

TOWN OF LOS ALTOS HILLS, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2012**

TOWN OF LOS ALTOS HILLS
June 30, 2012

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June 30, 2012

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

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

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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Altos Hills, California, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 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* and should be considered in assessing the results of our audit.

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.

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 and individual non-major fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements and 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. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
February 13, 2013

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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, 2012.

FINANCIAL HIGHLIGHTS

- The Town's government-wide assets exceed its liabilities at June 30, 2012, by \$39,139,695 (net assets), a decrease of \$1,123,071 from the prior year. Of this amount, \$7,498,462 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors; a decrease from prior year's unrestricted net assets of \$3,012,738 or 28.7%. It is important to note that \$2,915,748 of the net assets is unrestricted for Sewer Operations.
- The Town's cash and investments at June 30, 2012 totaled \$12,533,132, of which \$8,618,651 is classified as government activities and \$3,914,481 falls into the business-type activities category (Sewer). The Town's cash and investments decreased \$1,066,723, or 7.8%, compared to the prior year. This decrease is largely the result of the one-time payoff of the Town Hall capital lease in September 2011. 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 cost 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.
- In 2004, the 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. On May 17, 2012 the Town Council adopted an ordinance repealing the Fee. Additionally, Town Council 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 estimated the total amount of refunds to be approximately \$1,250,000, which has been accrued as a liability to the General Fund. The repeal of the Roadway Impact Fee also reduces the Town's available resources to fund future street capital improvements, as the revenues from the Roadway Impact Fee were approximately \$300,000 per year.
- The Town's General Fund balance at June 30, 2012, is \$3,303,979, a decrease of \$2,473,903, or 42.8% over the previous year. The decline in fund balance is a result of the payoff of the Town Hall capital lease and accrual for the Roadway Impact Fee refund. The General Fund's fund balance is approximately 68% of General Fund operating expenditures, down from 130% in the prior year.
- In the fiscal year ended June 30, 2012, the Town's General Fund transferred \$2,831,158 to other funds. Total transfers were up by \$1,374,301 compared to prior year. This increase was due largely to an increase in General Fund support for the Debt Service Fund.
- Fund balances at June 30, 2012 in the Town's Street Capital Projects and Other Capital Projects Funds, decreased by a total of \$607,932, or 46.3%, from prior year as the result of continued spending on capital improvement projects.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

- Fund balances at June 30, 2012 in the Town's Nonmajor Governmental Fund, the aggregate of a number of special revenue funds that provide for specific operations such as street maintenance, increased \$437,773, or 45.6%, from prior year. This increase is the result of deferral of transfers out to capital improvement funds.
- The Town's Governmental Funds unrestricted net assets at June 30, 2012, are \$4,582,714, a decrease of \$3,072,195, or 40.1%, compared to the prior year, primarily due to the payoff of the Town Hall capital lease and accrual for the Roadway Impact Fee refund.
- The Town's Sewer Fund unrestricted net assets at June 30, 2012, are \$2,915,748, an increase from the prior year of \$59,457 or 2.1%.
- 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.
- According to the October 2012 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, 2011, is reported as \$1,738,747. This is the first time CalPERS attempted to estimate the Town's share of the unfunded liability and made this information available in the annual valuation report. In fiscal year 2010-11, 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, 2012 the pension contingency was \$140,000, or 8% 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 Assets presents information on all of the Town of Los Altos Hills' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

The Statement of Activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, for example, earned but unused vacation leave. These government-wide financial statements begin on page 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. The California Law Enforcement Equipment Program (CLEEP) fund is no longer reported on the Town's financial statement due to depleted fund balance and lack of financial activity. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Debt Service Fund, Street Capital Projects Fund and Other Capital Projects 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 six governmental funds (which includes Storm Drain, Pathway, Parks & Recreation Facilities, Street, Roadway Impact Fee, and COPS Funds) are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the "Combining Statements and Individual Fund Statements" section of this report.

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

The basic governmental fund financial statements can be found on page 29-31 of this report. The budgetary comparison schedules for the governmental funds begin on page 66.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Proprietary Funds

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the internal service fund and sewer operations. The basic proprietary fund financial statements can be found on pages 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 37-58 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide retirement benefits to its employees and the General Fund budgetary schedule. Required supplementary information can be found on pages 60-62 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 and the Street Capital Projects and Other Capital Projects funds are presented on pages 66-76.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$39,139,695 at June 30, 2012.

Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	\$ 9,181,249	\$ 10,505,457	\$ 4,037,198	\$ 3,715,279	\$ 13,218,447	\$ 14,220,736
Capital assets	25,809,591	25,927,459	4,452,208	4,369,141	30,261,799	30,296,600
Total assets	<u>34,990,840</u>	<u>36,432,916</u>	<u>8,489,406</u>	<u>8,084,420</u>	<u>43,480,246</u>	<u>44,517,336</u>
LIABILITIES						
Current	3,017,190	1,942,440	1,116,477	853,496	4,133,667	2,795,936
Long term debt	201,911	1,453,142	4,973	5,492	206,884	1,458,634
Total liabilities	<u>3,219,101</u>	<u>3,395,582</u>	<u>1,121,450</u>	<u>858,988</u>	<u>4,340,551</u>	<u>4,254,570</u>
NET ASSETS						
Invested in capital assets, net of related debt	25,681,352	24,421,688	4,452,208	4,369,141	30,133,560	28,790,829
Restricted	1,507,673	960,737	-	-	1,507,673	960,737
Unrestricted	4,582,714	7,654,909	2,915,748	2,856,291	7,498,462	10,511,200
Total net assets	<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>

Note: Total assets – liabilities = total net assets

The largest portion of the Town's net assets, 77.0%, 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 assets for Governmental Activities were \$31,771,739, a decrease of \$1,265,595, or 3.8%, primarily due to accrued liability for the Roadway Impact Fee refund. Unrestricted net assets for Governmental Activities decreased by \$3,072,195, primarily due to infrastructure spending and accrual for the Roadway Impact Fee refund.

The lease financing of the Town Hall facility construction in 2004 had a principal balance at June 30, 2011 of \$1,363,047, with annual principal and interest payments on this obligation totals \$195,965 through September 16, 2019. On September 15, 2011, the Town Council approved full repayment of this liability in the amount of \$1,322,691, including a prepayment premium of \$25,935. The decision to repay the liability early was based on an analysis that the Town held sufficient cash at the time, and the interest cost on the note was likely to exceed the interest income that could have been earned on the funds if held in the Town's pooled investments.

An additional portion of the Town's net assets, \$1,507,673 or 3.8% of total net assets, represents resources that are subject to external restrictions on how they may be used.

In 2004, the Town adopted a Roadway Impact Fee Fund 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. On May 17, 2012, the City Council adopted an ordinance repealing the Fee and 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 has been accrued as a liability to the General Fund.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

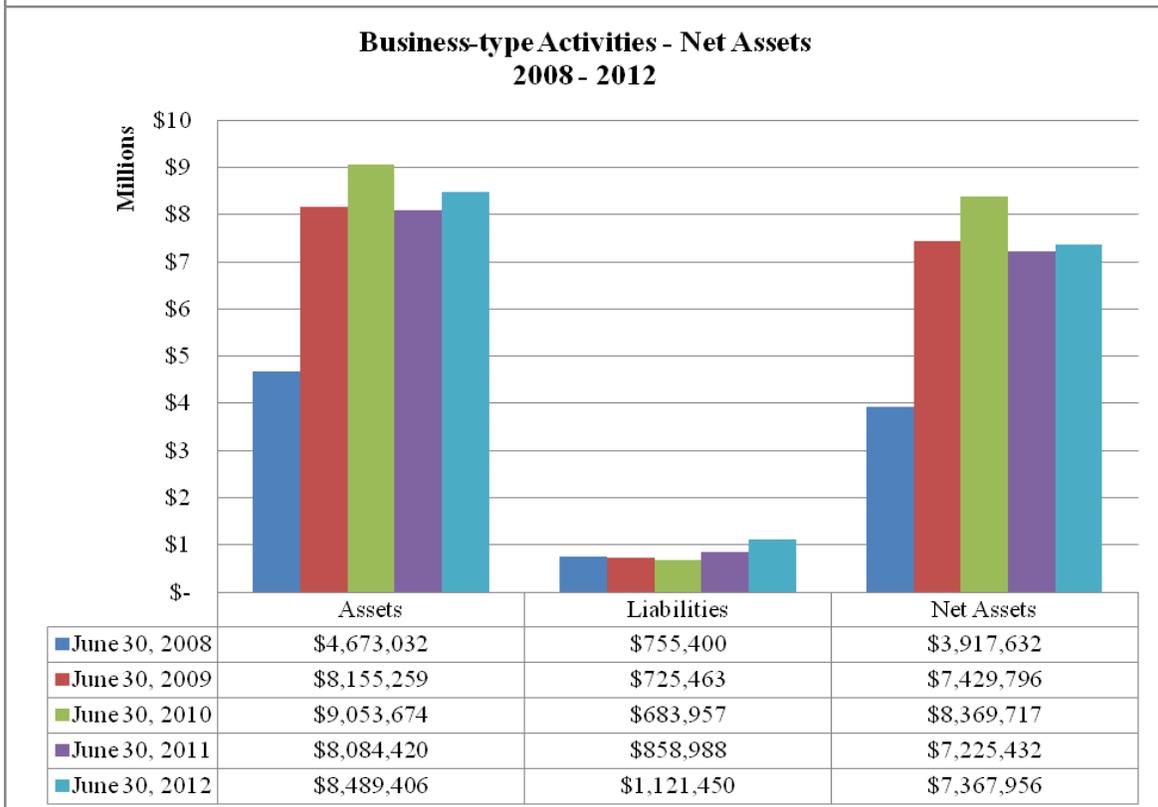
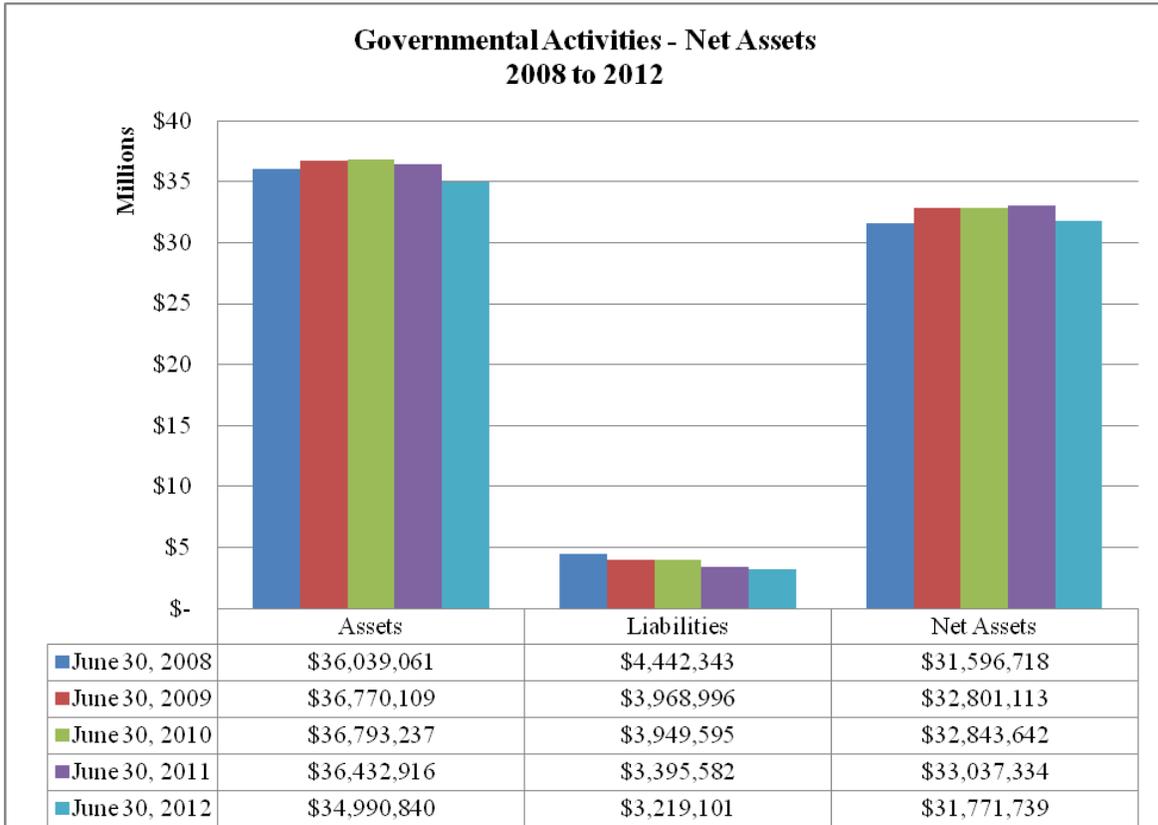
In 2010-11, the Town declared \$1,402,336 of surplus funds related to the West Loyola Special Assessment District. In August 2008, the Town's engineering consultant, Wilsey Ham, prepared a report for this project that estimated that the "probable construction costs" would total \$2,620,000. This number was then used to determine the amount required to be financed through the issuance of bonds. When the project went out to bid in the summer of 2009, the awarded contract amount was \$1,267,000, which resulted in savings of \$1,353,000 over the original estimate. The surplus funds of \$1,402,336 were used to pay project closeout costs, the interest portion of the September 2011 and March 2012 debt service payments, and the balance was used to call bonds. The Town is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment district (see Notes to Financial Statements # 6).

The remaining balance of unrestricted net assets, \$7,498,462, of which \$4,582,714 is classified as government activities and \$2,915,748 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, 2012, the Town is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. Note that the Town's Internal Service Fund is reported as a part of Governmental Activities in the Government-wide Financial Statements.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**



TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Statement of Activities

The following schedule shows summarized information for the current and prior year on the changes in net assets. Governmental activities decreased the Town's net assets by \$1,265,595. Business-type activities increased the Town's net assets by \$142,524 due to \$170,955 in revenues received from sewer connection fees. In the prior year, as a result of the completion of the West Loyola Sewer Project, the Town reimbursed \$1,402,336 in surplus bond proceeds to property owners, which resulted in negative capital contributions of \$1,486,331 for the year, as shown on the chart below. Significant changes year-over-year are discussed in subsequent sections.

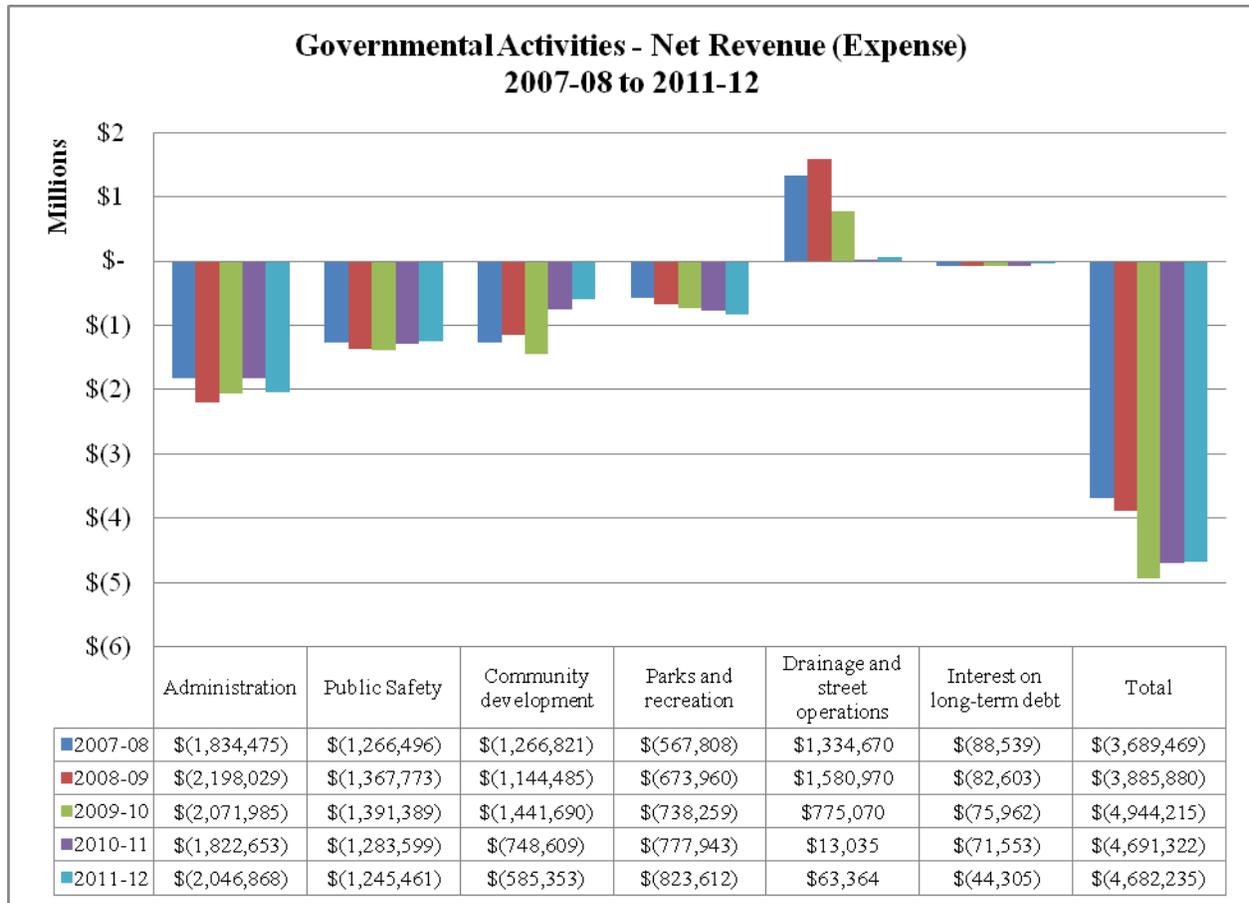
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program revenues						
Charges for services	\$ 2,660,291	\$ 2,496,633	\$ 1,355,667	\$ 1,406,130	\$ 4,015,958	\$ 3,902,763
Operating contributions/grants	108,300	101,005	-	-	108,300	101,005
Capital contributions/grants	423,371	346,712	170,955	(1,486,331)	594,326	(1,139,619)
General revenues						
Property taxes	3,543,231	3,393,604	-	-	3,543,231	3,393,604
Motor vehicle license tax	4,473	40,326	-	-	4,473	40,326
Other taxes	423,353	503,766	-	-	423,353	503,766
Franchise fees	430,149	428,332	-	-	430,149	428,332
Gain on sale of capital assets	-	6,600	-	-	-	6,600
Use of money and property	156,743	178,450	14,001	29,585	170,744	208,035
Other intergovernmental	-	69,166	-	-	-	69,166
Other unrestricted	39,448	193,425	-	-	39,448	193,425
Total revenues	<u>7,789,359</u>	<u>7,758,019</u>	<u>1,540,623</u>	<u>(50,616)</u>	<u>9,329,982</u>	<u>7,707,403</u>
EXPENSES						
Administration	2,046,868	1,822,653	-	-	2,046,868	1,822,653
Public safety	1,345,461	1,384,604	-	-	1,345,461	1,384,604
Community development	2,437,335	2,111,541	-	-	2,437,335	2,111,541
Parks and recreation	1,300,211	1,310,566	-	-	1,300,211	1,310,566
Drainage and street operations	700,017	934,755	-	-	700,017	934,755
Sewer	-	-	1,328,856	1,022,325	1,328,856	1,022,325
Interest on long-term debt	44,305	71,553	-	-	44,305	71,553
Total expenses	<u>7,874,197</u>	<u>7,635,672</u>	<u>1,328,856</u>	<u>1,022,325</u>	<u>9,203,053</u>	<u>8,657,997</u>
Increase (decrease) in net assets						
before transfers and special item	(84,838)	122,347	211,767	(1,072,941)	126,929	(950,594)
Special item	(1,250,000)	-	-	-	(1,250,000)	-
Transfers in (out)	69,243	71,345	(69,243)	(71,345)	-	-
Change in net assets	<u>(1,265,595)</u>	<u>193,692</u>	<u>142,524</u>	<u>(1,144,286)</u>	<u>(1,123,071)</u>	<u>(950,594)</u>
Net assets, beginning of year	<u>33,037,334</u>	<u>32,843,642</u>	<u>7,225,432</u>	<u>8,369,718</u>	<u>40,262,766</u>	<u>41,213,360</u>
Net assets, end 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>

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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, 2012**

Overall, net expenses for governmental activities for 2011-12 decreased from \$4,691,322 to \$4,682,235, a difference of \$9,087 or 0.2%, from the previous year. The primary driver of this reduction was attributable to a reimbursement credit received from the Town's public safety contract with the Santa Clara County Sheriff's Department for hours billed which the service was not provided by June 30, 2012.

	<u>2012</u>			<u>2011</u>		
	Program revenues	Expenses	Net revenue (expenses)	Program revenues	Expenses	Net revenue (expenses)
Administration	\$ -	\$ 2,046,868	\$ (2,046,868)	\$ -	\$ 1,822,653	\$ (1,822,653)
Public safety	100,000	1,345,461	(1,245,461)	101,005	1,384,604	(1,283,599)
Community development	1,851,982	2,437,335	(585,353)	1,362,932	2,111,541	(748,609)
Parks & recreation	476,599	1,300,211	(823,612)	532,623	1,310,566	(777,943)
Drain/street	763,381	700,017	63,364	947,790	934,755	13,035
Interest expense	-	44,305	(44,305)	-	71,553	(71,553)
	<u>\$ 3,191,962</u>	<u>\$ 7,874,197</u>	<u>\$ (4,682,235)</u>	<u>\$ 2,944,350</u>	<u>\$ 7,635,672</u>	<u>\$ (4,691,322)</u>

Business-type Activities

The Town's sole business-type activity is the sewer fund. In 2011-12, the sewer operations experienced a net income before contributions, transfers and interest income of \$26,811, down from \$383,805 for a decrease of \$356,994 or 93.0%, mainly attributable to a major root foaming project, higher depreciation expense and higher sewer treatment and conveyance costs and no increase in assessed sewer service rates since 2007.

FUND FINANCIAL ANALYSIS

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

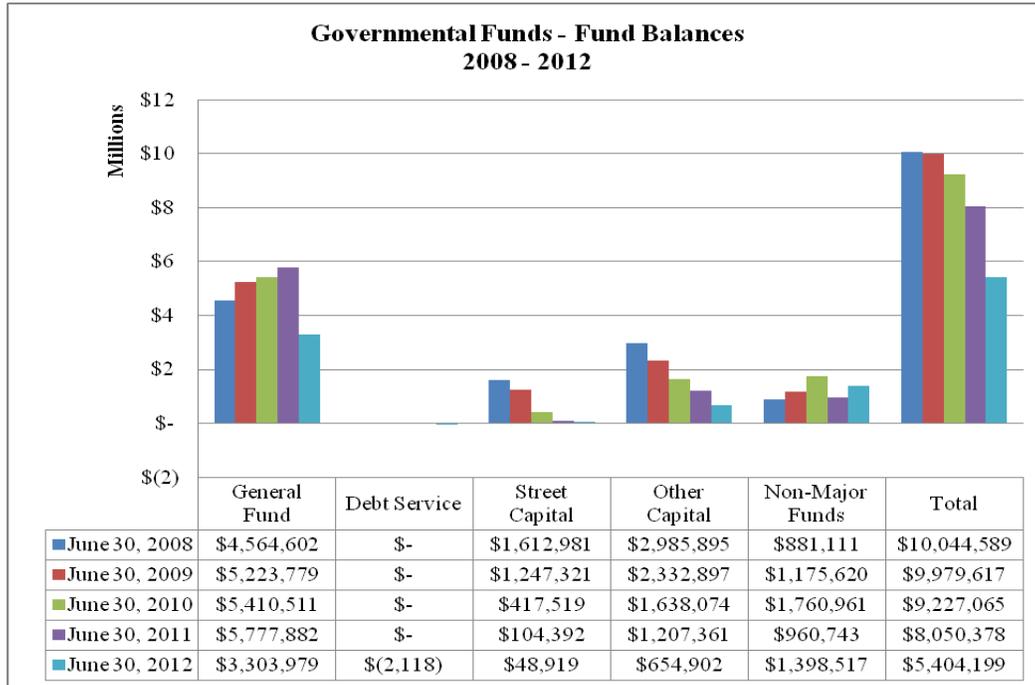
The following is a schedule of revenues, expenditures and changes in fund balances for each of the major governmental and aggregate non-major governmental funds on the modified accrual basis:

	General Fund	Debt Service	Street Cap Project	Other Cap Project	Non-major	Total
Revenues	\$ 6,362,468	\$ -	\$ 183,746	\$ 127,689	\$ 1,115,456	\$ 7,789,359
Expenditures	4,824,456	1,440,257	889,219	695,148	1,405,702	9,254,782
Net transfers and special item	(4,011,915)	1,438,139	650,000	15,000	728,019	(1,180,757)
Net increase/ (decrease)	(2,473,903)	(2,118)	(55,473)	(552,459)	437,773	(2,646,180)
Fund balances, beginning of year	5,777,882	-	104,392	1,207,361	960,744	8,050,379
Fund balances, end of year	<u>\$ 3,303,979</u>	<u>\$ (2,118)</u>	<u>\$ 48,919</u>	<u>\$ 654,902</u>	<u>\$ 1,398,517</u>	<u>\$ 5,404,199</u>

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

The net activity for the governmental fund balances for 2011-12 resulted in a decrease of \$2,646,180 compared to prior year. The decrease was a result of the payoff of the Town Hall capital lease balance of \$1,322,691 and accrual for the Roadway Impact Fee refund expenditure of \$1,250,000 in 2011-12.

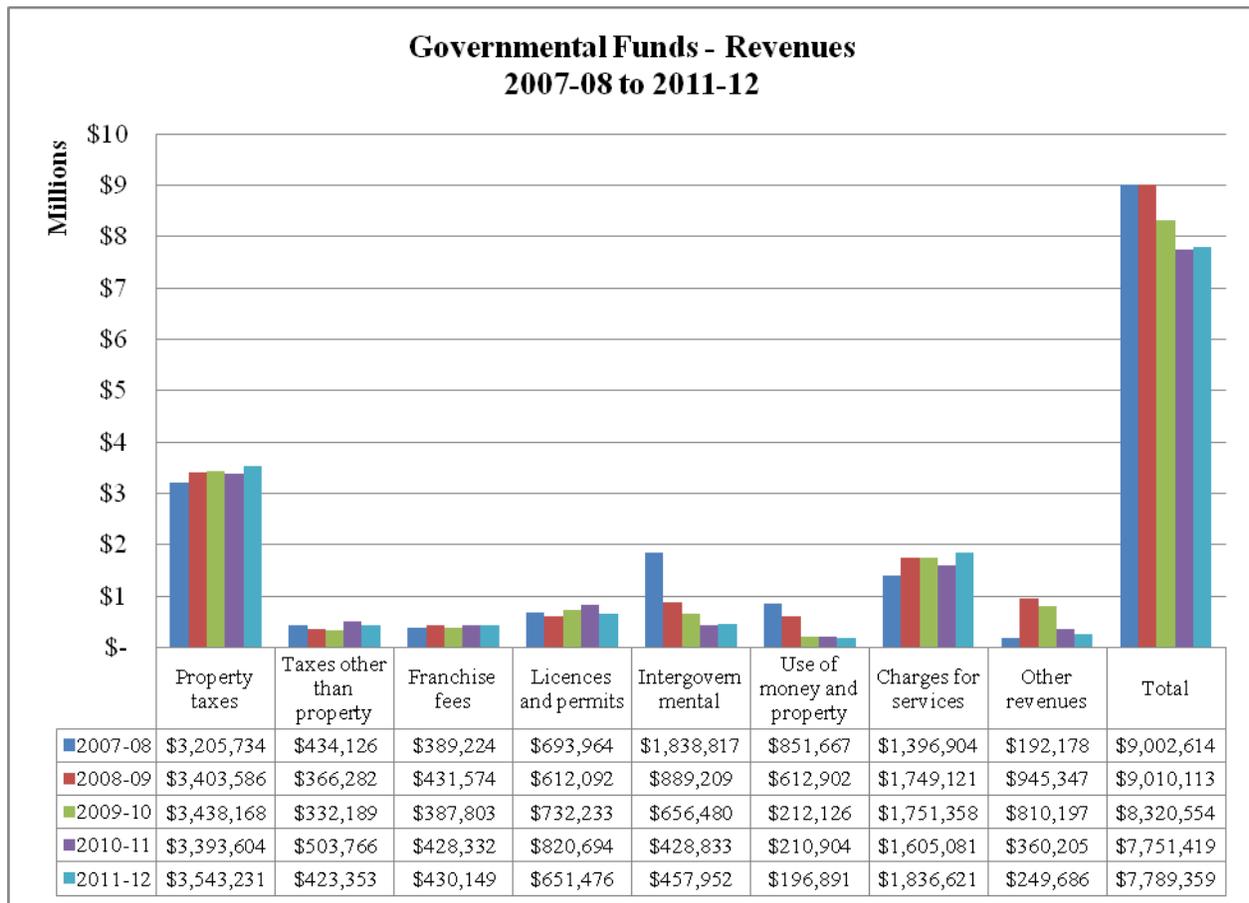


TOWN OF LOS ALTOS HILLS

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2012

Governmental Funds – Revenues

Overall, revenues in all Governmental Funds increased by \$37,940, or 0.5%, compared to prior year, primarily due to an increase in property taxes and charges for services. Property taxes recorded an increase year-over-year of 4.4% or \$149,627. This increase was the result of an increase in assessed valuations due to an increase of approximately 20% in median sales price and other economic factors. Property taxes are projected to continue to grow in 2012-13 fueled by an increase in the number of property sales. Additional discussion follows on more specific fluctuations. The chart below is provided to demonstrate significant trends in Town revenues over the past five fiscal years.



- **Taxes other than property** – This category includes revenues from business license tax, property transfer tax, sales tax and public safety sales tax. Revenues decreased by \$80,413, or 16.0%, in contrast to the prior year primarily as a result of a decline in property transfer tax. Home sales declined by approximately 17% compared to the prior year.
- **Licenses and permits** – This category reflects revenues received from building permit issuance activity. Revenues decreased by \$169,218, or 20.6% due to a decline in the issuance of building permits in comparison to the prior year. Compared to the average revenue of the previous three fiscal years, the decrease is 4.1%.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

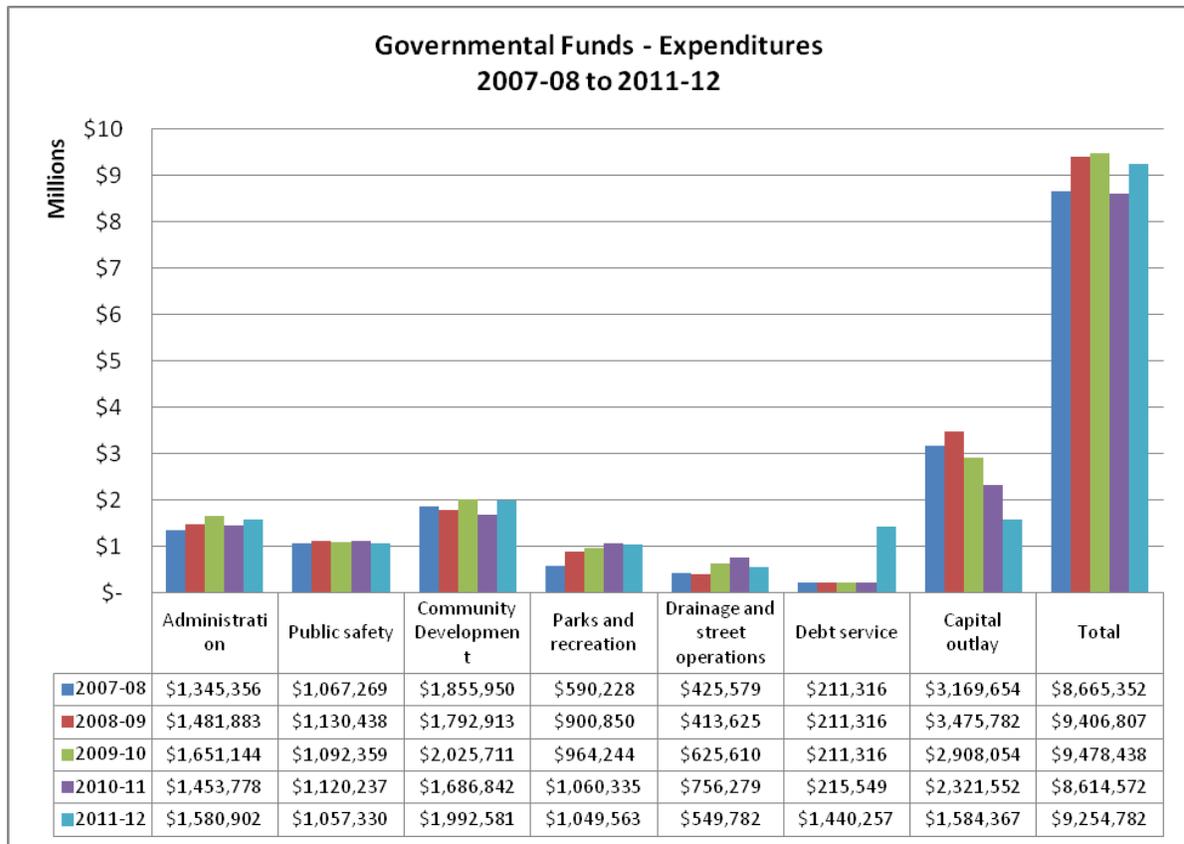
- **Intergovernmental revenues** – This category reports revenue received from the State of California and Federal Government for both operational and capital expenditures. In 2007-08, this revenue category recorded grant revenue of \$1,190,843 the bulk of which was generated by drainage and street grants from the State of California (Proposition 1B infrastructure bonds) and the County of Santa Clara's one-time payment to the Town of \$469,000 for paving projects in the newly annexed West Loyola neighborhood. Important to note, the offsetting capital outlay for the one-time payment from the County was made in fiscal year 2010-11. The paving project was deferred until the West Loyola sewer main construction was complete to avoid cutting the newly paved road for the sewer project. As grant opportunities decrease, so has the revenue received by the Town.
- **Use of money and property** reports investment income earnings and rents charged for exclusive use of Town owned land or facilities. The most notable rental income is generated by the cellular telephone antenna towers located on Town lands. The significant decrease in this category over the past several years is the result of dramatic decreases in the yield earned on investments and lower cash balances. The Town's investments are governed by California Government Code and the 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 two years as higher yielding bonds have matured and the impact of this reduction is clearly visible in the Town's investment earnings. With Federal Reserve policymakers declaring that bond yields will remain near zero through August 2013, the Town Council approved a recommendation to pay off the Town Hall facility lease financing obligation. The decision to repay the liability early was based on an analysis that the Town held sufficient cash at the time, and the interest cost on the note was likely to exceed the interest income that could have been earned on the funds if held in the Town's pooled investments.
- **Charges for services** reports revenue received fees charged for direct and indirect services provided by the Town. Revenues increased by \$231,540, or 14.4%. In the prior year, only inspection fees were recorded to site development compliance revenue. In the current year, site development fees were also recorded in the same account to more accurately reflect the nature of the revenue which increased by \$204,866 to \$226,704 compared to \$21,838 in the prior year. Pass through revenues also increased by \$94,535, or 60.3% as a result of an increase in pass through billing activity.
- **Miscellaneous revenues**, reports fines and forfeitures, donations, and other miscellaneous receipts. The decline in revenue of \$110,519 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, 2012

Governmental Funds – Expenditures

Overall expenditures in all Governmental Funds increased by \$640,210, or 7.4% compared to prior year, reflecting the impact of the payoff of the Town Hall loan and a reduction in capital outlay. Without the one-time payment of the Town Hall capital lease outstanding balance plus prepayment penalty of \$1,322,691, expenditures decreased \$682,481 or 7.9% year over year. The chart below identifies significant trends in expenditures over the past five fiscal years.



- Administration** expenditures increased by \$127,124, or 8.7% in comparison to the prior year. The growth is attributable to an increase of 91.5% or \$87,438 in expenditures for the Town’s legal services in response to various litigation matters, and to an increase in the Town’s Other Post-Employment Benefits (OPEB) Annual Required Contribution (ARC) to \$300,000 (in excess of the ARC of \$217,000 for fiscal year 2011-2012; see Note 11 – Other Post Employment Benefits), as recommended by the Town’s Finance and Investment Committee and City Council.

In addition, the most recent OPEB actuarial valuation report as of June 30, 2011, prepared by Bartel and Associates, reflects a \$794,000 increase to \$1,921,000 in the Town’s OPEB plan unfunded liability over the last valuation report from June 30, 2009. The increase resulted from 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. (Refer to Schedule of Funding Progress – Other Post Employment Benefits for the Year Ended June 30, 2012 on page 61).

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

- **Community Development** expenditures increased significantly by \$305,739, or 18.1%. The allocation of employee benefits increased by \$100,818, or 29.9% due to increases in health premiums and the increase of the Town's contribution to the OPEB ARC previously mentioned. An increase in the pass through expenditures for professional planning services contributed to the increase in the categorical expenditures.
- **Drainage and street operations** expenditures decreased by \$206,497 or 27.3% in contrast to the prior year as a result of reduced street and tree maintenance costs which decreased by \$95,666, or 72.0%, as a result of higher than normal maintenance costs in the prior year. Street and tree maintenance costs were \$6,597, or 17.7% less than the average actual street and tree maintenance costs from fiscal years 2008-09 to 2009-10. Engineering consultant costs decreased by \$21,062, or 46.3% due to higher costs in the prior year to address the demand for additional professional services.
- **Debt service** expenditures increased 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.
- **Capital outlay** decreased by \$737,185, or 31.8%, due to the reduction in street capital improvements compared to the prior year. In an analysis conducted by the Town's in-house staff, it was determined that an annual program between \$800,000 and \$1,000,000 per year would replace aging roadway infrastructure. The 2010-11 capital improvement program totaled \$1,558,317. The higher than required capital program in 2010-11 was the result of a deferred project in the West Loyola neighborhood. In 2007-08, the Town annexed the West Loyola neighborhood and, as part of the annexation agreement, the Town received a one-time payment of \$469,000 from the County of Santa Clara to repair the area's roadways. The project was deferred until 2010-11 due to major construction work for the West Loyola Sewer Main project.
- **Parks and recreation** expenditures demonstrate the largest increase over the five year period nearly doubling to reflect the addition of Westwind Community Barn as a parks and recreation facility. Additionally, the Town's capital outlay in 2007-08 at Purissima Park for the renovation of the ball fields has increased maintenance costs to ensure proper care of the new facilities. Also included in this category's growth are increases in recreation programming and increased maintenance on the Town's pathways system. While Westwind Community Barn, Purissima Park, and recreation programming all have a cost recovery component, the revenues are not sufficient to offset their costs thereby increasing demand on the Town's general revenues.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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, 2012, increased \$182,756, or 3.0%, over the prior year. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years.

	<u>2012</u>	<u>2011</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Property taxes	\$ 3,543,231	\$ 3,393,604	\$ 149,627	4.4%
Taxes other than property	423,353	503,766	(80,413)	-16.0%
Franchise fees	430,149	428,332	1,817	0.4%
Licenses and permits	609,108	780,014	(170,906)	-21.9%
Intergovernmental	58,370	83,446	(25,076)	-30.1%
Use of money and property	154,978	174,253	(19,275)	-11.1%
Charges for services	976,834	618,320	358,514	58.0%
Miscellaneous	166,445	197,977	(31,532)	-15.9%
Total	<u>\$ 6,362,468</u>	<u>\$ 6,179,712</u>	<u>\$ 182,756</u>	3.0%

- **Taxes other than property** reflected a 16.0% decrease year-over-year attributed to a decline in property transfer taxes, down \$80,413 year-over-year. Historically, transfer taxes fluctuate significantly with the Town receiving \$108,293 in 2007-08 and \$133,656 in 2011-12 with the intervening years averaging about \$151,000 each year. Additionally, business license revenue increased by \$12,859 year-over-year. Business license revenues have increased 47.6% since 2009-10.
- **Franchise fees** increased \$1,817, or 0.4%, in 2011-12 when compared to prior year. Franchise fees from Pacific Gas & Electric decreased by \$5,243 or 3.1% while franchise fees from Comcast increased by \$2,659 or 4.0%. Franchise fees are charged as a percentage of gross revenue.
- **Licenses and permits** experienced a significant decrease year-over-year of \$170,906. This decrease is the result of less building permit activity when compared to prior year.
- **Charges for services** recorded an increase of \$358,514 in 2011-12 when compared to prior year. The increase is attributable to the application land development project deposits to pay for pass through billings. A corresponding increase in pass through expenses is recorded. This practice was continued to properly state revenues and expenses.
- **Miscellaneous Revenues** decreased by \$31,532, or 15.9% over the prior year, largely due to adjustments in the prior year that were processed through miscellaneous revenue.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

General Fund expenditures - General Fund expenditures for the current year increased \$391,026, or 8.8%, over the prior fiscal year. As previously stated, the continuing practice of applying land development project deposits to pay for pass through billings resulted in an increase in pass through expenses.

	<u>2012</u>	<u>2011</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Administration	\$ 1,580,902	\$ 1,453,778	\$ 127,124	8.7%
Public safety	965,052	1,009,014	(43,962)	-4.4%
Community development	1,992,581	1,686,842	305,739	18.1%
Parks and recreation	285,921	283,796	2,125	0.7%
Total	<u>\$ 4,824,456</u>	<u>\$ 4,433,430</u>	<u>\$ 391,026</u>	8.8%

Debt Service Fund

The Town entered into a financing lease in the amount of \$2 million in September 2004 for the construction of Town Hall and received a loan from the California Energy Commission in the amount of \$160,000 in 2008 to provide funding for energy conservation features of the new building. In 2010-11, the Town began debt service on a \$47,000 loan from the California Energy Commission for energy efficiency improvements at Westwind Community Barn. Interest payments during the current year totaled \$62,725 and principal in the amount of \$1,377,532 was retired. The balance of the two debts at June 30, 2012 is \$128,239; of that amount, \$14,485 is due within one year and the balance, \$113,754, is due in more than one year. On September 15, 2011, the Town Council authorized a payment of \$1,322,691 to fully extinguish the outstanding lease financing of Town Hall. The decision to repay the liability early was based on an analysis that the Town held sufficient cash at the time, and the interest cost on the note was likely to exceed the interest income that could have been earned on the funds if held in the Town's pooled investments.

Obligation	Principal Balances of June 20, 2012	Interest Rate	Payoff
2004 CA Energy Commission loan	\$87,241	3.95%	12/2018
2010 CA Energy Commission loan	40,998	3.00%	12/2023
Total	\$128,239		

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 2011-12 capital improvement program totaled \$889,220.

Revenue sources for the street capital improvement program are somewhat limited. In 2011-12, the Town received \$183,745 in revenues, of which \$134,897, or 73% was from state traffic congestion relief revenues.

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.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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.

On May 17, 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 has been accrued as a liability to the General Fund. In the adopted budget for 2012-13, the City Council approved a General Fund appropriation of \$1,250,000 for refunds of the Roadway Impact Fee, and the Town began processing refunds in July 2012. The repeal of the Roadway Impact Fee will result 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 \$300,000 per year.

Other Capital Projects Fund

Expenditures for other capital projects were \$695,148 for fiscal year 2012, compared to \$763,235 for the prior year. The minor decrease in capital expenditures marks the completion of the Town's three-year capital improvement program for parks and recreation facilities and pathways. Major work areas reported in Other Capital Projects included:

Facility Improvements.....	\$259,276
Corporation Yard, Westwind Barn	
Pathway Improvements	\$367,296
C-2, Fremont Road, Page Mill, and Robleda	
Drainage Improvements	\$68,578
Annual program, O'Keefe Lane	

Nonmajor Governmental Funds

Expenditures in the Nonmajor Governmental Funds, the aggregate of the Town's remaining special revenues funds as detailed in the Required Supplementary Information section of the financial statements, decreased by \$238,339, or 14.5%, to \$1,405,702 year-over-year. The decrease was largely experienced in the Streets due to reduced street maintenance costs. There were no transfers out in 2011-12, a reduction of \$878,419 when compared to the prior fiscal year. This decrease is due to the repeal of the Roadway Impact Fee, which in prior years was transferred to the Street Capital Fund.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Proprietary Fund

	Sewer		\$ Increase (decrease)	% Increase (decrease)
	June 30, 2012	June 30, 2011		
OPERATING REVENUES				
Charges for services	\$ 1,353,479	\$ 1,382,814	\$ (29,335)	-2.1%
Other income	2,188	23,316	(21,128)	-90.6%
Total Operating Revenues	<u>1,355,667</u>	<u>1,406,130</u>	<u>(50,463)</u>	<u>-3.6%</u>
OPERATING EXPENSES				
Salaries and benefits	84,571	77,977	6,594	8.5%
Contract services	1,026,679	758,354	268,325	35.4%
Operating expenses	64,299	84,268	(19,969)	-23.7%
Depreciation	153,307	101,726	51,581	50.7%
Total Operating Expenses	<u>1,328,856</u>	<u>1,022,325</u>	<u>306,531</u>	<u>30.0%</u>
Operating Income (Loss)	<u>26,811</u>	<u>383,805</u>	<u>(356,994)</u>	<u>-93.0%</u>
NONOPERATING REVENUE (EXPENSES)				
Investment income	14,001	29,585	(15,584)	-52.7%
Income Before Contributions and Transfers	40,812	413,390	(372,578)	-90.1%
Contribution (to) from property owners (net)	170,955	(1,486,331)	1,657,286	-111.5%
Transfers				
Transfers out	(69,243)	(71,345)	2,102	-2.9%
Changes in Net Assets	142,524	(1,144,286)	1,286,810	
Total Net Assets, Beginning of Year	<u>7,225,432</u>	<u>8,369,718</u>	<u>(1,144,286)</u>	<u>-13.7%</u>
Total Net Assets, End of Year	<u>\$ 7,367,956</u>	<u>\$ 7,225,432</u>	<u>\$ 142,524</u>	<u>2.0%</u>

The Town's sole proprietary fund provides sanitary sewer to roughly half of the parcels within the jurisdiction. Service fees are collected annually from those properties benefiting from the service and were last adjusted in 2007-08. Contract services increased \$268,325 or 35.4% from the prior year to \$1,026,679 resulting from a major root foaming project and higher sewer treatment and conveyance costs. Operating expenses decreased \$19,969 or 23.7 % from the prior year to \$64,299 the result of lower internal allocations. In 2011-12, the Sewer Fund had an operating income of \$26,811, compared to \$383,805 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 \$127,158 compared to the prior year due to recording of connection fees paid as the result of the West Loyola Sewer Main extension project in the prior year.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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, 2012, the Town's governmental funds reported combined ending fund balances of \$5,404,199 – a decrease of \$2,646,180, of which \$1,322,691 is due to the payoff of the Town Hall capital lease balance and \$1,250,000 is due to the accrual of the Roadway Impact Fee refund expenditure, over the previous year. The General Fund's fund balance decreased by \$2,473,903 while the combined fund balances for Special Revenue and Capital Projects Funds decreased by \$172,276.

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

	<u>2012</u>	<u>2011</u>	<u>\$ Increase (decrease)</u>
Revenues	\$ 7,789,359	\$ 7,751,419	\$ 37,940
Expenditures	9,254,782	8,614,572	(640,210)
Sale of Assets and Proceeds from Debt	-	53,600	(53,600)
Net transfers in (out)	69,243	71,345	(2,102)
Net increase/(decrease)	<u>\$ (1,396,180)</u>	<u>\$ (738,208)</u>	<u>\$ (657,972)</u>

For fiscal year 2012, governmental fund revenues increased by \$37,940, or 0.4%, and expenditures increased by \$640,210, or 7.4%. 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, 2012**

The following table presents information about fund balance components.

	<u>General Fund</u>	<u>Debt Service</u>	<u>Street Cap Project</u>	<u>Other Cap Project</u>	<u>Non-major</u>	<u>Total</u>
Restricted for:						
Other capital projects	\$ -	\$ -	\$ -	\$ -	\$ 795,697	\$ 795,697
Street and road repairs	-	-	-	-	636,590	636,590
Law enforcement	-	-	-	-	75,386	75,386
Committed for:						
Pension contributions	140,000	-	-	-	-	140,000
Sewer connect incentive program	100,000	-	-	-	-	100,000
Park and recreation	-	-	-	-	75,112	75,112
Other capital projects	-	-	-	654,902	-	654,902
Street and road repairs	-	-	48,919	-	-	48,919
Unassigned	<u>3,063,979</u>	<u>(2,118)</u>	<u>-</u>	<u>-</u>	<u>(184,268)</u>	<u>2,877,593</u>
	<u>\$ 3,303,979</u>	<u>\$ (2,118)</u>	<u>\$ 48,919</u>	<u>\$ 654,902</u>	<u>\$ 1,398,517</u>	<u>\$ 5,404,199</u>

At June 30, 2012, \$2,877,593 of the combined fund balances of \$5,404,199 is unassigned, which means that this amount is available for the Town Council to program for future spending at its discretion. In addition to unassigned funds, the Town Council has committed fund balances of \$1,018,933. The Town Council may increase, decrease or eliminate these commitments by a majority vote at a public meeting. Additional portions of the fund balances are restricted for the repair, maintenance and construction of streets, \$636,590; other capital projects, \$795,697, and law enforcement, \$75,386. These amounts represent revenues from restricted revenue sources that must be used for a specific purpose.

At June 30, 2012, the General Fund’s fund balance is \$3,303,979. This includes committed fund balance for the sewer connection incentive, \$100,000, and the pension contingency fund of \$140,000. The Town Council adopted a sewer connection incentive program to encourage privately funded sewer main extensions in the Town. With approximately 50% of the Town connected to sanitary sewer, the Town Council found a general health and safety benefit of residences transitioning to public sewer. The incentive is applicable to sewer reimbursement districts and provides a discounted connection fee paid by the Town’s General Fund to the Sewer Fund for properties connecting to the privately funded sewer main within a fixed timeframe. The Town Council also adopted a pension contingency fund to provide for unanticipated charges from CalPERS to fund the pension’s unfunded liability. According to the October 2012 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, 2011, is reported as \$1,738,747.

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, 2012, the unassigned fund balance and total fund balance represent 63% and 68% of General Fund expenditures, respectively. At June 30, 2011, the unassigned fund balance and total fund balance represented 126% and 130% of General Fund expenditures.

Proprietary fund net assets increased \$142,524 as a result of the business-type activities of the Town. Factors contributing to the net increase are described in the “Proprietary funds” section above.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 General Fund due to the accrued liability of the Roadway Impact Fee refund of \$1,250,000. The most sizable positive variance was recorded in the Storm Drain Fund due to additional revenues received for the In Lieu Storm Drain fee as a result of increased developer activity. Clarification of variances in other funds can be found in other sections of this report.

Fund	Amended Budget Ending Fund Balance	Actual Ending Fund Balance	Positive (Negative) Variance
General	\$4,040,104	\$3,303,979	\$(736,125)
Storm Drain	\$105,610	\$290,230	\$184,620
Parkway In-Lieu Fees	\$446,524	\$505,467	\$58,943
Parks & Recreation Facilities	(\$173,405)	\$(184,268)	\$(10,863)
Parks & Recreation In-lieu Fees	\$36,156	\$75,112	\$38,956
Street Fund	\$461,272	\$467,803	\$6,531
Roadway Impact Fee	\$70	\$168,787	\$168,717
COPS Grant	\$95,408	\$75,386	(\$20,022)
Debt Service	\$0	(\$2,118)	(\$2,118)
Street Capital	\$96,696	\$48,919	(\$47,777)
Other Capital Projects	\$525,657	\$654,902	\$129,245
Sewer	\$7,773,437	\$7,367,956	(\$405,481)

Capital Assets

The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$30,133,560, net of accumulated depreciation, a decrease of \$34,801 reflecting the disposal of \$101,117 in capital assets. Capital spending included \$1,613,874 in infrastructure and \$236,374 for sewer. Capital assets include land, buildings, equipment and infrastructure. No changes were recorded in land for the fiscal year.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

The following table presents summarized information on capital assets net of depreciation for fiscal years 2011 and 2012. Additional information on the Town's capital assets can be found in Note 4 to the financial statements.

Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	4,164,725	4,295,566	-	-	4,164,725	4,295,566
Office equipment	73,035	90,992	-	-	73,035	90,992
Vehicles	174,672	204,998	-	-	174,672	204,998
Sewer collection system	-	-	4,452,208	4,369,141	4,452,208	4,369,141
Infrastructure	21,146,624	21,085,368	-	-	21,146,624	21,085,368
Total capital assets, net	<u>\$ 25,809,591</u>	<u>\$ 25,927,459</u>	<u>\$ 4,452,208</u>	<u>\$ 4,369,141</u>	<u>\$ 30,261,799</u>	<u>\$ 30,296,600</u>

Long-term Debt

The balance of long term debt, excluding compensated absences, at June 30, 2012, is \$128,239; of that amount, \$14,485 is due within one year and the balance is due in more than one year. On September 15, 2011, 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 ASSETS
JUNE 30, 2012**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 8,618,651	\$ 3,914,481	\$ 12,533,132
Receivables:			
Accounts receivables	286,865	122,717	409,582
Prepaid Expenses	24,388	-	24,388
Net OPEB asset	251,345	-	251,345
Total Current Assets	<u>9,181,249</u>	<u>4,037,198</u>	<u>13,218,447</u>
Capital assets:			
Land	250,535	-	250,535
Other capital assets, net of depreciation:			
Buildings	4,164,725	-	4,164,725
Office equipment	73,035	-	73,035
Vehicles	174,672	-	174,672
Land improvements	-	4,452,208	4,452,208
Infrastructure	21,146,624	-	21,146,624
Total Capital Assets	<u>25,809,591</u>	<u>4,452,208</u>	<u>30,261,799</u>
Total Assets	<u>34,990,840</u>	<u>8,489,406</u>	<u>43,480,246</u>
LIABILITIES			
Current liabilities:			
Accounts payable	453,254	1,115,224	1,568,478
Other liabilities	1,254,288	1,253	1,255,541
Interest payable	89	-	89
Refundable deposits	1,275,038	-	1,275,038
Compensated absences due within one year	20,036	-	20,036
Current portion of long-term debt	14,485	-	14,485
Total current liabilities	<u>3,017,190</u>	<u>1,116,477</u>	<u>4,133,667</u>
Non-current liabilities:			
Compensated absences due in more than one year	88,157	4,973	93,130
Long-term debt due in more than one year	113,754	-	113,754
Total non-current liabilities	<u>201,911</u>	<u>4,973</u>	<u>206,884</u>
Total Liabilities	<u>3,219,101</u>	<u>1,121,450</u>	<u>4,340,551</u>
NET ASSETS			
Invested in capital assets, net of related debt	25,681,352	4,452,208	30,133,560
Restricted for:			
Highways and streets	636,590	-	636,590
Public safety	75,386	-	75,386
Restricted for capital projects	795,697	-	795,697
Unrestricted	4,582,714	2,915,748	7,498,462
Total Net Assets	<u>\$ 31,771,739</u>	<u>\$ 7,367,956</u>	<u>\$ 39,139,695</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, 2012**

	Program Revenues				Net Revenue (Expense) and Change in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Administration	\$ 2,046,868	\$ -	\$ -	\$ -	\$ (2,046,868)	\$ -	\$ (2,046,868)
Public safety	1,345,461	-	100,000	-	(1,245,461)	-	(1,245,461)
Community development	2,437,335	1,843,682	8,300	-	(585,353)	-	(585,353)
Parks and recreation	1,300,211	476,599	-	-	(823,612)	-	(823,612)
Drainage and street operations	700,017	340,010	-	423,371	63,364	-	63,364
Interest on long-term debt	44,305	-	-	-	(44,305)	-	(44,305)
Total Governmental Activities	7,874,197	2,660,291	108,300	423,371	(4,682,235)	-	(4,682,235)
Business-type Activities:							
Sewer	1,328,856	1,355,667	-	170,955	-	197,766	197,766
Total Business-type Activities	1,328,856	1,355,667	-	170,955	-	197,766	197,766
Total Primary Government	\$ 9,203,053	\$ 4,015,958	\$ 108,300	\$ 594,326	(4,682,235)	197,766	(4,484,469)
General Revenues:							
Taxes:							
Property taxes					3,543,231	-	3,543,231
Motor vehicle license tax					4,473	-	4,473
Other taxes					423,353	-	423,353
Franchise taxes					430,149	-	430,149
Use of money and property					156,743	14,001	170,744
Other unrestricted revenue					39,448	-	39,448
Special item (See footnote #13)					(1,250,000)	-	(1,250,000)
Transfers					69,243	(69,243)	-
Total General Revenues, Transfers and Special Item					3,416,640	(55,242)	3,361,398
Change in Net Assets					(1,265,595)	142,524	(1,123,071)
Net Assets, Beginning of Year					33,037,334	7,225,432	40,262,766
Net Assets, End of Year					\$ 31,771,739	\$ 7,367,956	\$ 39,139,695

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

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 5,647,091	\$ -	\$ 35,342	\$ 770,958	\$ 1,594,611	\$ 8,048,002
Accounts receivable	209,832	-	14,432	1,405	61,196	286,865
Due from other funds	168,146	-	-	-	-	168,146
Total Assets	<u>\$ 6,025,069</u>	<u>\$ -</u>	<u>\$ 49,774</u>	<u>\$ 772,363</u>	<u>\$ 1,655,807</u>	<u>\$ 8,503,013</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 193,498	\$ -	\$ 855	\$ 117,461	\$ 90,822	\$ 402,636
Other liabilities	1,252,994	-	-	-	-	1,252,994
Refundable deposits	1,274,598	-	-	-	440	1,275,038
Due to other funds	-	2,118	-	-	166,028	168,146
Total Liabilities	<u>2,721,090</u>	<u>2,118</u>	<u>855</u>	<u>117,461</u>	<u>257,290</u>	<u>3,098,814</u>
FUND BALANCES						
Restricted	-	-	-	-	1,507,673	1,507,673
Committed	240,000	-	48,919	654,902	75,112	1,018,933
Unassigned	3,063,979	(2,118)	-	-	(184,268)	2,877,593
Total Fund Balances	<u>3,303,979</u>	<u>(2,118)</u>	<u>48,919</u>	<u>654,902</u>	<u>1,398,517</u>	<u>5,404,199</u>
Total Liabilities and Fund Balances	<u>\$ 6,025,069</u>	<u>\$ -</u>	<u>\$ 49,774</u>	<u>\$ 772,363</u>	<u>\$ 1,655,807</u>	<u>\$ 8,503,013</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 ASSETS
JUNE 30, 2012**

Fund Balances of Governmental Funds	\$ 5,404,199
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	21,257,159
The Internal Service Fund is used by the Town to charge the cost of Town Hall, office, and corporate yard services. The assets and liabilities of the Internal Service Fund are included in the Governmental Activities in the Statement of Net Assets.	5,343,041
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(104,332)
Long-term debt	(128,239)
Interest payable	(89)
Net Assets of Governmental Activities	<u>\$ 31,771,739</u>

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

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General	Debt Service	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
REVENUES						
Property taxes	\$ 3,543,231	\$ -	\$ -	\$ -	\$ -	\$ 3,543,231
Taxes other than property	423,353	-	-	-	-	423,353
Franchise fees	430,149	-	-	-	-	430,149
Licenses and permits	609,108	-	-	-	42,368	651,476
Intergovernmental	58,370	-	134,898	5,000	259,684	457,952
Use of money and property	154,978	-	-	39,448	2,465	196,891
Charges for services	976,834	-	48,848	-	810,939	1,836,621
Miscellaneous	166,445	-	-	83,241	-	249,686
Total revenues	6,362,468	-	183,746	127,689	1,115,456	7,789,359
EXPENDITURES						
Current:						
Administration	1,580,902	-	-	-	-	1,580,902
Public safety	965,052	-	-	-	92,278	1,057,330
Community development	1,992,581	-	-	-	-	1,992,581
Parks and recreation	285,921	-	-	-	763,642	1,049,563
Drainage and street operations	-	-	-	-	549,782	549,782
Debt service						
Prinicpal	-	1,377,532	-	-	-	1,377,532
Interest	-	62,725	-	-	-	62,725
Capital outlay	-	-	889,219	695,148	-	1,584,367
Total expenditures	4,824,456	1,440,257	889,219	695,148	1,405,702	9,254,782
Excess (Deficiency) of Revenues Over Expenditures						
	1,538,012	(1,440,257)	(705,473)	(567,459)	(290,246)	(1,465,423)
OTHER FINANCING SOURCES (USES)						
Special item (See footnote #13)	(1,250,000)	-	-	-	-	(1,250,000)
Transfers in	69,243	1,438,139	650,000	15,000	728,019	2,900,401
Transfers out	(2,831,158)	-	-	-	-	(2,831,158)
Total Other Financing Sources (Uses) and Special Item	(4,011,915)	1,438,139	650,000	15,000	728,019	(1,180,757)
Net Change in Fund Balances	(2,473,903)	(2,118)	(55,473)	(552,459)	437,773	(2,646,180)
Fund Balances, Beginning of Year	5,777,882	-	104,392	1,207,361	960,744	8,050,379
Fund Balances, End of Year	\$ 3,303,979	\$ (2,118)	\$ 48,919	\$ 654,902	\$ 1,398,517	\$ 5,404,199

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

TOWN OF LOS ALTOS HILLS

**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 ASSETS
FOR YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Total Governmental Funds \$ (2,646,180)

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 1,613,874
Depreciation expense charged to governmental activities (1,552,615)

Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets. 1,377,532

Change in Compensated Absences 1,532

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, 2012 (89)
Interest accrual at June 30, 2011 18,510

Internal Service Funds are used by management to charge the costs of certain activities, such as cost of Town Hall, office, and corporate yard services to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.

Change in Net Assets of Internal Service Funds reported with Business-Type Activities (78,159)

Change in Net Assets of Governmental Activities \$ (1,265,595)

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

TOWN OF LOS ALTOS HILLS

**PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS
JUNE 30, 2012
COMPARATIVE AMOUNTS FOR JUNE 30, 2011**

	Business-type Activities Enterprise Fund Sewer		Governmental Activities Internal Service Fund
	June 30, 2012	June 30, 2011	
ASSETS			
Current Assets:			
Cash and investments	\$ 3,914,481	\$ 3,534,002	\$ 570,649
Accounts receivable	122,717	181,277	-
Prepaid Expenses	-	-	24,388
Net OPEB Asset	-	-	251,345
Total Current Assets	<u>4,037,198</u>	<u>3,715,279</u>	<u>846,382</u>
Noncurrent Assets:			
Capital assets, net of accumulated depreciation	4,452,208	4,369,141	4,552,432
Total Assets	<u>8,489,406</u>	<u>8,084,420</u>	<u>5,398,814</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,115,224	776,478	50,618
Other liabilities	1,253	77,018	1,294
Total current liabilities	<u>1,116,477</u>	<u>853,496</u>	<u>51,912</u>
Noncurrent liabilities:			
Compensated absence payable	4,973	5,492	3,861
Total noncurrent liabilities	<u>4,973</u>	<u>5,492</u>	<u>3,861</u>
Total Liabilities	<u>1,121,450</u>	<u>858,988</u>	<u>55,773</u>
NET ASSETS			
Invested in capital assets	4,452,208	4,369,141	4,552,432
Unrestricted	2,915,748	2,856,291	790,609
Total Net Assets	<u>\$ 7,367,956</u>	<u>\$ 7,225,432</u>	<u>\$ 5,343,041</u>

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

TOWN OF LOS ALTOS HILLS

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

WITH COMPARATIVE AMOUNT FOR THE YEAR ENDED JUNE 30, 2011

	Business-type Activities Enterprise Fund Sewer		Governmental Activities Internal Service Fund
	June 30, 2012	June 30, 2011	
OPERATING REVENUES			
Charges for services	\$ 1,353,479	\$ 1,382,814	\$ -
Other income	2,188	2,321	-
General Services	-	20,995	-
Town Hall services	-	-	417,932
Corporate yard services	-	-	53,000
Vehicle services	-	-	142,788
	<u>1,355,667</u>	<u>1,406,130</u>	<u>613,720</u>
OPERATING EXPENSES			
Salaries and benefits	84,571	77,977	38,942
Contract services	1,026,679	758,354	180,297
Operating expenses	64,299	84,268	293,516
Depreciation	153,307	101,726	179,124
	<u>1,328,856</u>	<u>1,022,325</u>	<u>691,879</u>
Operating Income (Loss)	<u>26,811</u>	<u>383,805</u>	<u>(78,159)</u>
NONOPERATING REVENUE (EXPENSES)			
Interest income	14,001	29,585	-
	<u>40,812</u>	<u>413,390</u>	<u>(78,159)</u>
Income Before Contributions and Transfers			
Contribution from (refunds to) property owners	-	(1,784,444)	-
Connection Fees	170,955	298,113	-
Transfers out	(69,243)	(71,345)	-
	<u>142,524</u>	<u>(1,144,286)</u>	<u>(78,159)</u>
Changes in Net Assets			
Total Net Assets, Beginning of Year	<u>7,225,432</u>	<u>8,369,718</u>	<u>5,421,200</u>
Total Net Assets, End of Year	<u>\$ 7,367,956</u>	<u>\$ 7,225,432</u>	<u>\$ 5,343,041</u>

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

TOWN OF LOS ALTOS HILLS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

	Business-type Activities Sewer Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,414,227	\$ 589,670
Payments to suppliers	(828,517)	(474,301)
Payments to employees	(84,571)	(118,575)
Net Cash Provided (Used) by Operating Activities	<u>501,139</u>	<u>(3,206)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Connection fee	170,955	-
Transfers out	(69,243)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>101,712</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions from property owners	-	-
Capital Contributions refunded to property owners	-	-
Cash to acquire fixed assets	(236,373)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(236,373)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	14,001	-
Net Increase (Decrease) in Cash and Investments	380,479	(3,206)
Cash and Cash Equivalents, Beginning of Year	3,534,002	573,855
Cash and Cash Equivalents, End of Year	<u>\$ 3,914,481</u>	<u>\$ 570,649</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 26,811	\$ (78,159)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	153,307	179,124
(Increase) decrease in accounts receivable and prepaid expense	58,559	(24,050)
(Increase) decrease in OPEB assets	-	(79,633)
Increase (decrease) in accounts payable	262,462	(488)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 501,139</u>	<u>\$ (3,206)</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF FIDUCIARY FUND NET ASSETS
JUNE 30, 2012**

ASSETS

Restricted Cash and Investments	\$	311,178
Miscellaneous Receivables		<u>771</u>
Total Assets	\$	<u><u>311,949</u></u>

LIABILITIES

Due to bondholders	\$	311,174
Accounts Payable		<u>775</u>
Total Liabilities	\$	<u><u>311,949</u></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, 2012

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, 2012, the Town's population was 8,046. 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 assets and the statement of activities display information about the Town. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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

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

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

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

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

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise 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, 2012

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.

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.

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

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time that liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include property and sales tax, grants, entitlements, 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.

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

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, 2012**

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 \$209,832 in the General Fund, \$14,432 in the Street Capital Projects, \$1,405 in the Other Capital Projects Fund, \$61,196 in Non Major Governmental Funds, and \$122,717 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, 2012

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. New Accounting Pronouncements

Upcoming

GASB Statement No. 61

In November, 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This pronouncement is effective for periods beginning after June 15, 2012. The Town does not believe there will be a significant financial statement effect related to this Statement.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

GASB Statement No. 63

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

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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and Investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Cash on hand	\$	694
Deposits with financial institutions		2,733,789
Cash and investment with fiscal agent		188,602
Investments		9,921,225
Total Deposits and Investments	\$	<u>12,844,310</u>

Cash and investment as of June 30, 2012, consist of the following:

Statement of net assets:		
Cash and investments	\$	12,533,132
Fiduciary funds:		
Cash and investments		311,178
Total Deposits and Investments	\$	<u>12,844,310</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, 2012.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorizations

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

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

Interest Rate Risk

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

As of June 30, 2012, 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	\$ 9,577,190	\$ 6,113,685	\$ 3,463,505	\$ -	\$ -
LAIF Investment Pool	19,249	19,249	-	-	-
CAMP Investment Pool	74,861	74,861	-	-	-
Certificate of Deposits	249,925	249,925	-	-	-
Money Market	188,602	188,602	-	-	-
Total Securities	\$ 10,109,827	\$ 6,646,322	\$ 3,463,505	\$ -	\$ -

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

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

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End	
				AAA	Unrated
Federal Agency Bonds/Notes	\$ 9,577,190	N/A	\$ 9,577,190	\$ -	\$ -
LAIF Investment Pool	19,249	N/A	-	-	19,249
CAMP Investment Pool	74,861	N/A	-	74,861	-
Certificate of Deposits	249,925	N/A	-	-	249,925
Money Market	188,602	N/A	-	188,602	-
Total	<u>\$ 10,109,827</u>		<u>\$ 9,577,190</u>	<u>\$ 263,463</u>	<u>\$ 269,174</u>

Concentration of Credit Risk

The investment policy of the Town contains limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent five percent (5%) or more of the total investments.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2012, the Town's bank balance of \$2,760,257, with a reported balance of \$2,733,789, is insured for the first \$302,000 and the balance is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Town.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. However, the Town's policy states that all security transactions entered into by the Town of Los Altos Hills shall be conducted on delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian, in the Town of Los Altos Hills' name and control, designated by the Town Manager or her/his designee and evidenced by safekeeping receipts when applicable. Additionally, collateralization will be required on certificates of deposit at 102% of market value of principal and interest.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

NOTE 3 – INTERFUND TRANSACTIONS

The following schedule briefly summarizes the Town’s transfer activity for the fiscal year ended June 30, 2012:

Transfers in	Transfers out			Total
	General Fund	Governmental Non-Major Funds	Sewer Enterprise Fund	
General Fund	\$ -	\$ -	\$ 69,243	\$ 69,243
Debt Service Fund	1,438,139	-	-	1,438,139
Street Capital Project Fund	650,000	-	-	650,000
Other Capital Project Fund	15,000	-	-	15,000
Governmental Non-Major Funds	728,019	-	-	728,019
Total	\$ 2,831,158	\$ -	\$ 69,243	\$ 2,900,401

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. The largest share of the transfers, approximately 50%, was dedicated to debt service in 2011-12. Capital improvements and operations accounted for 23% and 27%, respectively, of the total annual transfers in 2011-12.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
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	71,678,615	1,613,874	-	73,292,489
Buildings	5,152,825	-	-	5,152,825
Vehicles	592,817	-	(101,117)	491,700
Office equipment	444,411	-	-	444,411
Total capital assets being depreciated	<u>77,868,668</u>	<u>1,613,874</u>	<u>(101,117)</u>	<u>79,381,425</u>
Less accumulated depreciation for:				
Infrastructure	(50,593,250)	(1,552,615)	-	(52,145,865)
Buildings	(857,262)	(130,838)	-	(988,100)
Vehicles	(387,822)	(30,323)	101,117	(317,028)
Office equipment	(353,413)	(17,963)	-	(371,376)
Total accumulated depreciation	<u>(52,191,747)</u>	<u>(1,731,739)</u>	<u>101,117</u>	<u>(53,822,369)</u>
Total capital assets being depreciated, net	<u>25,676,921</u>	<u>(117,865)</u>	<u>-</u>	<u>25,559,056</u>
Governmental activities capital assets, net	<u>\$ 25,927,456</u>	<u>\$ (117,865)</u>	<u>\$ -</u>	<u>\$ 25,809,591</u>
Business-type activities				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Sewer collection system	6,132,296	236,374	-	6,368,670
Office equipment	1,509	-	-	1,509
Total capital assets being depreciated	<u>6,133,805</u>	<u>236,374</u>	<u>-</u>	<u>6,370,178</u>
Less accumulated depreciation for:				
Sewer collection system	(1,763,155)	(153,307)	-	(1,916,462)
Office equipment	(1,509)	-	-	(1,509)
Total accumulated depreciation	<u>(1,764,664)</u>	<u>(153,307)</u>	<u>-</u>	<u>(1,917,971)</u>
Total capital assets being depreciated, net	<u>4,369,141</u>	<u>83,067</u>	<u>-</u>	<u>4,452,208</u>
Business-type activities capital assets, net	<u>\$ 4,369,141</u>	<u>\$ 83,067</u>	<u>\$ -</u>	<u>\$ 4,452,208</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 418,847
Public safety	288,131
Community development	444,754
Parks and recreation	250,648
Drainage and street operations	150,235
Capital assets held by the Town's Internal Service Fund charged to the various functions based on their usage of the assets	<u>179,124</u>
 Total depreciation - governmental activities	 <u><u>\$ 1,731,739</u></u>

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

Sewer Fund	<u><u>\$ 153,307</u></u>
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NOTE 5 – LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Additions	Retirement	Balance June 30, 2012	Current portion	Interest rate
Governmental activities:						
Capital Lease	\$ 1,363,047	\$ -	\$ (1,363,047)	\$ -	\$ -	4.65%
California Energy Commission Loans	142,724	-	(14,485)	128,239	14,485	3.00-3.95%
Subtotals	<u>1,505,771</u>	<u>-</u>	<u>(1,377,532)</u>	<u>128,239</u>	<u>14,485</u>	
Compensated Absences	108,976	19,787	(20,570)	108,193	20,036	N/A
Governmental activity long-term liabilities	<u>1,614,747</u>	<u>19,787</u>	<u>(1,398,102)</u>	<u>236,432</u>	<u>34,521</u>	
Business-type activities:						
Compensated Absences	5,492	-	(519)	4,973	-	N/A
Total Governmental and Business-type activity long-term liabilities	<u><u>\$ 1,620,239</u></u>	<u><u>\$ 19,787</u></u>	<u><u>\$ (1,398,621)</u></u>	<u><u>\$ 241,405</u></u>	<u><u>\$ 34,521</u></u>	

The Town's capital assets at June 30, 2012 include \$2 million of building costs obtained under a capital lease. The building is being depreciated over its estimated useful life.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

On September 14, 2004, the town entered into a lease with the Municipal Finance Corporation to provide financing for the Town Hall construction. Payments will be financed by transfers from the General Fund. In fiscal year 2011-12, the Town paid off the entire amount outstanding of \$1,363,047, therefore, no repayment schedule is shown. An additional premium was paid in association with this early payoff of \$25,935.

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
2013	\$ 15,048	\$ 4,536	\$ 19,584
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
2018-2022	40,796	3,398	44,194
2023-2027	6,278	193	6,471
Total	\$ 128,239	\$ 20,346	\$ 148,585

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, 2012, the balance of the assessment district’s outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/2012
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25%-6.15%	\$30,000 - \$775,000	2010 - 2040	\$ 1,935,000

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 7 – NET ASSETS/FUND BALANCES

A. Net Assets

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

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

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, or restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, restricted assets consisted of \$636,590 for street projects, \$75,386 for public safety grants, and \$795,697 for capital projects.

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

There is \$140,000 in unrestricted net assets that are committed to fund the Town’s share of CalPERS’ unfunded pension liability and \$100,000 committed to the Sewer Connect Incentive Program.

B. Fund Balances - Components

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund’s cash and receivables less its liabilities. Portions of a fund’s balance may be non-spendable, restricted, committed, assigned or unassigned.

	<u>General Fund</u>	<u>Debt Service</u>	<u>Street Cap Project</u>	<u>Other Cap Project</u>	<u>Non-major</u>	<u>Total</u>
Restricted for:						
Other capital projects	\$ -	\$ -	\$ -	\$ -	\$ 795,697	\$ 795,697
Street and road repairs	-	-	-	-	636,590	636,590
Law enforcement	-	-	-	-	75,386	75,386
Committed for:						
Pension contributions	140,000	-	-	-	-	140,000
Sewer connect incentive program	100,000	-	-	-	-	100,000
Park and recreation	-	-	-	-	75,112	75,112
Other capital projects	-	-	-	654,902	-	654,902
Street and road repairs	-	-	48,919	-	-	48,919
Unassigned	3,063,979	(2,118)	-	-	(184,268)	2,877,593
	<u>\$ 3,303,979</u>	<u>\$ (2,118)</u>	<u>\$ 48,919</u>	<u>\$ 654,902</u>	<u>\$ 1,398,517</u>	<u>\$ 5,404,199</u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

NOTE 8 – PENSION PLAN

A. Plan Description

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

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

B. Funding Policy

Active plan members in the Miscellaneous Plan have an obligation to contribute 7% of their salary to the Fund. The Town makes the contributions required of the Town's employees on their behalf and for their account. The Town is required to contribute at an actuarially determined rate. The required employer contribution rate for fiscal year 2011-2012 was 10.341% 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 "2% @ 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 7% of their salary to the Fund, while the Town's contribution rate is 1.9% less than the first tier pension benefit plan for the contribution rates in effect for fiscal year 2011-2012.

C. Annual Pension Cost

For fiscal year 2011-2012, the Town's annual pension cost of \$278,575 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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>
6/30/2010	\$ 190,021	100%	\$ -
6/30/2011	151,641	100%	-
6/30/2012	278,575	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% 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, 2012 the Town contributed \$100,345 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, 2012, the Town contributed \$90,816 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, 2012

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, 2012, 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 POST EMPLOYMENT BENEFITS

A. Plan Description

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

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

B. Funding Policy

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

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

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

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Based upon the valuation as of June 30, 2011, the most recent valuation available, the actuarially required ARC was \$217,000. 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, 2012
Normal Cost at Year End	\$ 66,000
Amortization of UAAL	151,000
Annual Required Contribution	217,000
Interest on Prior Year Net OPEB Asset	(10,000)
Adjustment to ARC	14,000
Annual OPEB Cost	221,000
Contributions Made	(300,000)
Increase (Decrease) in Net OPEB Obligation	(79,000)
Net OPEB Obligation (Asset)- Beginning of Year	(172,000)
Net OPEB Obligation (Asset)- End of Year	\$ (251,000)

D. Plan Funded Status and Funding Progress

The Town is following the reporting requirements of GASB 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension Plans*. As of June 30, 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, 2012**

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The Town’s annual OPEB cost (expense), the percentage of OPEB cost contributed to the plan, and the Net OPEB obligation for 2012 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2010	\$ 154,277	181%	\$ (159,844)
June 30, 2011	160,790	107%	(171,712)
June 30, 2012	221,000	136%	(251,000)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the profitability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

In the June 30, 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 5 years, with a corridor of 80% & 120% of market value. The unfunded liability amortization is based off a 20-year fixed (closed) period for plan changes, a 15-year fixed (closed) period for method and assumption changes. There were no assets in the plan as of the valuation date. The actuarial assumptions are as follows:

- The CPI was assumed to be a constant at 3% per year.
- Investment rate of return is assumed to be 6.00%, which is a reduction from 7.75% from the prior year.
Assets in the plan will be invested in a moderately conservative money market portfolio that will provide current income with capital appreciation as a secondary objective.
- Aggregate payroll increase is assumed to be 3.25% per year.
- Healthcare costs trends utilized actual rates for 2011 & 2012, with a 9.0% increase for Non-Medicare eligible premiums and 9.4% increase for Medicare eligible premiums. Future years were reduced to an ultimate rate of 5.0%, an increase from 4.5% in the prior year, for both Non-Medicare and Medicare eligible premiums by 2021.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

- Everyone will be eligible for Medicare and will elect Part B coverage.
- Participation in the Plan is assumed to be 100% for average premium cap benefits with 70% PEMHCA minimum.
- Retirees will choose same medical plan as active employees.
- Marital Status is the same as current election with 80% married currently waived.
- 10% of the Pre-65 and 0% of post-65 members were assumed to have dependents.
- No current member of the 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 2011-2012, are as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess Expenditures Over Appropriations</u>
Storm Drain	\$ 290,523	\$ 286,698	\$ 3,825
Parks and Recreation Facility	450,221	364,304	85,917
Debt Service	1,440,257	1,420,673	2,118

B. Fund deficits

The fund deficits of \$2,118 in the debt service fund and \$184,268, in the non-major fund, parks and recreation facilities, will be covered by future revenues. In the event future revenues are not adequate, the general fund will cover these deficits.

NOTE 13 – SPECIAL ITEM

In 2004, the 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. On May 17, 2012 the Town Council adopted an ordinance repealing the Fee. Additionally, Town Council 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 estimated the total amount of refunds to be approximately \$1,250,000, which has been accrued as a liability to the General Fund.

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property tax	\$ 3,522,776	\$ 3,522,776	\$ 3,543,231	\$ 20,455
Taxes other than property	405,727	405,727	423,353	17,626
Franchise fees	429,574	429,574	430,149	575
Licenses and permits	622,804	622,804	609,108	(13,696)
Intergovernmental	85,927	85,927	58,370	(27,557)
Use of money and property	294,057	294,057	154,978	(139,079)
Charges for services	781,108	781,108	976,834	195,726
Miscellaneous	230,000	230,000	166,445	(63,555)
Total Revenues	6,371,973	6,371,973	6,362,468	(9,505)
EXPENDITURES				
Current:				
Administration	1,621,358	1,621,358	1,580,902	40,456
Public safety	1,137,098	1,137,098	965,052	172,046
Community development	1,921,561	1,921,561	1,992,581	(71,020)
Parks and recreation	280,026	280,026	285,921	(5,895)
Total Expenditures	4,960,043	4,960,043	4,824,456	135,587
Excess (Deficiency) of Revenues Over Expenditures	1,411,930	1,411,930	1,538,012	126,082
OTHER FINANCING SOURCES (USES)				
Special item	-	-	(1,250,000)	(1,250,000)
Transfers in	-	-	69,243	69,243
Transfers out	(2,138,431)	(3,149,708)	(2,831,158)	318,550
Total Other Financing Sources (Uses)	(2,138,431)	(3,149,708)	(4,011,915)	(862,207)
Net Change in Fund Balance	(726,501)	(1,737,778)	(2,473,903)	(736,125)
Fund Balance, Beginning of Year	5,777,882	5,777,882	5,777,882	-
Fund Balance, End of Year	\$ 5,051,381	\$ 4,040,104	\$ 3,303,979	\$ (736,125)

See note to required supplementary information.

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2012**

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2012

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 POST EMPLOYMENT BENEFIT PLAN

This schedule shows the funding progress for the Town's Other Post Employment Benefits whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits as required by current standards. There are no factors that significantly affect the identification of trends in the amount reported. Only years when actuarial valuations were performed are shown. Additional years will be included as subsequent valuations are performed.

TOWN OF LOS ALTOS HILLS

NON MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2012

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.

TOWN OF LOS ALTOS HILLS

**COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue Funds							Total
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	Nonmajor Governmental
ASSETS								
Cash and investments	\$ 324,203	\$ 498,193	\$ -	\$ 75,112	\$ 464,275	\$ 168,787	\$ 64,041	\$ 1,594,611
Accounts receivable	-	8,300	15,500	-	12,396	-	25,000	61,196
Total Assets	\$ 324,203	\$ 506,493	\$ 15,500	\$ 75,112	\$ 476,671	\$ 168,787	\$ 89,041	\$ 1,655,807
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 33,973	\$ 1,026	\$ 33,740	\$ -	\$ 8,428	\$ -	\$ 13,655	\$ 90,822
Other liabilities	-	-	-	-	440	-	-	440
Due to other funds	-	-	166,028	-	-	-	-	166,028
Total Liabilities	33,973	1,026	199,768	-	8,868	-	13,655	257,290
FUND BALANCES								
Restricted	290,230	505,467	-	-	467,803	168,787	75,386	1,507,673
Committed	-	-	-	75,112	-	-	-	75,112
Unassigned	-	-	(184,268)	-	-	-	-	(184,268)
Total Fund Balances	290,230	505,467	(184,268)	75,112	467,803	168,787	75,386	1,398,517
Total Liabilities and Fund Balances	\$ 324,203	\$ 506,493	\$ 15,500	\$ 75,112	\$ 476,671	\$ 168,787	\$ 89,041	\$ 1,655,807

TOWN OF LOS ALTOS HILLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec Facilities	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	
REVENUES								
License and permits	\$ -	\$ -	\$ -	\$ -	\$ 42,368	\$ -	\$ -	\$ 42,368
Intergovernmental	-	8,300	-	-	151,384	-	100,000	259,684
Use of money and property	-	1,255	610	-	462	-	138	2,465
Charges for services	128,581	172,848	265,343	75,106	344	168,717	-	810,939
Total Revenues	128,581	182,403	265,953	75,106	194,558	168,717	100,138	1,115,456
EXPENDITURES								
Current:								
Public safety	-	-	-	-	-	-	92,278	92,278
Parks and recreation	-	313,421	450,221	-	-	-	-	763,642
Drainage and street operations	290,523	-	-	-	259,259	-	-	549,782
Total Expenditures	290,523	313,421	450,221	-	259,259	-	92,278	1,405,702
Excess (Deficiency) of Revenues Over Expenditures	(161,942)	(131,018)	(184,268)	75,106	(64,701)	168,717	7,860	(290,246)
OTHER FINANCING SOURCES (USES)								
Transfers in	331,325	326,565	-	-	70,129	-	-	728,019
Total Other Financing Sources (Uses)	331,325	326,565	-	-	70,129	-	-	728,019
Net Change in Fund Balances	169,383	195,547	(184,268)	75,106	5,428	168,717	7,860	437,773
Fund Balances, Beginning of year	120,847	309,920	-	6	462,375	70	67,526	960,744
Fund Balances, End of Year	\$ 290,230	\$ 505,467	\$ (184,268)	\$ 75,112	\$ 467,803	\$ 168,787	\$ 75,386	\$ 1,398,517

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 96,461	\$ 96,461	\$ 128,581	\$ 32,120
Total Revenues	96,461	96,461	128,581	32,120
EXPENDITURES				
Current:				
Drainage operations	286,698	286,698	290,523	(3,825)
Total Expenditures	286,698	286,698	290,523	(3,825)
Excess (Deficiency) of Revenues Over Expenditures	(190,237)	(190,237)	(161,942)	28,295
OTHER FINANCING SOURCES (USES)				
Transfers in	175,000	175,000	331,325	156,325
Total Other Financing Sources (Uses)	175,000	175,000	331,325	156,325
Net Change in Fund Balance	(15,237)	(15,237)	169,383	184,620
Fund Balance, Beginning of Year	120,847	120,847	120,847	-
Fund Balance, End of Year	\$ 105,610	\$ 105,610	\$ 290,230	\$ 184,620

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 8,300	\$ 8,300
Use of money and property	-	-	1,255	1,255
Charges for services	135,992	135,992	172,848	36,856
Total Revenues	135,992	135,992	182,403	46,411
EXPENDITURES				
Current:				
Parks and recreation	359,388	359,388	313,421	45,967
Total Expenditures	359,388	359,388	313,421	45,967
Excess (Deficiency) of Revenues Over Expenditures	(223,396)	(223,396)	(131,018)	92,378
OTHER FINANCING SOURCES (USES)				
Transfers in	360,000	360,000	326,565	(33,435)
Total Other Financing Sources (Uses)	360,000	360,000	326,565	(33,435)
Net Change in Fund Balance	136,604	136,604	195,547	58,943
Fund Balance, Beginning of Year	309,920	309,920	309,920	-
Fund Balance, End of Year	\$ 446,524	\$ 446,524	\$ 505,467	\$ 58,943

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Use of money & property	\$ -	\$ -	\$ 610	\$ 610
Charges for services	190,899	190,899	265,343	74,444
Total Revenues	190,899	190,899	265,953	75,054
EXPENDITURES	364,304	364,304	450,221	(85,917)
Excess (Deficiency) of Revenues Over Expenditures	(173,405)	(173,405)	(184,268)	(10,863)
Net Change in Fund Balance	(173,405)	(173,405)	(184,268)	(10,863)
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ (173,405)	\$ (173,405)	\$ (184,268)	\$ (10,863)

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 36,150	\$ 36,150	\$ 75,106	\$ 38,956
Total Revenues	36,150	36,150	75,106	38,956
EXPENDITURES	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	36,150	36,150	75,106	38,956
Net Change in Fund Balance	36,150	36,150	75,106	38,956
Fund Balance, Beginning of Year	6	6	6	-
Fund Balance, End of Year	\$ 36,156	\$ 36,156	\$ 75,112	\$ 38,956

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses and permits	\$ 59,461	\$ 59,461	\$ 42,368	\$ (17,093)
Intergovernmental	246,837	246,837	151,384	(95,453)
Use of money and property	5,000	5,000	462	(4,538)
Charges for services	50,000	50,000	344	(49,656)
Total Revenues	361,298	361,298	194,558	(166,740)
EXPENDITURES				
Current:				
Street operations	362,401	362,401	259,259	103,142
Total Expenditures	362,401	362,401	259,259	103,142
Excess (Deficiency) of Revenues Over Expenditures	(1,103)	(1,103)	(64,701)	(63,598)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	70,129	70,129
Total Other Financing Sources (Uses)	-	-	70,129	70,129
Net Change in Fund Balance	(1,103)	(1,103)	5,428	6,531
Fund Balance, Beginning of Year	462,375	462,375	462,375	-
Fund Balance End of Year	\$ 461,272	\$ 461,272	\$ 467,803	\$ 6,531

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 317,304	\$ 317,304	\$ 168,717	\$ (148,587)
Total Revenues	317,304	317,304	168,717	(148,587)
EXPENDITURES	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	317,304	317,304	168,717	(148,587)
OTHER FINANCING SOURCES (USES)				
Transfers out	(317,304)	(317,304)	-	317,304
Total Other Financing Sources (Uses)	(317,304)	(317,304)	-	317,304
Net Change in Fund Balance	-	-	168,717	168,717
Fund Balance, Beginning of Year	70	70	70	-
Fund Balance, End of Year	\$ 70	\$ 70	\$ 168,787	\$ 168,717

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ 100,000	\$ 100,000	\$ -
Use of money and property	-	-	138	138
Miscellaneous	-	25,000	-	(25,000)
Total Revenues	-	125,000	100,138	(24,862)
EXPENDITURES				
Current:				
Public safety	97,118	97,118	92,278	4,840
Total Expenditures	97,118	97,118	92,278	4,840
Excess (Deficiency) of Revenues Over Expenditures	(97,118)	27,882	7,860	(20,022)
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	-	-	-
Total Other Financing Sources (Uses)	25,000	-	-	-
Net Change in Fund Balance	(72,118)	27,882	7,860	(20,022)
Fund Balance, Beginning of Year	67,526	67,526	67,526	-
Fund Balance, End of Year	\$ (4,592)	\$ 95,408	\$ 75,386	\$ (20,022)

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, 2012**

	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	213,431	1,438,139	1,377,532	60,607
Interest	-	-	62,725	(62,725)
Total Expenditures	213,431	1,438,139	1,440,257	(2,118)
Excess (Deficiency) of Revenues Over Expenditures	(213,431)	(1,438,139)	(1,440,257)	(2,118)
OTHER FINANCING SOURCES (USES)				
Transfers in	213,431	1,438,139	1,438,139	-
Total Other Financing Sources (Uses)	213,431	1,438,139	1,438,139	-
Net Change in Fund Balance	-	-	(2,118)	(2,118)
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance End of Year	\$ -	\$ -	\$ (2,118)	\$ (2,118)

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 134,898	\$ 134,898
Charges for services	-	-	48,848	48,848
Total Revenues	-	-	183,746	183,746
EXPENDITURES				
Capital outlay	900,000	900,000	889,219	10,781
Total Expenditures	900,000	900,000	889,219	10,781
Excess (Deficiency) of Revenues Over Expenditures	(900,000)	(900,000)	(705,473)	194,527
OTHER FINANCING SOURCES (USES)				
Transfers in	892,304	892,304	650,000	(242,304)
Total Other Financing Sources (Uses)	892,304	892,304	650,000	(242,304)
Net Change in Fund Balance	(7,696)	(7,696)	(55,473)	(47,777)
Fund Balance, Beginning of Year	104,392	104,392	104,392	-
Fund Balance, End of Year	\$ 96,696	\$ 96,696	\$ 48,919	\$ (47,777)

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 5,000	\$ 5,000
Use of money and property	39,823	39,823	39,448	(375)
Charges for services	-	-	-	-
Miscellaneous	78,473	78,473	83,241	4,768
Total Revenues	118,296	118,296	127,689	9,393
EXPENDITURES				
Capital outlay:				
General CIP	360,000	360,000	212,602	147,398
Pathways	890,000	890,000	367,296	522,704
Westwind Barn Projects	-	-	46,673	(46,673)
Drainage	340,000	340,000	68,577	271,423
Total Expenditures	1,590,000	1,590,000	695,148	894,852
Excess (Deficiency) of Revenues Over Expenditures	(1,471,704)	(1,471,704)	(567,459)	904,245
OTHER FINANCING SOURCES (USES)				
Transfers in	790,000	790,000	15,000	(775,000)
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	790,000	790,000	15,000	(775,000)
Net Change in Fund Balance	(681,704)	(681,704)	(552,459)	129,245
Fund Balance, Beginning of Year	1,207,361	1,207,361	1,207,361	-
Fund Balance, End of Year	\$ 525,657	\$ 525,657	\$ 654,902	\$ 129,245

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
PROPRIETARY FUND - SEWER
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,450,368	\$ 1,450,368	\$ 1,353,479	\$ (96,889)
Other income	-	-	2,188	2,188
Total Operating Revenues	1,450,368	1,450,368	1,355,667	(94,701)
OPERATING EXPENSES				
Salaries and benefits	81,626	81,626	84,571	(2,945)
Contract services	749,823	749,823	1,026,679	(276,856)
Operating expenses	84,567	84,567	64,299	20,268
Depreciation	100,980	100,980	153,307	(52,327)
Total Operating Expenses	1,016,996	1,016,996	1,328,856	(311,860)
Operating Income (Loss)	433,372	433,372	26,811	(406,561)
NONOPERATING REVENUE (EXPENSES)				
Investment income	24,876	24,876	14,001	(10,875)
Income Before Contributions and Transfers	458,248	458,248	40,812	(417,436)
Connection Fees	159,000	159,000	170,955	11,955
Transfers out	(69,243)	(69,243)	(69,243)	-
Changes in Net Assets	548,005	548,005	142,524	(405,481)
Total Net Assets, Beginning of Year	7,225,432	7,225,432	7,225,432	-
Total Net Assets, End of Year	\$ 7,773,437	\$ 7,773,437	\$ 7,367,956	\$ (405,481)