

TOWN OF LOS ALTOS HILLS, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2013**

TOWN OF LOS ALTOS HILLS
June 30, 2013

Table of Contents

Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	27
Statement of Activities	28
Fund Financial Statements	
Balance Sheet - Governmental Funds	29
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position	30
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	31
Reconciliation of the Governmental Funds Statement of Revenues, Expenditure and Changes in Fund Balances to the Government-wide Statement of Activities and Changes in Net Position	32
Statement of Fund Net Position - Proprietary Funds	33
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	34
Statement of Cash Flows - Proprietary Funds	35
Statement of Fiduciary Net Position – Fiduciary Fund	36
Notes to the Financial Statements	37
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund	59
Schedule of Funding Progress – Other Postemployment Benefit	60
Notes to Required Supplementary Information	61

TOWN OF LOS ALTOS HILLS
June 30, 2013

Table of Contents (Continued)

Supplementary Information

Combining Statements and Individual Fund Schedules

Nonmajor Governmental Funds 63

Combining Balance Sheet - Nonmajor Governmental Funds 64

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds 65

Schedule of Revenues, Expenditures and Changes in Fund Balance/Fund
Net Position – Budget and Actual:

Storm Drain Fund 66

Pathway In-Lieu Fees Fund 67

Parks and Recreation Facilities Fund 68

Parks and Recreation In-Lieu Fees Fund 69

Street Fund 70

Roadway Impact Fee Fund 71

COPS Fund 72

Debt Service Fund 73

Street Capital Projects Fund 74

Other Capital Projects Fund 75

Proprietary Fund – Sewer 76



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Los Altos Hills, California (Town), as of and for the year ended June 30, 2013, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Altos Hills, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and other postemployment benefit plan schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The combining statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining statements and individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and individual fund schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Vannink, Tui, Day & Co., LLP

Pleasanton, California
November 25, 2013

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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, 2013.

FINANCIAL HIGHLIGHTS

- The Town's government-wide assets exceed its liabilities at June 30, 2013, by \$40,331,151 (net position), an increase of \$1,191,460 from the prior year. Of this amount, \$7,576,655 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors; an increase from prior year's unrestricted net position of \$78,193 or one percent. It is important to note that \$3,227,161 of the net position is unrestricted for Sewer Operations.
- The Town's cash and investments at June 30, 2013 totaled \$11,803,752, of which \$7,982,448 is classified as government activities and \$3,821,304 falls into the business-type activities category (Sewer). The Town's cash and investments decreased \$729,380, or six percent compared to the prior year, primarily due to the issuance of Roadway Impact Fee refunds. On May 17, 2012, the Town Council adopted an ordinance repealing the fee and directed staff to offer refunds to those legally entitled to a refund of fees paid over a period of the past four years.
- The Town's General fund balance at June 30, 2013, was \$3,276,433, a decrease of \$27,546, or one percent over the previous year. Contributing to the nominal decline were lower service revenue, higher legal and law enforcement costs largely offset by higher tax revenue. The General Fund's fund balance is approximately 71 percent of General Fund operating expenditures, up from 68 percent in the prior year.
- In the fiscal year ended June 30, 2013, the Town's General Fund transferred \$2,107,543 to other funds. Total transfers were down by \$723,615 compared to prior year. This decrease was due largely to a decrease in General Fund support for the Debt Service Fund as a result of the payoff of the Town Hall capital lease in the prior year.
- Fund balances at June 30, 2013, in the Town's Street Capital Projects and Other Capital Projects Funds, decreased by a total of \$481,333, or 68 percent, from prior year primarily as the result of the capital improvement spending on the Fremont Road Safe Route to School, Page Mill Road Stabilization and Elena Road Slope Improvement projects.
- Fund balances at June 30, 2013, in the Town's Nonmajor Governmental Funds include the aggregate of a number of special revenue funds that provide for specific operations such as street maintenance and debt service funds. The fund balances increased \$523,358, or 37 percent from prior year as the result of operating transfers from the General Fund as well as of accumulation of in-lieu fees to address the Town's future capital improvement needs.
- The Town's unrestricted net position of governmental activities at June 30, 2013, are \$4,349,494, a decrease of \$233,220, or five percent, compared to the prior year, as a result of an increase in capital spending offset by higher tax revenues.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

- The Town's Sewer Fund unrestricted net position at June 30, 2013, was \$3,227,161, an increase from the prior year of \$311,413 or 11 percent primarily due to deferral of the capital improvement program to the subsequent fiscal year.
- The most recent Other Post Employment Benefits ("OPEB") valuation report as of June 30, 2011, prepared by the Town's actuarial consultant, Bartel and Associates, reflects a \$794,000 increase to \$1,921,000 in the OPEB plan's unfunded liability from the June 30, 2009 actuarial valuation. The increase was a result of the Town adopting more conservative actuarial assumptions for investment performance, healthcare costs and retirement age. This increase is partially offset by the Town's additional contributions to the California Employers' Retiree Benefit Trust ("CERBT") as per City Council direction. As of June 30, 2013, the market value of the Town's CERBT account is \$1,040,641.
- According to the November 2013 annual valuation report provided by the CalPERS Actuarial Office, CalPERS assets are insufficient to meet its actuarial liabilities, and the Town's share of the unfunded pension liability on a market value of assets basis as of June 30, 2012, is reported as \$2,279,632. In fiscal year 2010-2011, the City Council, adopted a General Fund committed contingency fund balance to fund the pension's unfunded liability as a proactive measure to account for unanticipated changes in CalPERS pension assumptions. As of June 30, 2013, the pension contingency was \$210,000, or nine percent of the Town's share of the unfunded liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash outflows in future fiscal periods, for example, earned but unused vacation leave. These government-wide financial statements begin on page 27 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 on the modified accrual basis of accounting. 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 ten 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, Street Capital Projects Fund and Other Capital Projects Funds (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 seven governmental funds (which includes Storm Drain, Pathway, Parks & Recreation Facilities, Street, Roadway Impact Fee, COPS, and Debt Service Funds) are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the "Combining Statements and Individual Fund Statements" section of this report.

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

The basic governmental fund financial statements can be found on pages 29-31 of this report. The budgetary comparison schedule for the General Fund can be found on page 59.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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 operation. 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 33-35 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 reported on page 36 are for the West Loyola bond issue funds. 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 37-57 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 other post employment benefits to its employees and the General Fund budgetary comparison schedule. Required supplementary information can be found on pages 59-61 of this report.

Combining statements for Nonmajor Governmental Funds are presented after the required supplementary information on pages 63-65. Budgetary schedules for Nonmajor Governmental Funds, Street Capital Projects, Other Capital Projects and Proprietary funds are presented on pages 66-76.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$40,331,155 at June 30, 2013.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	\$ 8,673,655	\$ 9,181,249	\$ 3,917,511	\$ 4,037,198	\$ 12,591,166	\$ 13,218,447
Capital assets	26,767,790	25,809,591	4,312,151	4,452,208	31,079,941	30,261,799
Total assets	35,441,445	34,990,840	8,229,662	8,489,406	43,671,107	43,480,246
LIABILITIES						
Current	2,449,439	3,017,190	688,042	1,116,477	3,137,481	4,133,667
Non-current liabilities	200,163	201,911	2,308	4,973	202,471	206,884
Total liabilities	2,649,602	3,219,101	690,350	1,121,450	3,339,952	4,340,551
NET POSITION						
Net investment in capital assets	26,654,599	25,681,352	4,312,151	4,452,208	30,966,750	30,133,560
Restricted	1,787,750	1,507,673	-	-	1,787,750	1,507,673
Unrestricted	4,349,494	4,582,714	3,227,161	2,915,748	7,576,655	7,498,462
Total net position	\$ 32,791,843	\$ 31,771,739	\$ 7,539,312	\$ 7,367,956	\$ 40,331,155	\$ 39,139,695

Note: Total assets – liabilities = total net position

The largest portion of the Town's net position, 77 percent, 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. Total net position for Governmental Activities were \$32,791,843, an increase of \$1,020,104, or three percent, as a result of the Town's sustained investment in capital assets. Unrestricted net position for Governmental Activities decreased by \$233,220, primarily due to higher costs for legal, law enforcement and professional planner services.

Another portion of the Town's net position, \$1,787,750 or four percent of total net position, represents resources that are subject to external restrictions on how they may be used.

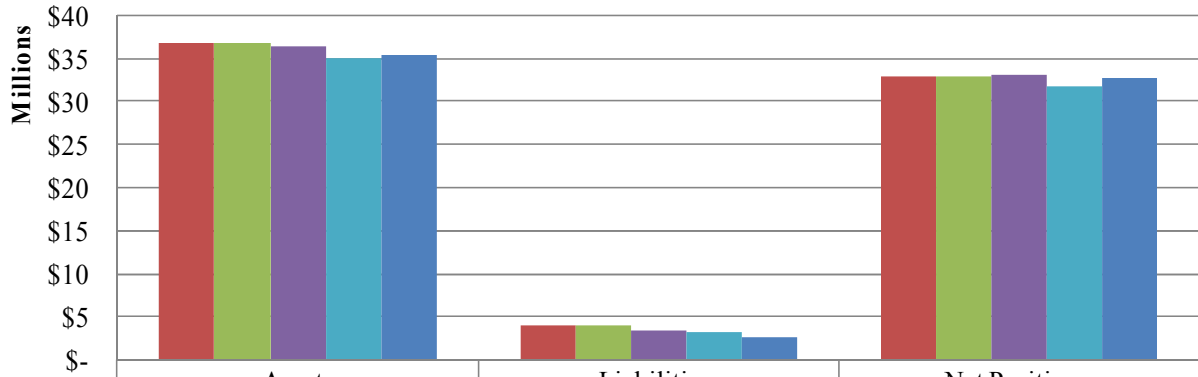
The remaining balance of unrestricted net position, \$7,576,655, of which \$4,349,494, is classified as government activities and \$3,227,161, which falls into the business-type activities category (Sewer), may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2013, the Town is able to report positive balances in all categories of net position, 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

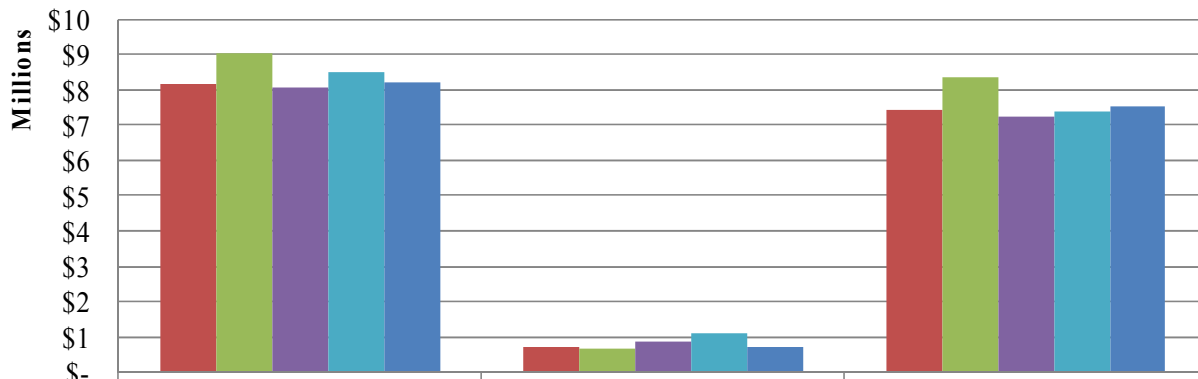
**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

**Governmental Activities - Net Position
2009 to 2013**



	Assets	Liabilities	Net Position
■ June 30, 2009	\$36,770,109	\$3,968,996	\$32,801,113
■ June 30, 2010	\$36,793,237	\$3,949,595	\$32,843,642
■ June 30, 2011	\$36,432,916	\$3,395,582	\$33,037,334
■ June 30, 2012	\$34,990,840	\$3,219,101	\$31,771,739
■ June 30, 2013	\$35,441,445	\$2,649,602	\$32,791,843

**Business-type Activities - Net Position
2009 - 2013**



	Assets	Liabilities	Net Position
■ June 30, 2009	\$8,155,259	\$725,463	\$7,429,796
■ June 30, 2010	\$9,053,674	\$683,957	\$8,369,717
■ June 30, 2011	\$8,084,420	\$858,988	\$7,225,432
■ June 30, 2012	\$8,489,406	\$1,121,450	\$7,367,956
■ June 30, 2013	\$8,229,662	\$690,350	\$7,539,312

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Statement of Activities

The following schedule shows summarized information for the current and prior year on the changes in net position. Governmental activities increased the Town's net position by \$1,020,104 due to federal grant revenues received from the Town's Safe Routes to School pathway construction project, higher tax revenue and cost savings as a result of under filling vacant positions through contract services. Business-type activities increased the Town's net position by \$171,356 primarily due to \$125,183 in revenues received from sewer connection fees. Significant changes year-over-year are discussed in subsequent sections.

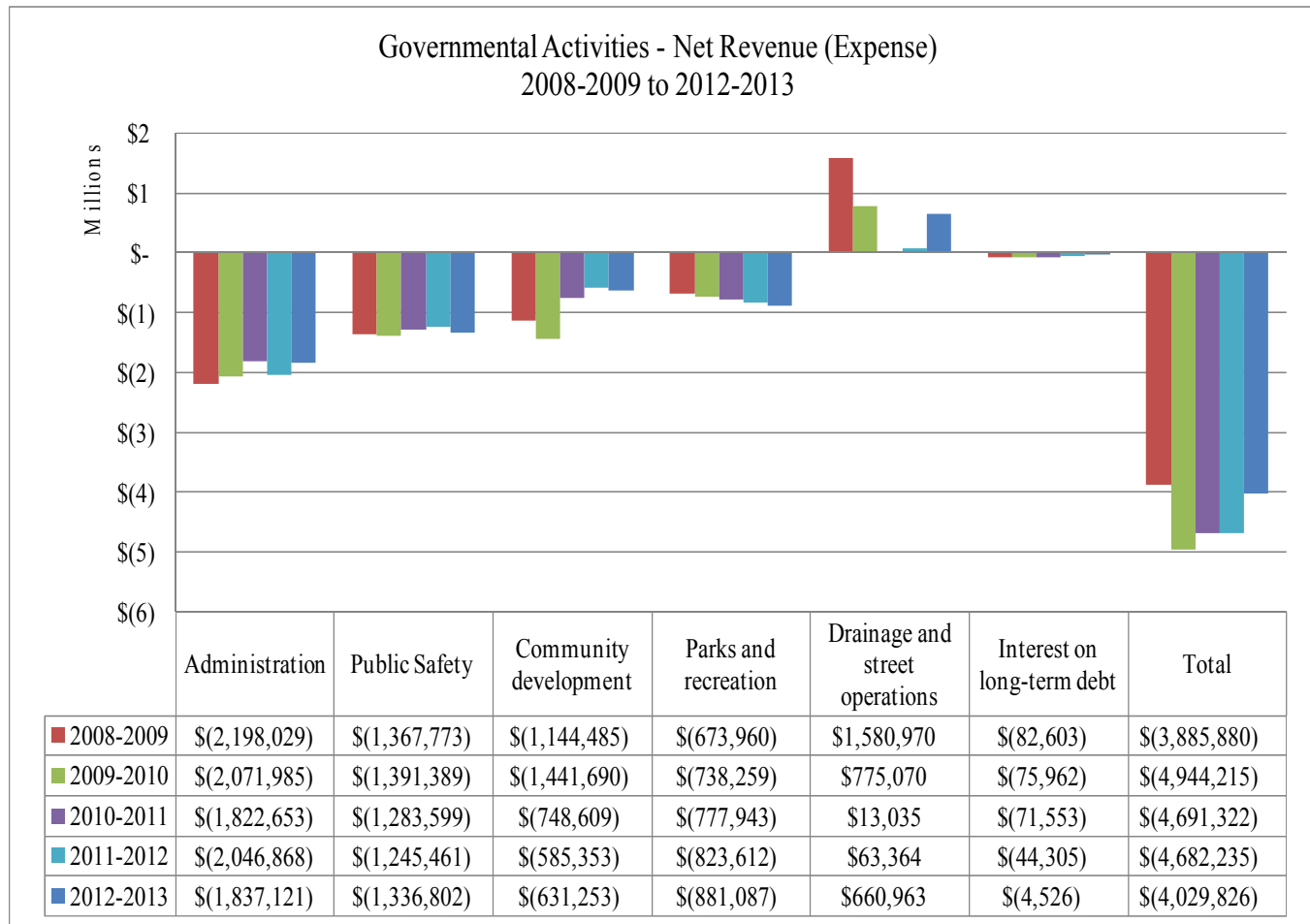
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues						
Charges for services	\$ 2,375,251	\$ 2,660,291	\$ 1,359,338	\$ 1,355,667	\$ 3,734,589	\$ 4,015,958
Operating contributions/grants	289,100	108,300	-	-	289,100	108,300
Capital contributions/grants	978,677	423,371	125,183	170,955	1,103,860	594,326
General revenues						
Property taxes	3,785,652	3,543,231	-	-	3,785,652	3,543,231
Motor vehicle license tax	49,428	4,473	-	-	49,428	4,473
Other taxes	545,228	423,353	-	-	545,228	423,353
Franchise fees	421,634	430,149	-	-	421,634	430,149
Use of money and property	142,931	156,743	720	14,001	143,651	170,744
Other unrestricted	34,057	39,448	-	-	34,057	39,448
Total revenues	<u>8,621,958</u>	<u>7,789,359</u>	<u>1,485,241</u>	<u>1,540,623</u>	<u>10,107,199</u>	<u>9,329,982</u>
EXPENSES						
Administration	1,837,121	2,046,868	-	-	1,837,121	2,046,868
Public safety	1,440,002	1,345,461	-	-	1,440,002	1,345,461
Community development	2,448,821	2,437,335	-	-	2,448,821	2,437,335
Parks and recreation	1,314,872	1,300,211	-	-	1,314,872	1,300,211
Drainage and street operations	627,512	700,017	-	-	627,512	700,017
Sewer	-	-	1,242,885	1,328,856	1,242,885	1,328,856
Interest on long-term debt	4,526	44,305	-	-	4,526	44,305
Total expenses	<u>7,672,854</u>	<u>7,874,197</u>	<u>1,242,885</u>	<u>1,328,856</u>	<u>8,915,739</u>	<u>9,203,053</u>
Increase (decrease) in net position						
before transfers and special item	949,104	(84,838)	242,356	211,767	1,191,460	126,929
Special item	-	(1,250,000)	-	-	-	(1,250,000)
Transfers in (out)	71,000	69,243	(71,000)	(69,243)	-	-
Change in net position	<u>1,020,104</u>	<u>(1,265,595)</u>	<u>171,356</u>	<u>142,524</u>	<u>1,191,460</u>	<u>(1,123,071)</u>
Net position, beginning of year	<u>31,771,739</u>	<u>33,037,334</u>	<u>7,367,956</u>	<u>7,225,432</u>	<u>39,139,695</u>	<u>40,262,766</u>
Net position, end of year	<u>\$ 32,791,843</u>	<u>\$ 31,771,739</u>	<u>\$ 7,539,312</u>	<u>\$ 7,367,956</u>	<u>\$ 40,331,155</u>	<u>\$ 39,139,695</u>

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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.



TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overall, net expenses for governmental activities for 2012-2013 decreased from \$4,682,235 to \$4,029,826, a difference of \$652,409 or 14 percent, from the previous year. The primary driver of this reduction was attributable to federal grant revenues that the Town received for the Safe Routes to School pathway construction project.

	2013			2012		
	Program revenues	Expenses	Net revenue (expenses)	Program revenues	Expenses	Net revenue (expenses)
Administration	\$ -	\$ 1,837,121	\$ (1,837,121)	\$ -	\$ 2,046,868	\$ (2,046,868)
Public safety	103,200	1,440,002	(1,336,802)	100,000	1,345,461	(1,245,461)
Community development	1,817,568	2,448,821	(631,253)	1,851,982	2,437,335	(585,353)
Parks & recreation	433,785	1,314,872	(881,087)	476,599	1,300,211	(823,612)
Drain/street	1,288,475	627,512	660,963	763,381	700,017	63,364
Interest expense	-	4,526	(4,526)	-	44,305	(44,305)
	<u>\$ 3,643,028</u>	<u>\$ 7,672,854</u>	<u>\$ (4,029,826)</u>	<u>\$ 3,191,962</u>	<u>\$ 7,874,197</u>	<u>\$ (4,682,235)</u>

Business-type Activities

The Town's sole business-type activity is the sewer fund. In 2012-2013, the sewer operations experienced a net income before contributions, transfers and interest income of \$116,453, up from \$26,811 for an increase of \$89,642 or 334 percent, mainly attributable to a credit for prior year accrued expenses for sewer treatment and conveyance that were in excess of actual expenses.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

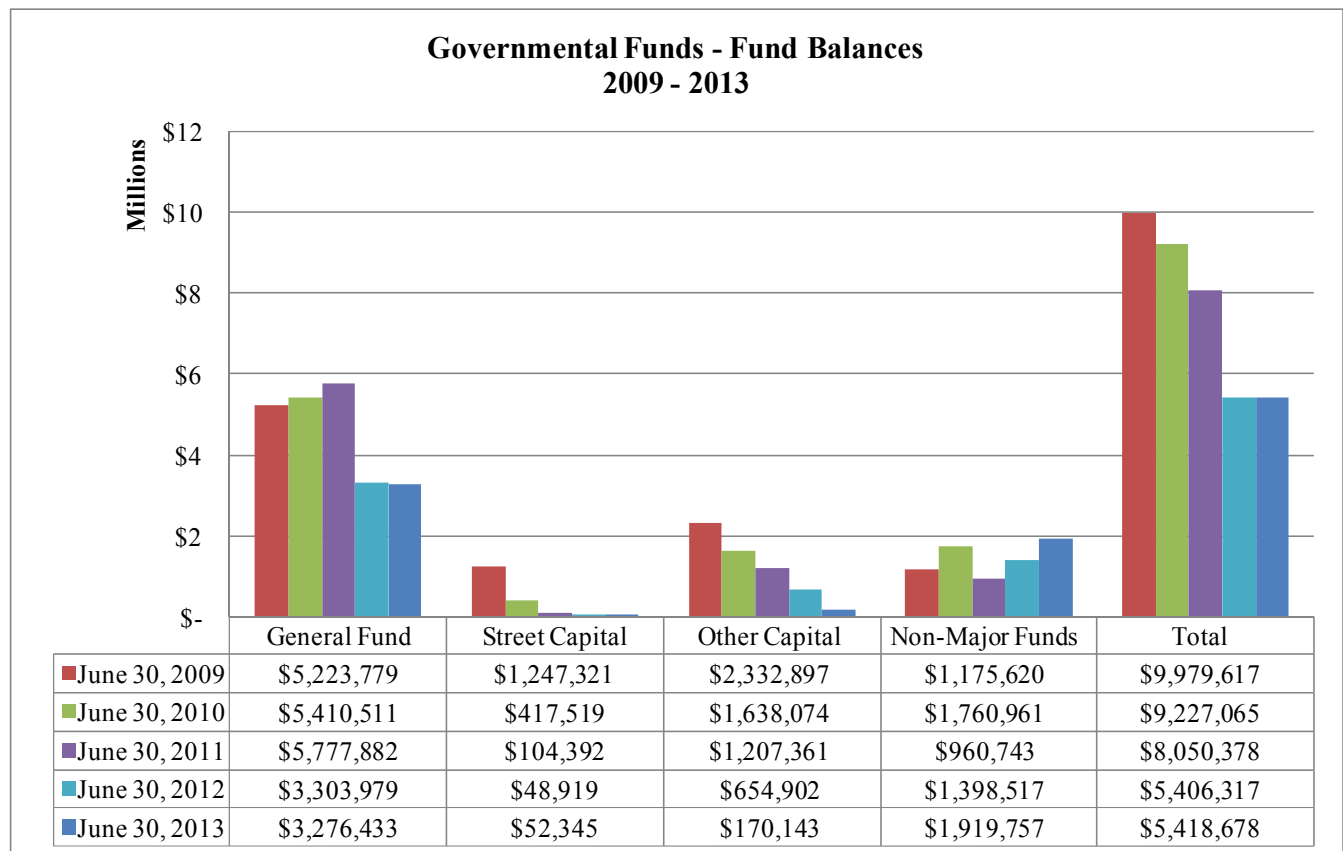
FUND FINANCIAL ANALYSIS

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

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

	<u>General Fund</u>	<u>Street Capital Project</u>	<u>Other Capital Project</u>	<u>Non-major</u>	<u>Total</u>
Revenues	\$ 6,641,529	\$ 137,026	\$ 921,088	\$ 922,315	\$ 8,621,958
Expenditures	4,632,532	888,600	1,830,847	1,326,500	8,678,479
Net transfers	(2,036,543)	755,000	425,000	927,543	71,000
Net increase/ (decrease)	(27,546)	3,426	(484,759)	523,358	14,479
Fund balances, beginning of year	<u>3,303,979</u>	<u>48,919</u>	<u>654,902</u>	<u>1,396,399</u>	<u>5,404,199</u>
Fund balances, end of year	<u><u>\$ 3,276,433</u></u>	<u><u>\$ 52,345</u></u>	<u><u>\$ 170,143</u></u>	<u><u>\$ 1,919,757</u></u>	<u><u>\$ 5,418,678</u></u>

The net activity for the governmental fund balances for 2012-2013 resulted in a minor increase of \$14,479 compared to prior year. The increase was a result of higher property taxes compared to the prior year offset by higher costs for legal, law enforcement and professional planner services.

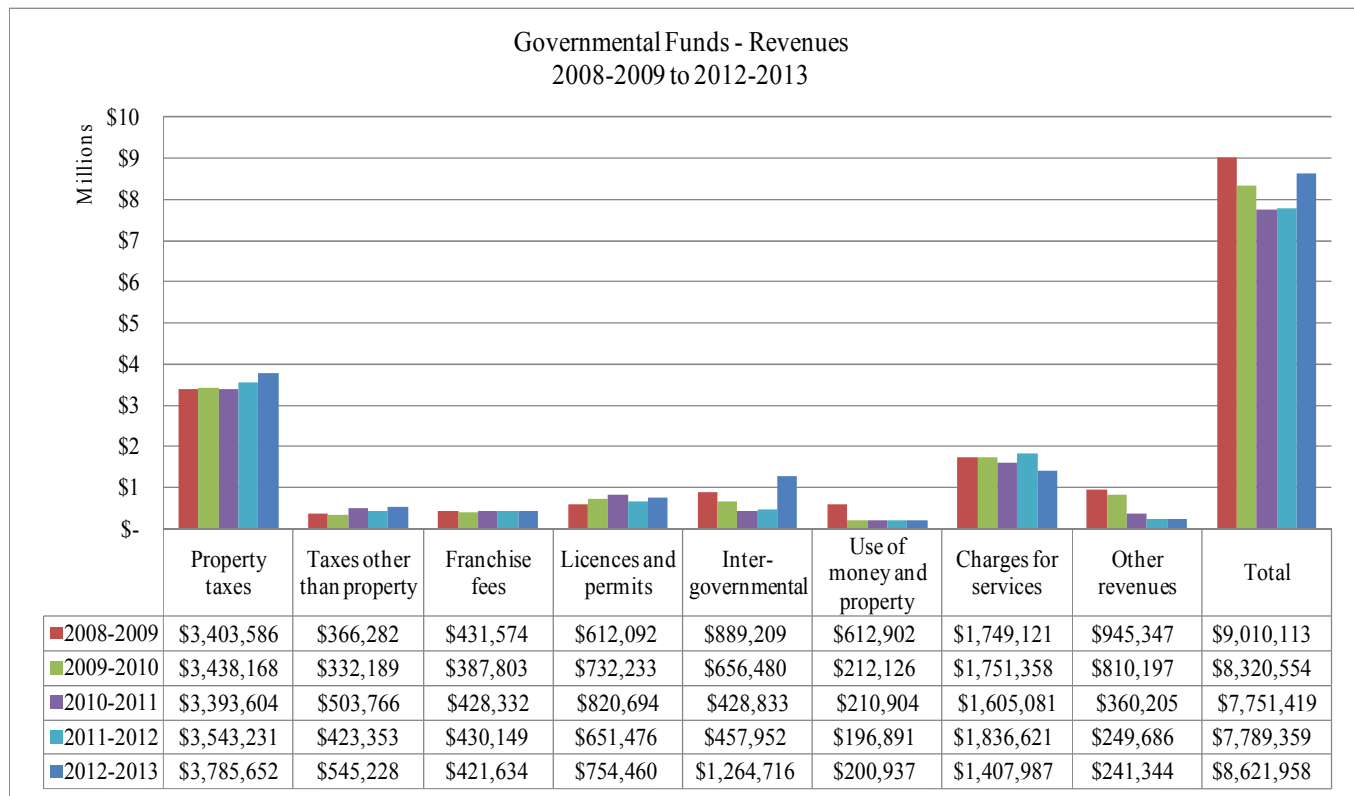


TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Governmental Funds – Revenues

Overall, revenues in all Governmental Funds increased by \$832,599, or 11 percent, compared to prior year, primarily due to \$800,000 in federal grant revenues received for the Town's Safe Routes to School project. Property taxes recorded an increase year-over-year of seven percent or \$242,421. This increase was driven by a number of sales of single family homes, which resulted in a 73 percent increase in assessed value for the sold properties pursuant to Proposition 13. Property taxes are projected to continue to grow in 2013-2014 fueled by similar property sales trends. 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.



- Taxes other than property** - This category includes revenues from business license tax, property transfer tax, sales tax and public safety sales tax. Revenues increased by \$121,875, or 29 percent due to continuing property sales trend over the past five years which produced \$66,117 in additional property transfer tax revenues in contrast to the prior year. Business license tax revenues reached a five-year peak of \$230,673, which was \$44,146, or 24 percent increase over the prior year due to higher building permit activity.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

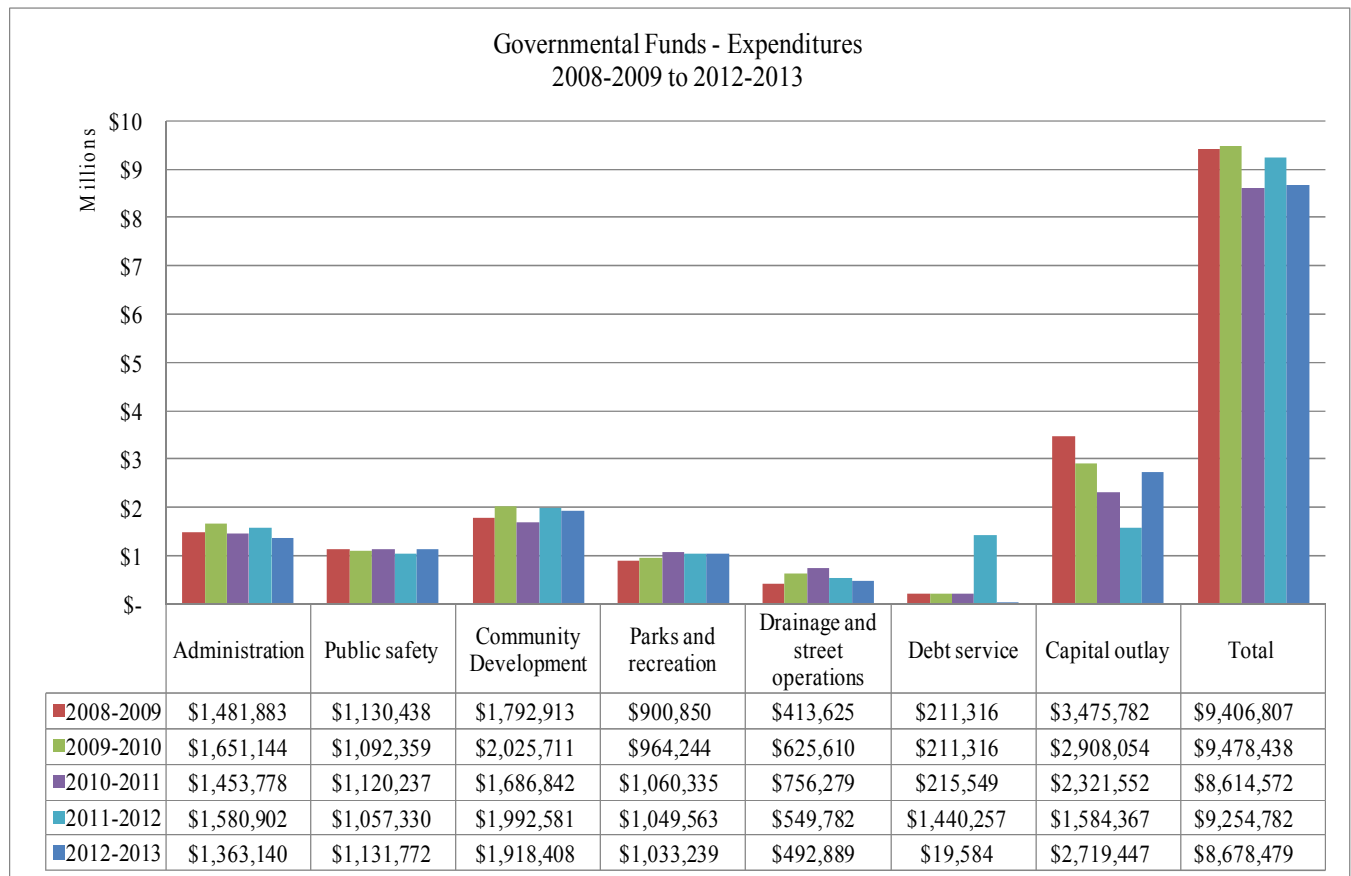
- **Licenses and permits** – This category reflects revenues received from building permit issuance activity. Revenues increased by \$102,984, or 16 percent due to an increase in the issuance of building permits in comparison to the prior year. Compared to the average revenue of the previous three fiscal years, the increase is nine percent.
- **Intergovernmental revenues** – This category reports revenue received from the State of California and Federal Government for both operational and capital expenditures. Revenues increased by \$806,764, or 176 percent due to the grant of \$800,000 from the Federal Department of Transportation for the Town's Safe Routes to School pathway construction project.
- **Use of money and property** – This category reports investment income earnings and rents charged for exclusive use of Town owned land or facilities. Revenues increased modestly by \$4,046, or two percent, largely as a result of rental revenue that had been categorized as miscellaneous revenue in prior fiscal years offset by negative interest income on investments. The most notable rental income of \$160,555, or 80 percent, 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 Town Council adopted Investment Policy. Consequently, allowable investments are significantly limited and weighted more toward low risk bonds. Unfortunately, yields have dropped dramatically over the past three years as higher yielding bonds have matured and the impact of this reduction is clearly visible in the Town's investment earnings. As interest rates began to rise in April and May of 2013, the Town's investment portfolio, nearly all allocated to U.S. Treasury notes, recorded an unrealized loss of \$10,034 in compliance with Governmental Accounting Standards Board (GASB) Statement 31 which establishes fair value standards for investments. In addition, investment income is recorded net of safekeeping and investment portfolio management fees.
- **Charges for services** – reports revenue received fees charged for direct and indirect services provided by the Town. Revenues decreased by \$428,634, or 23 percent, primarily as a result of the elimination of the Roadway Impact Fee in the prior year, which generated an average of over \$340,000 per year in the two fiscal years prior to the repeal of the fee. In addition, contract planner pass through revenues declined by \$145,258 or 66 percent, due to reduced annexation activities compared to the prior year.
- **Miscellaneous revenues** – reports donations, non-governmental grants and other miscellaneous receipts. The decline in revenue of \$8,342 in comparison to the prior year is mainly attributable to a reduction in grant revenues. The availability of grant funds have been in decline over the past four years, as is evident in the revenues for this category.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Governmental Funds – Expenditures

Overall expenditures in all Governmental Funds decreased by \$576,303, or six percent compared to prior year, reflecting the beneficial impact of the payoff of the Town Hall loan in the prior year. The chart below identifies significant trends in expenditures over the past five fiscal years.



- Administration** – expenditures decreased by \$217,762, or 14 percent in comparison to the prior year. The year-over-year reduction in salaries and benefits of \$222,323 within the Town's primary administrative divisions (City Manager, City Clerk and Administrative Services) was primarily due to a shift in personnel allocation from Administration to Community Development to reflect the actual duties and services being provided by Town administrative staff.
- Public Safety** – expenditures increased by \$74,442, or seven percent compared to the prior year due to reimbursement from the Santa Clara County Sheriff's Department for contract law enforcement hours billed but not provided in the prior year.
- Community Development** – decreased by \$74,173, or four percent, as a result of the combined impact from increased personnel allocation from administrative staff and maintaining vacant positions that were under filled through contract services.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

- **Drainage and street operations** – expenditures decreased by \$56,893 or 10 percent in contrast to the prior year as a result of reduced contract services and program and project consultant costs for drainage operations. Street maintenance costs also decreased by \$9,981, or 29 percent from the prior year. Engineering consultant costs decreased by \$9,054, or 37 percent due to lower demand for additional professional services as compared to the prior year.
- **Debt service** – expenditures decreased drastically due to the approval by the City Council to pay off the Town Hall capital lease balance of \$1,322,691, including a prepayment penalty of \$25,935 in September 2011. Remaining debt service is for solar panels at Town Hall and Westwind Community Barn and is now reported in Nonmajor Governmental funds.
- **Capital outlay** – increased significantly by \$1,135,080, or 72 percent, mainly due to capital spending for improvements to the Town's pathways system of \$1,255,232, which was \$887,936 more than the prior year's spending. The majority of the pathway capital spending was for the Safe Routes to School pathway construction project, which was supported by \$800,000 in federal grant awards from the Department of Transportation. In addition, the Town invested \$495,889 in drainage capital improvements to mitigate erosion damage on Page Mill Road, which is \$426,724 more than the prior year's spending.
- **Parks and recreation** – expenditures declined slightly by \$16,324, or two percent, predominantly as a result of staff vacancies which were under filled through contractual services.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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 (Town Council, Town Attorney, Town Manager, Town 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, 2013, increased by \$279,061, or four percent, over the prior year. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years.

	<u>2013</u>	<u>2012</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Property taxes	\$ 3,785,652	\$ 3,543,231	\$ 242,421	6.8%
Taxes other than property	545,228	423,353	121,875	28.8%
Franchise fees	421,634	430,149	(8,515)	-2.0%
Licenses and permits	729,107	609,108	119,999	19.7%
Intergovernmental	66,355	58,370	7,985	13.7%
Use of money and property	142,785	154,978	(12,193)	-7.9%
Charges for services	753,608	976,834	(223,226)	-22.9%
Miscellaneous	197,160	166,445	30,715	18.5%
Total	<u>\$ 6,641,529</u>	<u>\$ 6,362,468</u>	<u>\$ 279,061</u>	4.4%

- **Taxes other than property** – reflected a 29 percent increase year-over-year attributed to an increase in property transfer taxes, up \$66,117 over the prior year. Historically, transfer taxes have fluctuated significantly with the Town receiving \$108,293 in 2007-2008 and \$133,656 in 2011-2012, with the intervening years averaging about \$151,000 each year. Additionally, business license revenue increased by \$44,146 year-over-year and reached the highest levels in five years due to commensurate building permit issuance activity.
- **Franchise fees** – decreased by \$8,515, or two percent, in 2012-2013 when compared to prior year. Franchise fees from Pacific Gas & Electric decreased by \$10,675 or seven percent while franchise fees from Comcast increased by \$3,898 or six percent. Franchise fees are charged as a percentage of gross revenue.
- **Licenses and permits** – experienced an increase year-over-year of \$119,999. This increase is the result of more building permit activity when compared to prior year.
- **Charges for services** – recorded a decrease of \$223,226 in 2012-2013 when compared to prior year. This decrease is due primarily to the repeal of the Roadway Impact Fee, which averaged over \$340,000 per year in the fiscal years prior to its repeal.
- **Miscellaneous Revenues** – increased by \$30,715, or 19 percent over the prior year, essentially due to the receipt of loss recovery revenues of \$13,426 and \$11,240 in litigation fees reimbursements.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

General Fund expenditures – General Fund expenditures for the current year decreased by \$191,924, or four percent, over the prior fiscal year. As previously stated, the decrease in Administration expenditures is largely due to a shift in personnel allocations for administrative staff to Community Development reflects actual duties and services. The year-over-year increase manifested in Public Safety expenditures is due to the refund for law enforcement hours billed but not provided in the prior year. The increase from the shift in administrative staff personnel allocations to Community Development was offset by the cost savings from providing the functions and duties of vacant positions through contractual services.

	<u>2013</u>	<u>2012</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Administration	\$ 1,363,140	\$ 1,580,902	\$ (217,762)	-13.8%
Public safety	1,047,501	965,052	82,449	8.5%
Community development	1,918,408	1,992,581	(74,173)	-3.7%
Parks and recreation	<u>303,483</u>	<u>285,921</u>	<u>17,562</u>	6.1%
Total	<u>\$ 4,632,532</u>	<u>\$ 4,824,456</u>	<u>\$ (191,924)</u>	-4.0%

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 2010-2011, the Town began debt service on a \$47,000 loan from the California Energy Commission for energy efficiency improvements at Westwind Community Barn. The City Council authorized the payoff of the Town Hall capital lease in the prior year. Interest payments during the current year totaled \$4,536 and principal in the amount of \$15,048 was retired. The balance of the two debts at June 30, 2013 is \$113,191; of that amount, \$15,618 is due within one year and the balance, \$97,573, is due in more than one year. The Debt Service Fund is now reported with Nonmajor Governmental Funds.

<u>Obligation</u>	<u>June 20, 2013</u>		
	<u>Principal Balances</u>	<u>Interest Rate</u>	<u>Payoff</u>
2004 California Energy Commission loan	\$ 75,219	3.95%	12/2018
2010 California Energy Commission loan	<u>37,972</u>	3.00%	12/2023
Total	<u>\$ 113,191</u>		

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 2012-2013 capital improvement program totaled \$888,600.

Revenue sources for the street capital improvement program are somewhat limited. In 2012-2013, the Town received \$137,026 in revenues, of which \$71,036, or 52 percent was from state traffic congestion relief revenues.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

In prior years, the cornerstone funding source for the street capital projects program was the roadway impact fee which was assessed to offset the wear and tear of Town roadways. The fee was assessed on larger building permits and the garbage franchise holder.

In 2004, the Town of Los Altos Hills ("Town") adopted a Roadway Impact Fee Fund ("Fee") pursuant to the California Mitigation Fee Act requirements. This Fee was collected and utilized to benefit the community by maintaining and improving roads throughout the Town. After adoption of the fee, an appellate court decision involving another public agency invalidated a similar fee.

In fiscal year 2011-2012, the City Council adopted an ordinance repealing the Fee in its entirety. Additionally, City Council directed staff to offer refunds to those legally entitled to a refund of fees paid. The Town estimated the total amount of refunds to be approximately \$1,250,000, which was accrued as a liability to the General Fund. In fiscal year 2012-2013, the Town processed and issued \$507,948 in Roadway Impact Fee refunds. The repeal of the Roadway Impact Fee has resulted in a reduction of the Town's available resources to fund future street capital improvements, as the revenues from the Roadway Impact Fee were approximately \$340,000 per year.

Other Capital Projects Fund

Expenditures for other capital projects were \$1,830,847 for fiscal year 2013, compared to \$695,148 for the prior year, an increase of \$1,135,699 on account of the Safe Routes to School and Page Mill Road erosion control projects. Major work areas reported in Other Capital Projects included:

Facility Improvements Corporation Yard, Westwind Barn	\$79,724
Pathway Improvements Arastradero Road (C-2), Fremont Road, Page Mill Road and Robleda Road	\$1,255,233
Drainage Improvements Elena Road and Page Mill Road	\$495,890

Nonmajor Governmental Funds

Expenditures in the Nonmajor Governmental Funds, the aggregate of the Town's remaining special revenues funds and debt service funds as detailed in the Required Supplementary Information section of the financial statements, decreased by \$1,519,459, or 53 percent, to \$1,326,500 year-over-year. The decrease was primarily attributable to the payoff of the Town Hall capital lease in the prior year of \$1,322,691.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Enterprise Fund

	Sewer		\$ Increase	% Increase
	June 30, 2013	June 30, 2012	(decrease)	(decrease)
OPERATING REVENUES				
Charges for services	\$ 1,359,338	\$ 1,353,479	\$ 5,859	0.4%
Other income	-	2,188	(2,188)	-100.0%
Total Operating Revenues	1,359,338	1,355,667	3,671	0.3%
OPERATING EXPENSES				
Salaries and benefits	52,970	84,571	(31,601)	-37.4%
Contract services	955,134	1,026,679	(71,545)	-7.0%
Operating expenses	75,564	64,299	11,265	17.5%
Depreciation	159,217	153,307	5,910	3.9%
Total Operating Expenses	1,242,885	1,328,856	(85,971)	-6.5%
Operating Income (Loss)	116,453	26,811	89,642	334.3%
NONOPERATING REVENUE (EXPENSES)				
Investment income	720	14,001	(13,281)	-94.9%
Income before contributions and transfers	117,173	40,812	76,361	187.1%
Connection Fees	125,183	170,955	(45,772)	-26.8%
TRANSFERS				
Transfers out	(71,000)	(69,243)	(1,757)	2.5%
Changes in net position	171,356	142,524	28,832	
Total Net Position, Beginning of Year	7,367,956	7,225,432	142,524	2.0%
Total Net Position, End of Year	\$ 7,539,312	\$ 7,367,956	\$ 171,356	2.3%

The Town's sole enterprise 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 2007-2008. Contract services decreased \$71,545 or seven percent from the prior year to \$955,134 as a result of a credit from an accrued expense that was overestimated. Operating expenses increased \$11,265 or 18 percent from the prior year to \$75,564, which reflects the added cost of a sewer asset management subscription. In 2012-2013, the Sewer Fund had an operating income of \$116,453, compared to \$26,811 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 down by \$45,772, compared to the prior year due to a decline in the number of connections to the Palo Alto sewer basin.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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, unassigned 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, 2013, the Town's governmental funds reported combined ending fund balances of \$5,418,678, a nominal increase of \$14,479, which is indicative of the Town's financial stability. The Town's General Fund's fund balance decreased by \$27,546 while the combined fund balances for Special Revenue and Capital Projects Funds increased by \$39,907.

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

	<u>2013</u>	<u>2012</u>	<u>\$ Increase (decrease)</u>
Revenues	\$ 8,621,958	\$ 7,789,359	\$ 832,599
Expenditures	8,678,479	9,254,782	576,303
Net transfers in (out)	71,000	69,243	1,757
Net increase/(decrease)	<u>\$ 14,479</u>	<u>\$ (1,396,180)</u>	<u>\$ 1,410,659</u>

For fiscal year 2013, governmental fund revenues increased by \$832,599, or 11 percent, and expenditures decreased by \$576,303, or six percent. 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, 2013

The following table presents information about fund balance components.

	<u>General Fund</u>	<u>Street Capital Project</u>	<u>Other Capital Project</u>	<u>Non-major</u>	<u>Total</u>
Restricted for:					
Other capital projects	\$ -	\$ -	\$ -	\$ 1,134,346	\$ 1,134,346
Street and road repairs	-	-	-	559,129	559,129
Law enforcement	-	-	-	94,275	94,275
Committed for:					
Pension contributions	210,000	-	-	-	210,000
Sewer connect incentive program	76,150	-	-	-	76,150
Park and recreation	-	-	-	132,007	132,007
Other capital projects	-	-	170,143	-	170,143
Street and road repairs	-	52,345	-	-	52,345
Unassigned	<u>2,990,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,990,283</u>
	<u>\$ 3,276,433</u>	<u>\$ 52,345</u>	<u>\$ 170,143</u>	<u>\$ 1,919,757</u>	<u>\$ 5,418,678</u>

At June 30, 2013, the Town's Governmental Funds fund balance is \$5,418,678. The Town has classified the fund balance in accordance with GASB issued Statement No. 54 (refer to Note 1 - Summary of Significant Accounting Policies). \$1,787,750 of the Town's Governmental Funds fund balance is restricted in that they are subject to externally enforceable legal restrictions or imposed by law through constitutional provisions or enabling legislation. Within these restricted fund balances, \$1,134,346 is restricted for other capital projects, \$559,129 is restricted for the repair, maintenance and construction of streets, and \$94,275 is restricted for law enforcement. \$640,645 of the Town's Governmental Funds fund balance is committed in that they are constrained to specific purposes by a formal action of the Town Council such as an ordinance or resolution. Within these committed fund balances, \$132,007 is committed for Parks and Recreation capital improvements, \$170,143 is committed for other capital projects, and \$52,345 is committed for street and road repairs. Additional committed fund balances are described in more detail below. It is worthwhile to note unrecorded liabilities that are not reflected in the Town's Governmental Funds fund balance, such as the Town's share of CalPERS' pension liability, which will be recorded in subsequent financial statements in compliance with GASB Statement No. 68.

At June 30, 2013, the Town's General Fund's fund balance was \$3,276,433. This includes committed fund balance of \$76,150, for the sewer connection incentive and the pension contingency fund of \$210,000. The Town Council adopted a sewer connection incentive program to encourage residents to connect to privately funded sewer mains extensions, but after several years, as part of the fiscal year 2013-2014 adopted budget, the City Council eliminated the incentive due to low participation and released the remaining commitment. The City Council has adopted a pension contingency fund to provide for unanticipated charges from CalPERS to fund the pension's unfunded liability. According to the November 2013 annual valuation report provided by the CalPERS Actuarial Office, CalPERS assets are insufficient to meet its actuarial liabilities, and the Town's share of the unfunded liability on a market value of assets basis as of June 30, 2012, is reported as \$2,279,632.

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, 2013, the unassigned fund balance and total fund balance represent 65 percent and 71 percent of General Fund expenditures, respectively. At June 30, 2012, the unassigned fund balance and total fund balance represented 63 percent and 68 percent of General Fund expenditures.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Enterprise fund net position increased \$171,356 as a result of the business-type activities of the Town. Factors contributing to the net increase are described in the "Enterprise Fund" section above.

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, as the budgeted operating transfer from the General Fund was not necessary due to expenditures being nearly \$100,000 under budget. The most sizable positive variance was recorded in the General Fund as a result of appropriating \$1,250,000 for Roadway Impact Fee refunds in the fiscal year 2012-2013 adopted budget. However, the timing of the City Council direction to process and issue the refunds obligated the Town to accrue the liability in fiscal year 2011-2012. Refer to page 59 for further details on the General Fund budget and actual variance. The Parks and Recreation Facilities Fund had a notable positive variance, largely due to differences in presentation between the adopted budget and financial statement. The Other Capital Projects Fund also had a prominent positive variance due, as the adopted budget planned on utilizing available fund balance as a funding source for pathway capital projects, however the actual beginning balance was much lower than anticipated, thus requiring an operating transfer from the General Fund. It is important to note that the table below reflects fund balance (net position) budget and actual variance, while the schedules in the Required Supplementary Information section provide a more detailed variance analysis.

FUND	Amended Budget Ending Fund Balance/ Net Position	Actual Ending Fund Balance/ Net Position	Positive (Negative) Variance
General	\$ 2,189,252	\$ 3,276,433	\$ 1,087,181
Storm Drain	402,093	426,316	24,223
Pathway In-Lieu Fees	669,156	708,030	38,874
Parks and Recreation Facilities	(299,967)	1	299,968
Parks and Recreation In-Lieu Fees	115,112	132,006	16,894
Street Fund	457,393	390,342	(67,051)
Roadway Impact Fee	168,787	168,787	-
Citizens' Option for Public Safety (COPS) Grant	79,213	94,275	15,062
Debt Service	(21,702)	-	21,702
Street Capital	69,187	52,345	(16,842)
Other Capital Projects	(210,098)	170,143	380,241
Sewer	7,077,913	7,539,312	461,399
TOTAL	<u>\$ 10,696,339</u>	<u>\$ 12,957,990</u>	<u>\$ 2,261,651</u>

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$31,079,941, net of accumulated depreciation, an increase of \$818,142 reflecting the Town's continued investment in capital improvements. Capital spending included \$2,719,445 in infrastructure, \$32,182 in vehicles and \$19,160 in sewer collection system. Capital assets include land, buildings, equipment, vehicles and infrastructure. No changes were recorded in land for the fiscal year.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

The following table presents summarized information on capital assets net of depreciation for fiscal years 2012 and 2013. 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		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	4,034,087	4,164,725	-	-	4,034,087	4,164,725
Office equipment	55,073	73,035	-	-	55,073	73,035
Vehicles	182,378	174,672	-	-	182,378	174,672
Sewer collection system	-	-	4,312,151	4,452,208	4,312,151	4,452,208
Infrastructure	22,245,717	21,146,624	-	-	22,245,717	21,146,624
Total capital assets, net	<u>\$ 26,767,790</u>	<u>\$ 25,809,591</u>	<u>\$ 4,312,151</u>	<u>\$ 4,452,208</u>	<u>\$ 31,079,941</u>	<u>\$ 30,261,799</u>

Long-term Debt

The balance of long term debt, excluding compensated absences, at June 30, 2013, is \$113,191; of that amount, \$15,618 is due within one year and the balance is due in more than one year. In the prior fiscal year, the City Council authorized the payoff of the outstanding balance of the Town Hall capital lease in the amount of \$1,322,691, including a prepayment penalty of \$25,935. This decision was based on an analysis that the Town held sufficient cash at the time and the interest costs on the note was likely to exceed the interest income that could have been earned on the funds if held in the Town's investment pool.

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: Administrative Services Director
26379 Fremont Road
Los Altos Hills, CA 94022

BASIC FINANCIAL STATEMENTS

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 7,982,448	\$ 3,821,304	\$ 11,803,752
Accounts receivables	364,741	96,207	460,948
Net OPEB asset	326,466	-	326,466
Total current assets	<u>8,673,655</u>	<u>3,917,511</u>	<u>12,591,166</u>
Capital assets:			
Land	250,535	-	250,535
Other capital assets, net of depreciation:			
Buildings	4,034,087	-	4,034,087
Office equipment	55,073	-	55,073
Vehicles	182,378	-	182,378
Land improvements	-	4,312,151	4,312,151
Infrastructure	22,245,717	-	22,245,717
Total capital assets	<u>26,767,790</u>	<u>4,312,151</u>	<u>31,079,941</u>
Total Assets	<u>35,441,445</u>	<u>8,229,662</u>	<u>43,671,107</u>
LIABILITIES			
Current liabilities:			
Accounts payable	184,484	658,068	842,552
Other liabilities	816,103	29,974	846,077
Interest payable	79	-	79
Refundable deposits	1,421,338	-	1,421,338
Compensated absences due within one year	11,817	-	11,817
Current portion of long-term debt	15,618	-	15,618
Total current liabilities	<u>2,449,439</u>	<u>688,042</u>	<u>3,137,481</u>
Non-current liabilities:			
Compensated absences due in more than one year	102,590	2,308	104,898
Long-term debt due in more than one year	97,573	-	97,573
Total non-current liabilities	<u>200,163</u>	<u>2,308</u>	<u>202,471</u>
Total Liabilities	<u>2,649,602</u>	<u>690,350</u>	<u>3,339,952</u>
NET POSITION			
Net investment in capital assets	26,654,599	4,312,151	30,966,750
Restricted for:			
Highways and streets	559,129	-	559,129
Public safety	94,275	-	94,275
Other capital projects	1,134,346	-	1,134,346
Unrestricted	4,349,494	3,227,161	7,576,655
Total Net Position	<u>\$ 32,791,843</u>	<u>\$ 7,539,312</u>	<u>\$ 40,331,155</u>

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

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net Revenue (Expense) and Change in Net Position			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Administration	\$ 1,837,120	\$ -	\$ -	\$ -	\$ (1,837,120)	\$ -	\$ (1,837,120)
Public safety	1,440,002	3,200	100,000	-	(1,336,802)	-	(1,336,802)
Community development	2,448,821	1,768,740	48,828	-	(631,253)	-	(631,253)
Parks and recreation	1,314,872	433,785	-	-	(881,087)	-	(881,087)
Drainage and street operations	627,512	169,526	140,272	978,677	660,963	-	660,963
Interest on long-term debt	4,526	-	-	-	(4,526)	-	(4,526)
Total Governmental Activities	7,672,853	2,375,251	289,100	978,677	(4,029,825)	-	(4,029,825)
Business-type Activities:							
Sewer	1,242,885	1,359,338	-	125,183	-	241,636	241,636
Total Business-type Activities	1,242,885	1,359,338	-	125,183	-	241,636	241,636
Total Primary Government	\$ 8,915,738	\$ 3,734,589	\$ 289,100	\$ 1,103,860	(4,029,825)	241,636	(3,788,189)
General Revenues:							
Taxes:							
Property taxes					3,785,652	-	3,785,652
Motor vehicle license tax					49,428	-	49,428
Other taxes					545,228	-	545,228
Franchise taxes					421,634	-	421,634
Use of money and property					142,931	720	143,651
Other unrestricted revenue					34,057	-	34,057
Transfers					71,000	(71,000)	-
Total General Revenues, Transfers					5,049,930	(70,280)	4,979,650
Change in Net Position					1,020,105	171,356	1,191,461
Net Position, Beginning of Year					31,771,739	7,367,956	39,139,695
Net Position, End of Year					\$ 32,791,844	\$ 7,539,312	\$ 40,331,156

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

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2013**

	General	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
ASSETS					
Cash and investments	\$ 5,469,658	\$ 45,513	\$ 69,673	\$ 1,872,526	\$ 7,457,370
Accounts receivable	90,226	6,832	178,658	89,025	364,741
Total Assets	<u>\$ 5,559,884</u>	<u>\$ 52,345</u>	<u>\$ 248,331</u>	<u>\$ 1,961,551</u>	<u>\$ 7,822,111</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 113,561	\$ -	\$ 10,637	\$ 41,794	\$ 165,992
Other liabilities	748,552	-	67,551	-	816,103
Refundable deposits	1,421,338	-	-	-	1,421,338
Total Liabilities	<u>2,283,451</u>	<u>-</u>	<u>78,188</u>	<u>41,794</u>	<u>2,403,433</u>
FUND BALANCES					
Restricted	-	-	-	1,787,750	1,787,750
Committed	286,150	52,345	170,143	132,007	640,645
Unassigned	2,990,283	-	-	-	2,990,283
Total Fund Balances	<u>3,276,433</u>	<u>52,345</u>	<u>170,143</u>	<u>1,919,757</u>	<u>5,418,678</u>
Total Liabilities and Fund Balances	<u>\$ 5,559,884</u>	<u>\$ 52,345</u>	<u>\$ 248,331</u>	<u>\$ 1,961,551</u>	<u>\$ 7,822,111</u>

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

TOWN OF LOS ALTOS HILLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

Fund Balances of Governmental Funds	\$ 5,418,678
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	22,356,252
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 Position.	5,237,949
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(107,766)
Long-term debt	(113,191)
Interest payable	(79)
Net Position of Governmental Activities	<u>\$ 32,791,843</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	General	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
REVENUES					
Property taxes	\$ 3,785,652	\$ -	\$ -	\$ -	\$ 3,785,652
Taxes other than property	545,228	-	-	-	545,228
Franchise fees	421,634	-	-	-	421,634
Licenses and permits	729,107	-	-	25,353	754,460
Intergovernmental	66,355	115,829	842,260	240,272	1,264,716
Use of money and property	142,785	-	34,057	24,095	200,937
Charges for services	753,608	21,197	587	632,595	1,407,987
Miscellaneous	197,160	-	44,184	-	241,344
Total revenues	6,641,529	137,026	921,088	922,315	8,621,958
EXPENDITURES					
Current:					
Administration	1,363,140	-	-	-	1,363,140
Public safety	1,047,501	-	-	84,271	1,131,772
Community development	1,918,408	-	-	-	1,918,408
Parks and recreation	303,483	-	-	729,756	1,033,239
Drainage and street operations	-	-	-	492,889	492,889
Debt service					
Principal	-	-	-	15,048	15,048
Interest	-	-	-	4,536	4,536
Capital outlay	-	888,600	1,830,847	-	2,719,447
Total expenditures	4,632,532	888,600	1,830,847	1,326,500	8,678,479
Excess (Deficiency) of Revenues Over Expenditures	2,008,997	(751,574)	(909,759)	(404,185)	(56,521)
OTHER FINANCING SOURCES (USES)					
Transfers in	71,000	755,000	425,000	927,543	2,178,543
Transfers out	(2,107,543)	-	-	-	(2,107,543)
Total Other Financing Sources (Uses)	(2,036,543)	755,000	425,000	927,543	71,000
Net Change in Fund Balances	(27,546)	3,426	(484,759)	523,358	14,479
Fund Balances, Beginning of Year	3,303,979	48,919	654,902	1,396,399	5,404,199
Fund Balances, End of Year	\$ 3,276,433	\$ 52,345	\$ 170,143	\$ 1,919,757	\$ 5,418,678

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

TOWN OF LOS ALTOS HILLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 14,479

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	2,719,445
Depreciation expense charged to governmental activities	(1,620,352)

Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Position.	15,048
---	--------

Change in Compensated Absences	(3,434)
--------------------------------	---------

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, 2013	(79)
-----------------------------------	------

Interest accrual at June 30, 2012	89
-----------------------------------	----

Internal Service Funds are used by management to charge the costs of certain activities, such as cost of Town Hall, office, and corporate yard services to individual funds. The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.

Change in Net Position of Internal Service Funds reported with Business-Type Activities	<u>(105,092)</u>
Change in Net Position of Governmental Activities	<u>\$ 1,020,104</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013 AND 2012**

	Business-type Activities Enterprise Fund Sewer		Governmental Activities Internal Service Fund
	June 30, 2013	June 30, 2012	
ASSETS			
Current Assets:			
Cash and investments	\$ 3,821,304	\$ 3,914,481	\$ 525,078
Accounts receivable	96,207	122,717	-
Net OPEB Asset	-	-	326,466
Total Current Assets	3,917,511	4,037,198	851,544
Noncurrent Assets:			
Capital assets, net of accumulated depreciation	4,312,151	4,452,208	4,411,538
Total Assets	8,229,662	8,489,406	5,263,082
LIABILITIES			
Current Liabilities:			
Accounts payable	658,068	1,115,224	18,492
Other liabilities	29,974	1,253	-
Total Current Liabilities	688,042	1,116,477	18,492
Noncurrent liabilities:			
Compensated absence payable	2,308	4,973	6,641
Total noncurrent liabilities	2,308	4,973	6,641
Total Liabilities	690,350	1,121,450	25,133
NET POSITION			
Investment in Capital Assets	4,312,151	4,452,208	4,411,538
Unrestricted	3,227,161	2,915,748	826,411
Total Net Position	\$ 7,539,312	\$ 7,367,956	\$ 5,237,949

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013 AND 2012**

	Business-type Activities Enterprise Fund Sewer		Governmental Activities Internal Service Fund
	June 30, 2013	June 30, 2012	
OPERATING REVENUES			
Charges for services	\$ 1,359,338	\$ 1,353,479	\$ -
Other income	-	2,188	200
Town Hall services	-	-	461,543
Corporate yard services	-	-	57,349
Vehicle services	-	-	120,928
Total Operating Revenues	1,359,338	1,355,667	640,020
OPERATING EXPENSES			
Salaries and benefits	52,970	84,571	133,472
Contract services	955,134	1,026,679	133,764
Operating expenses	75,564	64,299	304,799
Depreciation	159,217	153,307	173,077
Total Operating Expenses	1,242,885	1,328,856	745,112
Operating Income (Loss)	116,453	26,811	(105,092)
NONOPERATING REVENUE (EXPENSES)			
Interest income	720	14,001	-
Income Before Contributions and Transfers	117,173	40,812	(105,092)
Connection Fees	125,183	170,955	-
Transfers out	(71,000)	(69,243)	-
Changes in Net Position	171,356	142,524	(105,092)
Total Net Position, Beginning of Year	7,367,956	7,225,432	5,343,041
Total Net Position, End of Year	\$ 7,539,312	\$ 7,367,956	\$ 5,237,949

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	Business-type Activities Sewer Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,385,848	\$ 664,408
Payments to suppliers	(1,459,133)	(471,983)
Payments to employees	(55,635)	(130,692)
Payments related to postemployment benefits	-	(75,121)
Net Cash Provided (Used) by Operating Activities	<u>(128,920)</u>	<u>(13,388)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Connection fee	125,183	-
Transfers out	(71,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>54,183</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash to acquire capital assets	(19,160)	(32,183)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(19,160)</u>	<u>(32,183)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	720	-
Net Increase (Decrease) in Cash and Investments	(93,177)	(45,571)
Cash and Cash Equivalents, Beginning of Year	3,914,481	570,649
Cash and Cash Equivalents, End of Year	<u>\$ 3,821,304</u>	<u>\$ 525,078</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 116,453	\$ (105,092)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	159,217	173,077
(Increase) decrease in accounts receivable and prepaid expense	26,510	24,388
(Increase) decrease in OPEB assets	-	(75,121)
Increase (decrease) in accounts payable	(431,100)	(30,640)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (128,920)</u>	<u>\$ (13,388)</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

ASSETS

Restricted Cash and Investments	\$ 306,192
Total Assets	<u>\$ 306,192</u>

LIABILITIES

Due to bondholders	\$ 306,161
Accounts Payable	31
Total Liabilities	<u>\$ 306,192</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, 2013

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, 2013, the Town's population was 8,264. 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, law enforcement and sewer service.

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 Position 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 Position 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

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

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

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise fund:

- 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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

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 form 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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, franchise fees 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.

Fiduciary funds are custodial in nature (i.e. assets equal liabilities) and do not involve the measurement of the results of operations. The Town has one Fiduciary fund for the West Loyola Sewer Assessment District.

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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$90,226 in the General Fund, \$6,832 in the Street Capital Projects, \$178,658 in the Other Capital Projects Fund, \$89,025 in Nonmajor Governmental Funds, and \$96,207 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.

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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

K. Changes in Accounting Principles

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. 30th, 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, 2013

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 provisions of this Statement generally are required to be applied retroactively for all periods presented and effective for financial statements periods beginning after December 15, 2011. The Town implemented this standard on July 1, 2012 with no significant impact 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 Town has implemented the provisions of this Statement for the year ended June 30, 2013.

L. New Accounting Pronouncements

Upcoming

GASB Statement No. 65

In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of Statement 65 are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The Town has not determined its effect on the financial statements.

GASB Statement No. 66

In March, 2012, GASB issued Statement No. 66, *Technical Correction – 2012 – an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of Statement 66 are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The Town has not determined its effect on the financial statements.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 68

In June, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. The provisions of Statement 68 are effective for financial statements for periods beginning after June 15, 2014, with earlier application encouraged. The Town has not determined its effect on the financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and Investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Cash on hand	\$	901
Deposits with financial institutions		2,254,600
Cash and investment with fiscal agent		188,602
Investments		9,665,841
Total Deposits and Investments	\$	<u>12,109,944</u>

Cash and investment as of June 30, 2013, consist of the following:

Statement of Net Position:		
Cash and investments	\$	11,803,752
Fiduciary funds:		
Cash and investments		306,192
Total Deposits and Investments	\$	<u>12,109,944</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, 2013.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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	30%	30%
Registered State Bonds, Notes, Warrants	5 years	30%	30%
U.S. Treasury Bills	5 years	None	None
U.S. Treasury Notes	5 years	None	None
U.S. Agency Securities	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	30%
Medium Term Notes	5 years	30%	20%
Certificates of Deposit	5 years	30%	30%
Money Market Mutual Funds	N/A	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Passbook Savings and Demand Deposits	N/A	30%	30%
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, 2013, the Town had the following investments.

Investment Type	Fair Value	12 Months or Less	13 to 24 Months	25 - 60 Months	More than 60 Months
Federal Agency Bonds/Notes	\$ 9,611,125	\$ 2,274,355	\$ 3,224,973	\$ 4,111,797	\$ -
LAIF Investment Pool	19,313	19,313	-	-	-
CAMP Investment Pool	35,403	35,403	-	-	-
Money Market	188,602	188,602	-	-	-
Total Securities	<u>\$ 9,854,443</u>	<u>\$ 2,517,673</u>	<u>\$ 3,224,973</u>	<u>\$ 4,111,797</u>	<u>\$ -</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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	Rating as of Year End		
			AAAm	AA+	Unrated
Federal Agency Bonds/Notes	\$ 9,611,125	N/A	\$ -	\$ 9,611,125	\$ -
LAIF Investment Pool	19,313	N/A	-	-	19,313
CAMP Investment Pool	35,403	N/A	35,403	-	-
Money Market	188,602	N/A	188,602	-	-
Total	<u>\$ 9,854,443</u>		<u>\$ 224,005</u>	<u>\$ 9,611,125</u>	<u>\$ 19,313</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 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 percent 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 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the Town's bank balance of \$2,644,127, with a reported balance of \$2,254,600, is insured for the first \$300,812 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.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 Town Manager or her/his designee and evidenced by safekeeping receipts when applicable. Additionally, collateralization will be required on certificates of deposit at 102 percent of market value of principal and interest.

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

NOTE 3 – INTERFUND TRANSACTIONS

The following schedule briefly summarizes the Town's transfer activity for the fiscal year ended June 30, 2013:

	Transfers Out		Total
	General Fund	Sewer Enterprise Fund	
Transfers In			
General Fund	\$ -	\$ 71,000	\$ 71,000
Street Capital Project Fund	755,000	-	755,000
Other Capital Project Fund	425,000	-	425,000
Governmental Non-Major Funds	927,543	-	927,543
Total	\$ 2,107,543	\$ 71,000	\$ 2,178,543

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 Town Council approved budget. Capital improvements and operations accounted for 54 percent and 42 percent, respectively, of the total annual transfers in 2012-2013.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 250,535	\$ -	\$ -	\$ 250,535
Total capital assets not being depreciated	<u>250,535</u>	<u>-</u>	<u>-</u>	<u>250,535</u>
Capital assets being depreciated:				
Infrastructure	73,292,489	2,719,445	(31,130)	75,980,804
Buildings	5,152,825	-	-	5,152,825
Vehicles	491,700	32,182	-	523,882
Office equipment	444,411	-	-	444,411
Total capital assets being depreciated	<u>79,381,425</u>	<u>2,751,627</u>	<u>(31,130)</u>	<u>82,101,922</u>
Less accumulated depreciation for:				
Infrastructure	(52,145,865)	(1,620,352)	31,130	(53,735,087)
Buildings	(988,100)	(130,638)	-	(1,118,738)
Vehicles	(317,028)	(24,476)	-	(341,504)
Office equipment	(371,376)	(17,962)	-	(389,338)
Total accumulated depreciation	<u>(53,822,369)</u>	<u>(1,793,428)</u>	<u>31,130</u>	<u>(55,584,667)</u>
Total capital assets being depreciated, net	<u>25,559,056</u>	<u>958,199</u>	<u>-</u>	<u>26,517,255</u>
Governmental activities capital assets, net	<u>\$ 25,809,591</u>	<u>\$ 958,199</u>	<u>\$ -</u>	<u>\$ 26,767,790</u>
Business-type activities				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Sewer collection system	6,368,670	19,160	-	6,387,830
Office equipment	1,509	-	-	1,509
Total capital assets being depreciated	<u>6,370,178</u>	<u>19,160</u>	<u>-</u>	<u>6,389,339</u>
Less accumulated depreciation for:				
Sewer collection system	(1,916,462)	(159,217)	-	(2,075,679)
Office equipment	(1,509)	-	-	(1,509)
Total accumulated depreciation	<u>(1,917,971)</u>	<u>(159,217)</u>	<u>-</u>	<u>(2,077,188)</u>
Total capital assets being depreciated, net	<u>4,452,208</u>	<u>(140,057)</u>	<u>-</u>	<u>4,312,151</u>
Business-type activities capital assets, net	<u>\$ 4,452,208</u>	<u>\$ (140,057)</u>	<u>\$ -</u>	<u>\$ 4,312,151</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 365,452
Public safety	308,230
Community development	530,413
Parks and recreation	281,633
Drainage and street operations	134,623
Capital assets held by the Town's Internal Service Fund charged to the various functions based on their usage of the assets	<u>173,077</u>
 Total depreciation - governmental activities	 <u><u>\$ 1,793,428</u></u>

Depreciation expense was charged to proprietary functions as follows:

Sewer Fund	<u><u>\$ 159,217</u></u>
------------	--------------------------

NOTE 5 – LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Additions	Retirement	Balance June 30, 2013	Current portion	Interest rate
Governmental activities:						
California Energy Commission Loans	\$ 128,239	\$ -	\$ (15,048)	\$ 113,191	\$ 15,618	3.00-3.95%
Subtotals	128,239	-	(15,048)	113,191	15,618	
Compensated Absences	108,193	27,267	(21,053)	114,407	11,817	N/A
Governmental activity long-term liabilities	<u>236,432</u>	<u>27,267</u>	<u>(36,101)</u>	<u>227,598</u>	<u>27,435</u>	
Business-type activities:						
Compensated Absences	4,973	87	(2,752)	2,308	-	N/A
Total Governmental and Business-type activity long-term liabilities	<u><u>\$ 241,405</u></u>	<u><u>\$ 27,354</u></u>	<u><u>\$ (38,853)</u></u>	<u><u>\$ 229,906</u></u>	<u><u>\$ 27,435</u></u>	

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

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 follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 15,619	\$ 3,965	\$ 19,584
2015	16,212	3,372	19,584
2016	16,820	2,764	19,584
2017	17,466	2,118	19,584
2018	18,130	1,454	19,584
2019-2023	26,741	2,102	28,843
2024	2,203	35	2,238
Total	<u>\$ 113,191</u>	<u>\$ 15,810</u>	<u>\$ 129,001</u>

NOTE 6 – SPECIAL ASSESSMENT DEBT WITHOUT TOWN COMMITMENT

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

At June 30, 2013, the balance of the assessment district's outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/2013
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25%-6.15%	\$30,000 - \$775,000	2010 - 2040	<u>\$ 1,905,000</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 7 – NET POSITION/FUND BALANCES

A. Net Position

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

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

Restricted Net Position – 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, 2013, restricted net position consisted of \$559,129 for street projects, \$94,275 for public safety grants, and \$1,134,346 for other capital projects.

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

There is \$640,645 in unrestricted net position that is committed to fund the various future liabilities and projects.

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.

	<u>General Fund</u>	<u>Street Capital Project</u>	<u>Other Capital Project</u>	<u>Non-major</u>	<u>Total</u>
Restricted for:					
Other capital projects	\$ -	\$ -	\$ -	\$ 1,134,346	\$ 1,134,346
Street and road repairs	-	-	-	559,129	559,129
Law enforcement	-	-	-	94,275	94,275
Committed for:					
Pension contributions	210,000	-	-	-	210,000
Sewer connect incentive program	76,150	-	-	-	76,150
Park and recreation	-	-	-	132,007	132,007
Other capital projects	-	-	170,143	-	170,143
Street and road repairs	-	52,345	-	-	52,345
Unassigned	2,990,283	-	-	-	2,990,283
	<u>\$ 3,276,433</u>	<u>\$ 52,345</u>	<u>\$ 170,143</u>	<u>\$ 1,919,757</u>	<u>\$ 5,418,678</u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 seven percent 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 2012-2013 was 10.518 percent 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.

In September 2011, the Town implemented a second tier pension benefit where employees hired on or after September 1, 2011, are enrolled in the "two percent at 60" pension benefit plan. The change was in response to a Santa Clara County Grand Jury report on employee compensation costs in May 2010. Employees belonging to the second tier pension benefit plan contribute the full seven percent of their salary to the Fund, while the Town's contribution rate is two percent less than the first tier pension benefit plan for the contribution rates in effect for fiscal year 2012-2013.

In January 2013, the Town implemented a third tier pension benefit where employees hired on or after January 1, 2013 are enrolled in the "two percent at 62" pension benefit plan, pursuant to the Public Employees' Pension Reform Act of 2013 (PEPRA) and related Public Employees' Retirement Law (PERL) amendments in Assembly Bill (AB) 340, passed by the California Legislature on August 31, 2012 and signed by the Governor on September 12, 2012. Employees belonging to the third tier pension benefit plan contribute 6.5 percent of reportable compensation to the Fund, while the Town's contribution rate is 6.7 percent, or 3.8 percent less than the first tier pension benefit plan for the contribution rates in effect for fiscal year 2012-2013.

C. Annual Pension Cost

For fiscal year 2012-2013, the Town's annual pension cost of \$279,845 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8 – PENSION PLAN (CONTINUED)

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>
6/30/2011	\$ 151,641	100%	\$ -
6/30/2012	278,575	100%	-
6/30/2013	279,845	100%	-

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 percent 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 liability insurance of an additional \$10,000,000, for a total limit of \$15,000,000. 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, 2013, the Town contributed \$90,242 for current year coverage.

The ABAG Shared Risk Pool (Pool) covers workers' compensation claims up to \$250,000 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, 2013, the Town contributed \$61,202 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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 9 – RISK MANAGEMENT (CONTINUED)

- 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, 2013, estimated by ABAG was not material.

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 POSTEMPLOYMENT BENEFITS

A. Plan Description

The Town's agent multiple-employer defined benefit Other Postemployment 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 2007-2008, the Town of Los Altos Hills elected to prefund its OPEB liabilities in an irrevocable trust established through California Public Employees Retirement System. The Prefunding Plan (sometimes also referred to as CERBT) is an agent multiple-employer benefit trust fund which is administered by the CalPERS Board of Administration. The trust will be used to accumulate and invest assets necessary to pay for healthcare costs and administrative costs of the Prefunding Plan.

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

B. Funding Policy

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

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

C. Annual Postemployment Benefit Cost and Net Postemployment Benefit Obligation

The Town's annual OPEB cost (expense) is calculated based upon the ARC, an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years.

Based upon the valuation as of June 30, 2011, the most recent valuation available, the annual required contribution for fiscal year 2012-2013 was \$214,000. 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.

	June 30, 2013
Normal Cost at Year End	\$ 65,000
Amortization of UAAL	149,000
Annual Required Contribution	214,000
Interest on Prior Year Net OPEB Asset	(15,000)
Adjustment to ARC	25,879
Annual OPEB Cost	224,879
Contributions Made	(300,000)
(Increase) Decrease in Net OPEB Asset	(75,121)
Net OPEB Obligation (Asset)- Beginning of Year	(251,345)
Net OPEB Obligation (Asset)- End of Year	\$ (326,466)

D. Plan Funded Status and Funding Progress

The Town is following the reporting requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*. As of June 30, 2011, the latest valuation date, the funded status of the Town, was as follows:

Actuarial accrued liability (AAL)	\$ 2,624,000
Actuarial value of plan assets	703,000
Unfunded actuarial accrued liability (UAAL)	1,921,000
Funded ratio (actuarial value of plan assets/AAL)	26.8%
Covered payroll (active plan members)	1,512,000
UAAL as percentage of covered payroll	127.1%

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The Town's annual OPEB cost (expense), the percentage of OPEB cost contributed to the plan, and the Net OPEB asset for 2013 and the two preceding years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2011	\$ 160,790	107%	\$ (171,712)
June 30, 2012	221,000	136%	(251,345)
June 30, 2013	224,879	133%	(326,466)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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, 2011 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 five years, with a corridor of 80 percent and 120 percent 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 percent per year.
- Investment rate of return is assumed to be 6 percent, which is a reduction from 7.75 percent from the prior valuation. 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 percent per year.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

- Healthcare costs trends utilized actual rates for 2011 and 2012, with a 9 percent increase for Non-Medicare eligible premiums and 9.4 percent increase for Medicare eligible premiums. Future years were reduced to an ultimate rate of five percent, an increase from 4.5 percent in the prior year, for both Non-Medicare and Medicare eligible premiums by 2021.
- Everyone will be eligible for Medicare and will elect Part B coverage.
- Participation in the Plan is assumed to be 100 percent for average premium cap benefits with 70 percent PEMHCA minimum.
- Retirees will choose same medical plan as active employees.
- Marital Status is the same as current election with 80 percent married currently waived.
- 10 percent of the Pre-65 and zero percent of post-65 members were assumed to have dependents.
- No current member of the Town 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 2012-2013, are as follows:

Fund	Expenditures	Appropriations	Excess Expenditures Over Appropriations
Storm Drain	\$ 241,917	\$ 239,009	\$ 2,908
Parks and Recreation Facilities	459,013	392,013	67,000
Other Capital Projects	1,830,847	1,719,585	111,262

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property tax	\$ 3,651,792	\$ 3,651,792	\$ 3,785,652	\$ 133,860
Taxes other than property	441,000	441,000	545,228	104,228
Franchise fees	442,060	442,060	421,634	(20,426)
Licenses and permits	806,608	806,608	729,107	(77,501)
Intergovernmental	49,200	49,200	66,355	17,155
Use of money and property	183,800	183,800	142,785	(41,015)
Charges for services	650,766	650,766	753,608	102,842
Miscellaneous	284,400	284,400	197,160	(87,240)
Total Revenues	6,509,626	6,509,626	6,641,529	131,903
EXPENDITURES				
Current:				
Administration	2,741,782	2,741,782	1,363,140	1,378,642
Public safety	1,097,853	1,097,853	1,047,501	50,352
Community development	1,988,706	1,988,706	1,918,408	70,298
Parks and recreation	333,787	333,797	303,483	30,314
Total Expenditures	6,162,128	6,162,138	4,632,532	1,529,606
Excess (Deficiency) of Revenues Over Expenditures	347,498	347,488	2,008,997	1,661,509
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	71,000	71,000
Transfers out	(1,462,215)	(1,462,215)	(2,107,543)	(645,328)
Total Other Financing Sources (Uses)	(1,462,215)	(1,462,215)	(2,036,543)	(574,328)
Net Change in Fund Balance	(1,114,717)	(1,114,727)	(27,546)	1,087,181
Fund Balance, Beginning of Year	3,303,979	3,303,979	3,303,979	-
Fund Balance, End of Year	<u>\$ 2,189,262</u>	<u>\$ 2,189,252</u>	<u>\$ 3,276,433</u>	<u>\$ 1,087,181</u>

See note to required supplementary information.

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2013**

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%
6/30/2011	7/24/2012	2,624	703	1,921	26.8%	1,512	127.1%

See note to required supplementary information.

TOWN OF LOS ALTOS HILLS

NON MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

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

1. The Town Manager submits to the Town 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 Town 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 Town Council. Expenditures may not legally exceed budgeted appropriations at the fund level without Town 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 Town Council.

NOTE 2 - SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFIT PLAN

This schedule shows the funding progress for the Town's Other Postemployment 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 years when actuarial valuations were performed are shown. Additional years will be included as subsequent valuations are performed.

SUPPLEMENTARY INFORMATION

TOWN OF LOS ALTOS HILLS

NON MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2013

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. The fee was repealed by the City Council in June 2012.

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.

DEBT SERVICE FUND

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

TOWN OF LOS ALTOS HILLS

**COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds						Debt Service Funds		Total Nonmajor Governmental
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	CA Energy Loans	
ASSETS									
Cash and investments	\$ 426,316	\$ 710,259	\$ 1,749	\$ 132,006	\$ 387,011	\$ 168,787	\$ 46,398	\$ -	\$ 1,872,526
Accounts receivable	-	-	23,374	-	12,451	-	53,200	-	89,025
Total Assets	\$ 426,316	\$ 710,259	\$ 25,123	\$ 132,006	\$ 399,462	\$ 168,787	\$ 99,598	\$ -	\$ 1,961,551
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ -	\$ 2,229	\$ 25,122	\$ -	\$ 9,120	\$ -	\$ 5,323	\$ -	\$ 41,794
Other liabilities	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-
Total Liabilities	-	2,229	25,122	-	9,120	-	5,323	-	41,794
FUND BALANCES									
Restricted	426,316	708,030	-	-	390,342	168,787	94,275	-	1,787,750
Committed	-	-	1	132,006	-	-	-	-	132,007
Unassigned	-	-	-	-	-	-	-	-	-
Total Fund Balances	426,316	708,030	1	132,006	390,342	168,787	94,275	-	1,919,757
Total Liabilities and Fund Balances	\$ 426,316	\$ 710,259	\$ 25,123	\$ 132,006	\$ 399,462	\$ 168,787	\$ 99,598	\$ -	\$ 1,961,551

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, 2013**

	Special Revenue Funds						Debt Service Funds		Total Nonmajor Governmental Funds
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	CA Energy Loans	
REVENUES									
License and permits	\$ -	\$ -	\$ -	\$ -	\$ 25,353	\$ -	\$ -	\$ -	\$ 25,353
Intergovernmental	-	-	-	-	140,272	-	100,000	-	240,272
Use of money and property	-	(200)	23,949	-	386	-	(40)	-	24,095
Charges for services	136,086	202,763	226,152	56,894	7,500	-	3,200	-	632,595
Total Revenues	136,086	202,563	250,101	56,894	173,511	-	103,160	-	922,315
EXPENDITURES									
Current:									
Public safety	-	-	-	-	-	-	84,271	-	84,271
Parks and recreation	-	270,743	459,013	-	-	-	-	-	729,756
Drainage and street operations	241,917	-	-	-	250,972	-	-	-	492,889
Debt Service:									
Principal	-	-	-	-	-	-	-	15,048	15,048
Interest	-	-	-	-	-	-	-	4,536	4,536
Total Expenditures	241,917	270,743	459,013	-	250,972	-	84,271	19,584	1,326,500
Excess (Deficiency) of Revenues Over Expenditures	(105,831)	(68,180)	(208,912)	56,894	(77,461)	-	18,889	(19,584)	(404,185)
OTHER FINANCING SOURCES (USES)									
Transfers in	241,917	270,743	393,181	-	-	-	-	21,702	927,543
Total Other Financing Sources (Uses)	241,917	270,743	393,181	-	-	-	-	21,702	927,543
Net Change in Fund Balances	136,086	202,563	184,269	56,894	(77,461)	-	18,889	2,118	523,358
Fund Balances, Beginning of year	290,230	505,467	(184,268)	75,112	467,803	168,787	75,386	(2,118)	1,396,399
Fund Balances, End of Year	\$ 426,316	\$ 708,030	\$ 1	\$ 132,006	\$ 390,342	\$ 168,787	\$ 94,275	\$ -	\$ 1,919,757

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ -	\$ 98,940	\$ 136,086	\$ 37,146
Total Revenues	-	98,940	136,086	37,146
EXPENDITURES				
Current:				
Drainage operations	239,009	239,009	241,917	(2,908)
Total Expenditures	239,009	239,009	241,917	(2,908)
Excess (Deficiency) of Revenues Over Expenditures	(239,009)	(140,069)	(105,831)	34,238
OTHER FINANCING SOURCES (USES)				
Transfers in	251,932	251,932	241,917	(10,015)
Total Other Financing Sources (Uses)	251,932	251,932	241,917	(10,015)
Net Change in Fund Balance	12,923	111,863	136,086	24,223
Fund Balance, Beginning of Year	290,230	290,230	290,230	-
Fund Balance, End of Year	\$ 303,153	\$ 402,093	\$ 426,316	\$ 24,223

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 PATHWAY IN-LIEU FEES FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ -	\$ -	\$ (200)	\$ (200)
Charges for services	-	178,500	202,763	24,263
Total Revenues	-	178,500	202,563	24,063
EXPENDITURES				
Current:				
Parks and recreation	303,432	303,432	270,743	32,689
Total Expenditures	303,432	303,432	270,743	32,689
Excess (Deficiency) of Revenues Over Expenditures	(303,432)	(124,932)	(68,180)	56,752
OTHER FINANCING SOURCES (USES)				
Transfers in	288,621	288,621	270,743	(17,878)
Total Other Financing Sources (Uses)	288,621	288,621	270,743	(17,878)
Net Change in Fund Balance	(14,811)	163,689	202,563	38,874
Fund Balance, Beginning of Year	505,467	505,467	505,467	-
Fund Balance, End of Year	\$ 490,656	\$ 669,156	\$ 708,030	\$ 38,874

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money & property	\$ 32,000	\$ 32,000	\$ 23,949	\$ (8,051)
Charges for services	244,314	244,314	226,152	(18,162)
Total Revenues	276,314	276,314	250,101	(26,213)
EXPENDITURES				
Current:				
Parks and recreation	392,013	392,013	459,013	(67,000)
Excess (Deficiency) of Revenues Over Expenditures	(115,699)	(115,699)	(208,912)	(93,213)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	393,181	393,181
Total Other Financing Sources (Uses)	-	-	393,181	393,181
Net Change in Fund Balance	(115,699)	(115,699)	184,269	299,968
Fund Balance, Beginning of Year	(184,268)	(184,268)	(184,268)	-
Fund Balance, End of Year	\$ (299,967)	\$ (299,967)	\$ 1	\$ 299,968

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 PARKS AND RECREATION IN LIEU FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 40,000	\$ 40,000	\$ 56,894	\$ 16,894
Total Revenues	40,000	40,000	56,894	16,894
EXPENDITURES				
	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	40,000	40,000	56,894	16,894
Net Change in Fund Balance	40,000	40,000	56,894	16,894
Fund Balance, Beginning of Year	75,112	75,112	75,112	-
Fund Balance, End of Year	\$ 115,112	\$ 115,112	\$ 132,006	\$ 16,894

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses and permits	\$ 40,000	\$ 40,000	\$ 25,353	\$ (14,647)
Intergovernmental	146,026	146,026	140,272	(5,754)
Use of money and property	250	250	386	136
Charges for services	500	500	7,500	7,000
Total Revenues	186,776	186,776	173,511	(13,265)
EXPENDITURES				
Current:				
Street operations	348,808	348,808	250,972	97,836
Total Expenditures	348,808	348,808	250,972	97,836
Excess (Deficiency) of Revenues Over Expenditures	(162,032)	(162,032)	(77,461)	84,571
OTHER FINANCING SOURCES (USES)				
Transfers in	151,622	151,622	-	(151,622)
Total Other Financing Sources (Uses)	151,622	151,622	-	(151,622)
Net Change in Fund Balance	(10,410)	(10,410)	(77,461)	(67,051)
Fund Balance, Beginning of Year	467,803	467,803	467,803	-
Fund Balance End of Year	\$ 457,393	\$ 457,393	\$ 390,342	\$ (67,051)

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning of Year	168,787	168,787	168,787	-
Fund Balance, End of Year	\$ 168,787	\$ 168,787	\$ 168,787	\$ -

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Use of money and property	100	100	(40)	(140)
Miscellaneous	-	-	3,200	3,200
Total Revenues	100,100	100,100	103,160	3,060
EXPENDITURES				
Current:				
Public safety	96,273	96,273	84,271	12,002
Total Expenditures	96,273	96,273	84,271	12,002
Excess (Deficiency) of Revenues Over Expenditures	3,827	3,827	18,889	15,062
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	3,827	3,827	18,889	15,062
Fund Balance, Beginning of Year	75,386	75,386	75,386	-
Fund Balance, End of Year	<u>\$ 79,213</u>	<u>\$ 79,213</u>	<u>\$ 94,275</u>	<u>\$ 15,062</u>

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 DEBT SERVICE
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES				
Current:				
Debt service				
Principal	19,584	19,584	15,048	4,536
Interest	-	-	4,536	(4,536)
Total Expenditures	19,584	19,584	19,584	-
Excess (Deficiency) of Revenues Over Expenditures	(19,584)	(19,584)	(19,584)	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	21,702	21,702
Total Other Financing Sources (Uses)	-	-	21,702	21,702
Net Change in Fund Balance	(19,584)	(19,584)	2,118	21,702
Fund Balance, Beginning of Year	(2,118)	(2,118)	(2,118)	-
Fund Balance End of Year	\$ (21,702)	\$ (21,702)	\$ -	\$ 21,702

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 STREET CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 98,148	\$ 98,148	\$ 115,829	\$ 17,681
Charges for services	57,120	57,120	21,197	(35,923)
Total Revenues	155,268	155,268	137,026	(18,242)
EXPENDITURES				
Capital outlay	890,000	890,000	888,600	1,400
Total Expenditures	890,000	890,000	888,600	1,400
Excess (Deficiency) of Revenues Over Expenditures	(832,880)	(832,880)	(751,574)	81,306
OTHER FINANCING SOURCES (USES)				
Transfers in	755,000	755,000	755,000	-
Total Other Financing Sources (Uses)	755,000	755,000	755,000	-
Net Change in Fund Balance	(77,880)	(77,880)	3,426	81,306
Fund Balance, Beginning of Year	48,919	48,919	48,919	-
Fund Balance, End of Year	\$ (28,961)	\$ (28,961)	\$ 52,345	\$ 81,306

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
OTHER CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 800,000	\$ 800,000	\$ 842,260	\$ 42,260
Use of money and property	39,585	39,585	34,057	(5,528)
Charges for services	277,440	-	587	587
Miscellaneous	-	-	44,184	44,184
Total Revenues	1,117,025	839,585	921,088	81,503
EXPENDITURES				
Capital outlay:				
General CIP	15,000	15,000	54,943	(39,943)
Pathways	1,200,000	1,200,000	1,255,234	(55,234)
Westwind Barn Projects	39,585	39,585	24,781	14,804
Drainage	265,000	465,000	495,889	(30,889)
Total Expenditures	1,519,585	1,719,585	1,830,847	(111,262)
Excess (Deficiency) of Revenues Over Expenditures	(402,560)	(880,000)	(909,759)	(29,759)
OTHER FINANCING SOURCES (USES)				
Transfers in	15,000	15,000	425,000	410,000
Total Other Financing Sources (Uses)	15,000	15,000	425,000	410,000
Net Change in Fund Balance	(387,560)	(865,000)	(484,759)	380,241
Fund Balance, Beginning of Year	654,902	654,902	654,902	-
Fund Balance, End of Year	\$ 267,342	\$ (210,098)	\$ 170,143	\$ 380,241

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 PROPRIETARY FUND - SEWER
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,361,523	\$ 1,361,523	\$ 1,359,338	\$ (2,185)
Total Operating Revenues	<u>1,361,523</u>	<u>1,361,523</u>	<u>1,359,338</u>	<u>(2,185)</u>
OPERATING EXPENSES				
Salaries and benefits	67,781	67,781	52,970	14,811
Contract services	1,078,309	1,078,309	955,134	123,175
Operating expenses	509,004	509,004	75,564	433,440
Depreciation	111,980	111,980	159,217	(47,237)
Total Operating Expenses	<u>1,767,074</u>	<u>1,767,074</u>	<u>1,242,885</u>	<u>524,189</u>
Operating Income (Loss)	<u>(405,551)</u>	<u>(405,551)</u>	<u>116,453</u>	<u>522,004</u>
NONOPERATING REVENUE (EXPENSES)				
Investment income	27,508	27,508	720	(26,788)
Income Before Contributions and Transfers	(378,043)	(378,043)	117,173	495,216
Connection Fees	159,000	159,000	125,183	(33,817)
Transfers out	(71,000)	(71,000)	(71,000)	-
Changes in Net Position	(290,043)	(290,043)	171,356	461,399
Total Net Position, Beginning of Year	<u>7,367,956</u>	<u>7,367,956</u>	<u>7,367,956</u>	<u>-</u>
Total Net Position, End of Year	<u>\$ 7,077,913</u>	<u>\$ 7,077,913</u>	<u>\$ 7,539,312</u>	<u>\$ 461,399</u>