
Connection Fees	298,113	142,955	-	-	298,113	-
Transfers out	(71,345)	(120,602)	-	(11,014)	(71,345)	-
<b>Changes in Net Assets</b>	<b>(1,144,286)</b>	<b>950,936</b>	<b>-</b>	<b>(11,014)</b>	<b>(1,144,286)</b>	<b>-</b>
<b>Total Net Assets, Beginning of Year</b>	<b>8,369,718</b>	<b>7,418,782</b>	<b>-</b>	<b>(11,014)</b>	<b>8,369,718</b>	<b>5,421,200</b>
<b>Total Net Assets, End of Year</b>	<b>\$ 7,225,432</b>	<b>\$ 8,369,718</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,225,432</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, 2011

	Business-type Activities			Governmental
	Sewer Fund	Solid Waste Fund	Total	Activities - Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 1,397,628	\$ -	\$ 1,397,628	\$ 785,544
Payments to suppliers	(667,592)	-	(667,592)	(680,505)
Payments to employees	(77,977)	-	(77,977)	(154,550)
Net Cash Provided (Used) by Operating Activities	652,059	-	652,059	(49,511)
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Connection fee	298,113	-	298,113	-
Transfers out	(71,345)	-	(71,345)	-
Net Cash Provided (Used) by Noncapital Financing Activities	226,768	-	226,768	-
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital Contributions from property owners	(1,784,444)	-	(1,784,444)	-
Capital Contributions refunded to property owners	-	-	-	-
Cash to acquire fixed assets	(448,159)	-	(448,159)	(110,296)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,232,603)	-	(2,232,603)	(110,296)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	29,585	-	29,585	-
Net Increase (Decrease) in Cash and Investments	(1,324,191)	-	(1,324,191)	(159,807)
Cash and Cash Equivalents, Beginning of Year	4,858,193	-	4,858,193	733,659
Cash and Cash Equivalents, End of Year	\$ 3,534,002	\$ -	\$ 3,534,002	\$ 573,852
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 383,805	\$ -	\$ 383,805	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	101,726	-	101,726	168,095
(Increase) decrease in accounts receivable	(8,503)	-	(8,503)	(338)
(Increase) decrease in OPEB assets	-	-	-	(11,868)
Increase (decrease) in accounts payable	175,031	-	175,031	(205,400)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	\$ 652,059	\$ -	\$ 652,059	\$ (49,511)

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

**TOWN OF LOS ALTOS HILLS**

**STATEMENT OF FIDUCIARY FUND ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

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**ASSETS**

Restricted Cash and Investments	\$ 1,612,785
Total Assets	<u>\$ 1,612,785</u>

**LIABILITIES**

Due to bondholders	\$ 1,612,785
Total Liabilities	<u>\$ 1,612,785</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, 2011

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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, 2011, 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, 2011

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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 *Debt Service Fund* is used to account for principal and interest payments on long-term obligations.
- 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, 2011

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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.

#### Fund Balance Classification

Fund balance is classified in accordance with GASB issued Statement No. 54, which classifies fund balance into five different components. The components are nonspendable, restricted, committed, assigned and unassigned.

- Nonspendable resources are not in spendable from or required to be maintained intact such as an endowment.
- Restricted resources are subject to externally enforceable legal restrictions or imposed by law through constitutional provisions or enabling legislation.
- Committed resources are constrained to specific purposes by a formal action of the Town Council such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the Town Council. Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- Assigned resources are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed.
- Per GASB 54, the lowest level of constraint for capital project funds is the assigned classification. The unassigned classification is to be used when there are negative residual resources in excess of what can be properly classified as nonspendable, restricted, committed or assigned.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the Town's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available the Town's policy is to first apply committed fund balance. It is at the discretion of the Council's designee to then apply the remaining expenditures to assigned or unassigned fund balance.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

#### 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.

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



# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

#### 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, and sewer fees. Accounts receivable are shown at \$195,060 in the General Fund, \$1,154 in the Other Capital Projects Fund, \$71,340 in Non Major Governmental Funds, and \$181,277 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

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.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

#### 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, 2011

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

#### K. New Accounting Pronouncements

Implemented during 2010-11

##### **GASB Statement No. 54**

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund 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 were incorporated into the presentation of the financial statements for June 30, 2011. The composition and classification of the various component amounts that comprise the fund balance differ from prior year presentations. Please see Footnote 7 for the new presentation of fund balance components.

##### **GASB Statement No. 59**

In June 2010, GASB issued Statement No. 59, *Financial Instrument Omnibus*. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement was effective July 1, 2010 and did not significantly impact the financial statements of the Town.

Upcoming

##### **GASB Statement No 62**

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective in fiscal year 2012-2013. This statement incorporates certain accounting and financing reporting guidance into GASB's authoritative literature, included in the following pronouncements issued on or before Nov. 30<sup>th</sup>, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, eliminating the election for enterprise funds and business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. However, governments can apply post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Agency has not determined its effect on the financial statements.

#### **GASB Statement No. 63**

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The Agency has not determined its effect on the financial statements.

#### **GASB Statement No. 64**

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The Agency has not determined its effect on the financial statements.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash and Investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Cash on hand	\$	691
Deposits with financial institutions		2,183,696
Cash and investment with fiscal agent		188,602
Investments		12,839,651
Total Deposits and Investments	\$	<u>15,212,640</u>

Cash and investment as of June 30, 2011, consist of the following:

Statement of net assets:		
Cash and investments	\$	13,599,855
Fiduciary funds:		
Cash and investments		1,612,785
Total Deposits and Investments	\$	<u>15,212,640</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, 2011.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**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
California Asset Management Program (CAMP)	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, 2011, 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	\$ 11,415,950	\$ 4,803,179	\$ 6,612,771	\$ -
LAIF Investment Pool	19,172	19,172	-	-
CAMP Investment Pool	1,404,529	1,404,529	-	-
Money Market	188,602	188,602	-	-
Total Securities	<u>\$ 13,028,253</u>	<u>\$ 6,415,482</u>	<u>\$ 6,612,771</u>	<u>\$ -</u>

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**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
Federal Agency Bonds/Notes	\$ 11,415,950	N/A	\$ 11,415,950	\$ -	\$ -
LAI Investment Pool	19,172	N/A	19,172	-	19,172
CAMP Investment Pool	1,404,529	N/A	-	1,404,529	-
Money Market	188,602	N/A	-	188,602	-
Total	<u>\$ 13,028,253</u>		<u>\$ 11,435,122</u>	<u>\$ 1,593,131</u>	<u>\$ 19,172</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, 2011, the Town's bank balance of \$2,231,199, with a reported balance of \$2,183,693, is insured for the first \$500,000 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, 2011**

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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, 2011:

<b>Transfers in</b>	<b>Transfers out</b>				<b>Total</b>
	<b>General Fund</b>	<b>Other capital Project Fund</b>	<b>Governmental Non-Major Funds</b>	<b>Sewer Enterprise Fund</b>	
General Fund	\$ -	\$ -	\$ -	\$ 71,345	\$ 71,345
Debt Service Fund	215,549	-	-	-	215,549
Street Capital Project Fund	406,812	-	786,290	-	1,193,102
Other Capital Project Fund	258,188	-	92,129	-	350,317
Governmental Non-Major Funds	576,308	-	-	-	576,308
<b>Total</b>	<b>\$ 1,456,857</b>	<b>\$ -</b>	<b>\$ 878,419</b>	<b>\$ 71,345</b>	<b>\$ 2,406,621</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 64%, is dedicated to capital improvements ranging from parks & recreation facilities to sewer infrastructure. Operations and debt service account for 9% and 27%, respectively, of the total annual transfers in 2010-11.



**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Reductions	Trasnfers	Balance June 30, 2011
<b>Governmental activities</b>					
Capital assests not being depreciated:					
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>
Capital assets being depreciated:					
Infrastructure	69,400,171	2,278,444	-	-	71,678,615
Buildings	5,152,825	-	-	-	5,152,825
Vehicles	482,524	110,293	-	-	592,817
Office equipment	444,411	-	-	-	444,411
Total capital assets being depreciated	<u>75,479,931</u>	<u>2,388,737</u>	<u>-</u>	<u>-</u>	<u>77,868,668</u>
Less accumulated depreciation for:					
Infrastructure	(49,134,757)	(1,458,493)	-	-	(50,593,250)
Buildings	(726,425)	(130,837)	-	-	(857,262)
Vehicles	(368,523)	(19,296)	-	-	(387,819)
Office equipment	(335,451)	(17,962)	-	-	(353,413)
Total accumulated depreciation	<u>(50,565,156)</u>	<u>(1,626,588)</u>	<u>-</u>	<u>-</u>	<u>(52,191,744)</u>
Total capital assets being depreciated, net	<u>24,914,775</u>	<u>762,149</u>	<u>-</u>	<u>-</u>	<u>25,676,924</u>
Governmental activities capital assets, net	<u>\$ 25,165,310</u>	<u>\$ 762,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,927,459</u>
<b>Business-type activities</b>					
Capital assests not being depreciated:					
Construction in progress	\$ 1,615,108	\$ -	\$ -	\$(1,615,108)	\$ -
Capital assets being depreciated:					
Sewer collection system	4,069,028	448,160	-	1,615,108	6,132,296
Office equipment	1,509	-	-	-	1,509
Total capital assets being depreciated	<u>4,070,537</u>	<u>448,160</u>	<u>-</u>	<u>1,615,108</u>	<u>6,133,804</u>
Less accumulated depreciation for:					
Sewer collection system	(1,661,429)	(101,726)	-	-	(1,763,155)
Office equipment	(1,509)	-	-	-	(1,509)
Total accumulated depreciation	<u>(1,662,938)</u>	<u>(101,726)</u>	<u>-</u>	<u>-</u>	<u>(1,764,664)</u>
Total capital assets being depreciated, net	<u>2,407,599</u>	<u>346,434</u>	<u>-</u>	<u>1,615,108</u>	<u>4,369,141</u>
Business-type activities capital assets, net	<u>\$ 4,022,707</u>	<u>\$ 346,434</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,369,141</u>

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 340,720
Public safety	264,367
Community development	424,699
Parks and recreation	250,231
Drainage and street operations	178,476
Capital assets held by the Town's Internal Service Fund charged to the various functions based on their usage of the assets	<u>168,095</u>
Total depreciation - governmental activities	<u><u>\$ 1,626,588</u></u>

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

Sewer Fund	<u><u>\$ 101,726</u></u>
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**NOTE 5 – LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Retirement	Balance June 30, 2011	Current portion	Interest rate
<b>Governmental activities:</b>						
Capital Lease	\$ 1,491,146	\$ -	\$ (128,099)	\$ 1,363,047	\$ 134,124	4.65%
California Energy Commission Loans	109,910	47,000	(14,186)	\$ 142,724	14,485	3.0-3.95%
Subtotals	1,601,056	47,000	(142,285)	1,505,771	148,609	
Compensated Absences	122,883	-	(13,907)	108,976	12,996	N/A
Governmental activity long-term liabilities	<u>1,723,939</u>	<u>47,000</u>	<u>-</u>	<u>1,770,939</u>	<u>161,605</u>	
<b>Business-type activities:</b>						
Compensated Absences	5,368	124	-	5,492	-	N/A
<b>Total Governmental and Business-type activity long-term liabilities</b>	<u><u>\$ 1,729,307</u></u>	<u><u>\$ 47,124</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,776,431</u></u>	<u><u>\$ 161,605</u></u>	

The Town's capital assets at June 30, 2011 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, 2011**

**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. In September of 2011 the Town paid off the entire amount outstanding of \$1,363,047, therefore, no repayment schedule is shown.

On February 18, 2004 and July 15, 2010, the town entered into loan agreements with the State Energy Conservation Assistance 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
2012	\$ 14,486	\$ 5,010	\$ 19,496
2013	15,048	4,537	19,585
2014	15,618	3,965	19,583
2015	16,212	3,373	19,585
2016	16,820	2,764	19,584
2017-2019	64,540	5,706	70,246
Total	\$ 142,724	\$ 25,355	\$ 168,079

**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.

At June 30, 2011, the balance of the assessment district’s outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/2011
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25%-6.15%	\$ 48,364	2012-2039	\$ 3,094,500

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**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, 2011, restricted assets consisted of \$462,444 for street projects, \$67,526 for public safety grants, and \$430,767 for capital projects.

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

There is \$70,000 in unrestricted net assets that are committed for payment of the annual required contribution for other post employment benefits in the internal service funds, and \$100,000 committed to the Sewer Connect Incentive Program.

**B. Fund Balances - Components**

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 non-spendable, restricted, committed, assigned or unassigned.

	<b>General Fund</b>	<b>Street Cap Project</b>	<b>Other Cap Project</b>	<b>Non- major</b>	<b>Total</b>
Restricted for:					
Other capital projects	\$ -	\$ -	\$ -	\$ 430,767	\$ 430,767
Street and road repairs	-	-	-	462,444	462,444
Law enforcement	-	-	-	67,526	67,526
Committed for:					
Pension contributions	70,000	-	-	-	70,000
Sewer connect incentive program	100,000	-	-	-	100,000
Park and recreation	-	-	-	6	6
Other capital projects	-	-	1,207,361	-	1,207,361
Street and road repairs	-	104,392	-	-	104,392
Unassigned	5,607,882	-	-	-	5,607,882
	<u>\$ 5,777,882</u>	<u>\$ 104,392</u>	<u>\$ 1,207,361</u>	<u>\$ 960,743</u>	<u>\$ 8,050,378</u>

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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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 (CalPERS). 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 2010-2011 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.

#### C. Annual Pension Cost

For fiscal year 2010-2011, the Town's annual pension cost of \$151,641 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2009, 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>
6/30/2009	\$ 217,808	100%	\$ -
6/30/2010	190,021	100%	-
6/30/2011	151,641	100%	-

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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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, 2011 the Town contributed \$61,294 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, 2011, the Town contributed \$89,257 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, 2011, estimated by ABAG was not material.

# TOWN OF LOS ALTOS HILLS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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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 – 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.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

Based upon the valuation dated June 30, 2009, the most recent valuation available, the actuarially required ARC was \$203,000. The components of annual OPEB cost for the current fiscal year, amount actually contributed, and the changes in net post employment benefit obligation are shown in the following table.

	<u>June 30, 2011</u>
Normal Cost at Year End	\$ 67,000
Amortization of UAAL	<u>92,000</u>
Annual Required Contribution	159,000
Interest on Prior Year Net OPEB Asset	(12,388)
Adjustment to ARC	14,178
Annual OPEB Cost	<u>160,790</u>
Contributions Made	(172,658)
Increase (Decrease) in Net OPEB Obligation	(11,868)
Net OPEB Obligation (Asset)- Beginning of Year	(159,844)
Net OPEB Obligation (Asset)- End of Year	<u>\$ (171,712)</u>

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

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, 2009, 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)	1,127,000
Funded ratio (actuarial value of plan assets/AAL)	23.4%
Covered payroll (active plan members)	1,605,000
UAAL as percentage of covered payroll	70.2%



**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2009	\$ 204,381	30%	\$ (34,461)
June 30, 2010	154,277	181%	(159,844)
June 30, 2011	160,790	107%	(171,712)

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.

**TOWN OF LOS ALTOS HILLS**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

- 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.

**NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Excess of expenditures over appropriations**

Due to unanticipated year-end activity individual funds which had an excess of expenditures over appropriations as approved by the Town Council during the fiscal year 2010-2011, are as follows:

Fund	Expenditures	Appropriations	Excess Expenditures Over Appropriations
Storm Drain	\$ 297,948	\$ 293,491	\$ 4,457
Parks and Recreation Facility	414,008	409,299	664
Citizens' Option for Public Safety (COPS)	105,857	99,239	6,618
Cal Law Enforcement Equipment Program (CLEEP)	5,366	-	5,366
Street Capital Projects	1,558,317	1,532,056	26,261

***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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property tax	\$ 3,466,147	\$ 3,457,091	\$ 3,393,604	\$ (63,487)
Taxes other than property	278,885	398,945	503,766	104,821
Franchise fees	453,059	422,394	428,332	5,938
Licenses and permits	603,103	762,473	780,014	17,541
Intergovernmental	87,000	84,490	83,446	(1,044)
Use of money and property	240,404	205,512	174,253	(31,259)
Charges for services	357,942	698,012	618,320	(79,692)
Miscellaneous	98,053	22,353	197,977	175,624
<b>Total Revenues</b>	<b>5,584,593</b>	<b>6,051,270</b>	<b>6,179,712</b>	<b>128,442</b>
<b>EXPENDITURES</b>				
Current:				
Administration	1,634,255	1,493,554	1,453,778	39,776
Public safety	1,023,030	1,014,289	1,009,014	5,275
Community development	1,727,376	1,713,442	1,686,842	26,600
Parks and recreation	323,677	273,677	283,796	(10,119)
<b>Total Expenditures</b>	<b>4,708,338</b>	<b>4,494,962</b>	<b>4,433,430</b>	<b>61,532</b>
Excess (Deficiency) of Revenues Over Expenditures	876,255	1,556,308	1,746,282	189,974
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of asset	-	-	6,600	6,600
Transfers in	231,824	303,169	71,345	(231,824)
Transfers out	(1,468,433)	(1,638,548)	(1,456,857)	181,691
<b>Total Other Financing Sources (Uses)</b>	<b>(1,236,609)</b>	<b>(1,335,379)</b>	<b>(1,378,912)</b>	<b>(43,533)</b>
Net Change in Fund Balance	(360,354)	220,929	367,370	146,441
Fund Balance, Beginning of Year	5,410,512	5,410,512	5,410,512	-
Fund Balance, End of Year	<b>\$ 5,050,158</b>	<b>\$ 5,631,441</b>	<b>\$ 5,777,882</b>	<b>\$ 146,441</b>

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, 2011**

As of Fiscal Year End	Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a) (Amounts expressed in thousands)	Actuarial Value of Assets (b) (Amounts expressed in thousands)	Unfunded AAL (UAAL) (a) - (b) (Amounts expressed in thousands)	Funded Ratio (b)/(a)	Annual Covered Payroll (c) (Amounts expressed in thousands)	UAAL As a Percentage of Covered Payroll [(a)-(b)]/(c)
6/30/2007	3/30/2008	\$ 1,594	N/A	\$ 1,594	0.0%	\$ 1,398	114.0%
6/30/2009	7/23/2010	\$ 1,472	\$ 345	\$ 1,127	23.4%	\$ 1,554	72.5%

# **TOWN OF LOS ALTOS HILLS**

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2011**

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### **NOTE 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.

### **NOTE 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, 2011

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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, 2011**

	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	\$ 126,661	\$ 313,303	\$ 9,988	\$ 6	\$ 512,764	\$ 70	\$ 41,414	\$ -	\$ 1,004,206
Accounts receivable	143	158	26,319	-	17,897	-	26,823	-	71,340
<b>Total Assets</b>	<b>\$ 126,804</b>	<b>\$ 313,461</b>	<b>\$ 36,307</b>	<b>\$ 6</b>	<b>\$ 530,661</b>	<b>\$ 70</b>	<b>\$ 68,237</b>	<b>\$ -</b>	<b>\$ 1,075,546</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ 5,957	\$ 3,541	\$ 36,307	\$ -	55,002	\$ -	711	\$ -	\$ 101,518
Other liabilities	-	-	-	-	13,285	-	-	-	13,285
<b>Total Liabilities</b>	<b>5,957</b>	<b>3,541</b>	<b>36,307</b>	<b>-</b>	<b>68,287</b>	<b>-</b>	<b>711</b>	<b>-</b>	<b>114,803</b>
<b>FUND BALANCES</b>									
Restricted	120,847	309,920	-	-	462,374	70	67,526	-	960,737
Committed	-	-	-	6	-	-	-	-	6
<b>Total Fund Balances</b>	<b>120,847</b>	<b>309,920</b>	<b>-</b>	<b>6</b>	<b>462,374</b>	<b>70</b>	<b>67,526</b>	<b>-</b>	<b>960,743</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 126,804</b>	<b>\$ 313,461</b>	<b>\$ 36,307</b>	<b>\$ 6</b>	<b>\$ 530,661</b>	<b>\$ 70</b>	<b>\$ 68,237</b>	<b>\$ -</b>	<b>\$ 1,075,546</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, 2011**

	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	\$ -	\$ -	\$ -	\$ -	40,680	\$ -	\$ -	\$ -	\$ 40,680
Intergovernmental	-	-	-	-	217,587	-	100,000	-	317,587
Use of money and property	-	3,281	-	-	459	-	454	3	4,197
Charges for services	131,001	177,904	219,089	10,122	30,003	417,637	1,005	-	986,761
<b>Total Revenues</b>	<b>131,001</b>	<b>181,185</b>	<b>219,089</b>	<b>10,122</b>	<b>288,729</b>	<b>417,637</b>	<b>101,459</b>	<b>3</b>	<b>1,349,225</b>
<b>EXPENDITURES</b>									
Current:									
Public safety	-	-	-	-	-	-	105,857	5,366	111,223
Parks and recreation	-	362,531	414,008	-	-	-	-	-	776,539
Drainage and street operations	297,948	-	-	-	458,331	-	-	-	756,279
<b>Total Expenditures</b>	<b>297,948</b>	<b>362,531</b>	<b>414,008</b>	<b>-</b>	<b>458,331</b>	<b>-</b>	<b>105,857</b>	<b>5,366</b>	<b>1,644,041</b>
Excess (Deficiency) of Revenues									
Over Expenditures	(166,947)	(181,346)	(194,919)	10,122	(169,602)	417,637	(4,398)	(5,363)	(294,816)
<b>OTHER FINANCING SOURCES (USES)</b>									
Sale of Asset	-	-	-	-	-	-	-	-	-
Transfers in	-	360,000	216,308	-	-	-	-	-	576,308
Transfers out	-	-	-	(10,317)	(81,812)	(786,290)	-	-	(878,419)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>360,000</b>	<b>216,308</b>	<b>(10,317)</b>	<b>(81,812)</b>	<b>(786,290)</b>	<b>-</b>	<b>-</b>	<b>(302,111)</b>
<b>Net Change in Fund Balances</b>	<b>(166,947)</b>	<b>178,654</b>	<b>21,389</b>	<b>(195)</b>	<b>(251,414)</b>	<b>(368,653)</b>	<b>(4,398)</b>	<b>(5,363)</b>	<b>(596,927)</b>
Fund Balances, Beginning of year	287,794	131,266	(21,389)	201	713,788	368,723	71,924	5,363	1,557,670
Fund Balances, End of Year	\$ 120,847	\$ 309,920	\$ -	\$ 6	\$ 462,374	\$ 70	\$ 67,526	\$ -	\$ 960,743

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 82,000	\$ 91,170	\$ 131,001	\$ 39,831
Total Revenues	82,000	91,170	131,001	39,831
<b>EXPENDITURES</b>				
Current:				
Drainage operations	260,840	293,491	297,948	(4,457)
Total Expenditures	260,840	293,491	297,948	(4,457)
Excess (Deficiency) of Revenues Over Expenditures	(178,840)	(202,321)	(166,947)	35,374
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(178,840)	(202,321)	(166,947)	35,374
Fund Balance, Beginning of Year	287,794	287,794	287,794	-
Fund Balance, End of Year	\$ 108,954	\$ 85,473	\$ 120,847	\$ 35,374

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
PATHWAY IN-LIEU FEE FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ 1,050	\$ 500	\$ 3,281	\$ 2,781
Charges for services	175,000	167,211	177,904	10,693
<b>Total Revenues</b>	<b>176,050</b>	<b>167,711</b>	<b>181,185</b>	<b>13,474</b>
<b>EXPENDITURES</b>				
Current:				
Parks and recreation	325,936	365,809	362,531	3,278
<b>Total Expenditures</b>	<b>325,936</b>	<b>365,809</b>	<b>362,531</b>	<b>3,278</b>
Excess (Deficiency) of Revenues Over Expenditures	(149,886)	(198,098)	(181,346)	16,752
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	360,000	360,000	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>360,000</b>	<b>360,000</b>	<b>-</b>
Net Change in Fund Balance	(149,886)	161,902	178,654	16,752
Fund Balance, Beginning of Year	131,266	131,266	131,266	-
Fund Balance, End of Year	\$ (18,620)	\$ 293,168	\$ 309,920	\$ 16,752

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money & property	\$ 25,500	\$ 25,500	\$ -	\$ (25,500)
Miscellaneous Revenue	239,544	189,544	219,089	29,545
<b>Total Revenues</b>	<b>265,044</b>	<b>215,044</b>	<b>219,089</b>	<b>4,045</b>
<b>EXPENDITURES</b>				
	433,337	409,299	414,008	(4,709)
Excess (Deficiency) of Revenues Over Expenditures	(168,293)	(194,255)	(194,919)	(664)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	168,293	168,293	216,308	48,015
<b>Total Other Financing Sources (Uses)</b>	<b>168,293</b>	<b>168,293</b>	<b>216,308</b>	<b>48,015</b>
Net Change in Fund Balance	-	(25,962)	21,389	47,351
Fund Balance, Beginning of Year	(21,389)	(21,389)	(21,389)	-
Fund Balance, End of Year	\$ (21,389)	\$ (47,351)	\$ -	\$ 47,351

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
PARKS AND RECREATION IN LIEU FEE FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money & property	\$ 1,150	\$ 1,150	\$ -	\$ (1,150)
Charges for services	35,000	35,000	10,122	(24,878)
Total Revenues	36,150	36,150	10,122	(26,028)
<b>EXPENDITURES</b>				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	36,150	36,150	10,122	(26,028)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(10,317)	(10,317)
Total Other Financing Sources (Uses)	-	-	(10,317)	(10,317)
Net Change in Fund Balance	36,150	36,150	(195)	(36,345)
Fund Balance, Beginning of Year	201	201	201	-
Fund Balance, End of Year	\$ 36,351	\$ 36,351	\$ 6	\$ (36,345)

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ 28,000	\$ 40,000	\$ 40,680	\$ 680
Intergovernmental	110,002	241,997	217,587	(24,410)
Use of money and property	20,550	10,000	459	(9,541)
Charges for services	47,000	47,000	30,003	(16,997)
<b>Total Revenues</b>	<b>205,552</b>	<b>338,997</b>	<b>288,729</b>	<b>(50,268)</b>
<b>EXPENDITURES</b>				
Current:				
Street operations	361,445	522,854	458,331	64,523
<b>Total Expenditures</b>	<b>361,445</b>	<b>522,854</b>	<b>458,331</b>	<b>64,523</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(155,893)</b>	<b>(183,857)</b>	<b>(169,602)</b>	<b>14,255</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	(81,812)	(81,812)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(81,812)</b>	<b>(81,812)</b>
<b>Net Change in Fund Balance</b>	<b>(155,893)</b>	<b>(183,857)</b>	<b>(251,414)</b>	<b>(67,557)</b>
Fund Balance, Beginning of Year	713,788	713,788	713,788	-
<b>Fund Balance End of Year</b>	<b>\$ 557,895</b>	<b>\$ 529,931</b>	<b>\$ 462,374</b>	<b>\$ (67,557)</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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 359,000	\$ 312,000	\$ 417,637	\$ 105,637
Total Revenues	359,000	312,000	417,637	105,637
<b>EXPENDITURES</b>				
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(727,700)	(727,700)	(786,290)	(58,590)
Total Other Financing Sources (Uses)	(727,700)	(727,700)	(786,290)	(58,590)
Net Change in Fund Balance	(368,700)	(415,700)	(368,653)	47,047
Fund Balance, Beginning of Year	368,723	368,723	368,723	-
Fund Balance, End of Year	\$ 23	\$ (46,977)	\$ 70	\$ 47,047

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
CITIZENS’ OPTION FOR PUBLIC SAFETY (COPS)  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Miscellaneous	-	-	1,005	1,005
Use of money and property	950	950	454	(496)
<b>Total Revenues</b>	<b>100,950</b>	<b>100,950</b>	<b>101,459</b>	<b>509</b>
<b>EXPENDITURES</b>				
Current:				
Public safety	99,636	99,239	105,857	(6,618)
<b>Total Expenditures</b>	<b>99,636</b>	<b>99,239</b>	<b>105,857</b>	<b>(6,618)</b>
Excess (Deficiency) of Revenues Over Expenditures	1,314	1,711	(4,398)	(6,109)
Fund Balance, Beginning of Year	71,924	71,924	71,924	-
Fund Balance, End of Year	\$ 73,238	\$ 73,635	\$ 67,526	\$ (6,109)



**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of money and property	\$ -	\$ -	\$ 3	\$ 3
Total Revenues	-	-	3	3
<b>EXPENDITURES</b>				
Current:				
Public safety	-	-	5,366	(5,366)
Total Expenditures	-	-	5,366	(5,366)
Excess (Deficiency) of Revenues Over Expenditures	-	-	(5,363)	(5,363)
Fund Balance, Beginning of Year	5,363	5,363	5,363	-
Fund Balance, End of Year	\$ 5,363	\$ 5,363	\$ -	\$ (5,363)

**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, 2011**

	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				
Principal	142,367	142,367	142,285	82
Interest	73,182	73,182	73,264	(82)
	215,549	215,549	215,549	-
Excess (Deficiency) of Revenues Over Expenditures	(215,549)	(215,549)	(215,549)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	215,549	215,549	215,549	-
Total Other Financing Sources (Uses)	215,549	215,549	215,549	-
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 NET ASSETS – BUDGET AND ACTUAL  
 STREET CAPITAL PROJECT FUND  
 FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ -	\$ 55,000	\$ 53,100	\$ (1,900)
EXPENDITURES				
Capital outlay	1,469,000	1,532,056	1,558,317	(26,261)
Total Expenditures	1,469,000	1,532,056	1,558,317	(26,261)
Excess (Deficiency) of Revenues Over Expenditures	(1,469,000)	(1,477,056)	(1,505,217)	(28,161)
OTHER FINANCING SOURCES (USES)				
Transfers in	852,700	1,177,700	1,193,102	15,402
Total Other Financing Sources (Uses)	852,700	1,177,700	1,193,102	15,402
Net Change in Fund Balance	(616,300)	(299,356)	(312,115)	(12,759)
Fund Balance, Beginning of Year	416,507	416,507	416,507	-
Fund Balance, End of Year	\$ (199,793)	\$ 117,151	\$ 104,392	\$ (12,759)

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND NET ASSETS – BUDGET AND ACTUAL  
OTHER CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES	\$ 39,157	\$ 75,684	\$ 169,382	\$ 93,698
EXPENDITURES				
Capital outlay:				
General CIP	293,200	293,200	241,176	52,024
Pathways	530,000	397,975	280,250	117,725
Westwind Barn Projects	125,000	162,000	153,755	8,245
Drainage	140,000	140,000	88,054	51,946
Total Expenditures	1,088,200	993,175	763,235	229,940
Excess (Deficiency) of Revenues Over Expenditures	(1,049,043)	(917,491)	(593,853)	323,638
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	-	-	47,000	47,000
Transfers in	425,000	340,000	350,317	10,317
Total Other Financing Sources (Uses)	425,000	340,000	397,317	57,317
Net Change in Fund Balance	(624,043)	(577,491)	(196,536)	380,955
Fund Balance, Beginning of Year	1,403,897	1,403,897	1,403,897	-
Fund Balance, End of Year	\$ 779,854	\$ 826,406	\$ 1,207,361	\$ 380,955

**TOWN OF LOS ALTOS HILLS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND NET ASSETS – BUDGET AND ACTUAL  
PROPRIETARY FUND - SEWER  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,455,765	\$ 1,428,368	\$ 1,382,814	\$ (45,554)
Other income	-	-	2,321	2,321
General Services	-	-	20,995	20,995
Total Operating Revenues	1,455,765	1,428,368	1,406,130	(22,238)
<b>OPERATING EXPENSES</b>				
Salaries and benefits	84,519	82,548	77,977	4,571
Contract services	871,452	685,120	758,354	(73,234)
Operating expenses	224,518	129,449	84,268	45,181
Depreciation	44,000	99,000	101,726	(2,726)
Total Operating Expenses	1,224,489	996,117	1,022,325	(26,208)
Operating Income (Loss)	231,276	432,251	383,805	(48,446)
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Investment income	21,000	37,691	29,585	(8,106)
Income Before Contributions and Transfers	252,276	469,942	413,390	(56,552)
Contributions to (from) property owners	-	(1,402,336)	(1,784,444)	(382,108)
Connection Fees	319,400	298,113	298,113	-
Transfers out	(440,000)	(71,345)	(71,345)	-
Changes in Net Assets	131,676	(705,626)	(1,144,286)	(438,660)
Total Net Assets, Beginning of Year	8,369,718	8,369,718	8,369,718	-
Total Net Assets, End of Year	\$ 8,501,394	\$ 7,664,092	\$ 7,225,432	\$ (438,660)