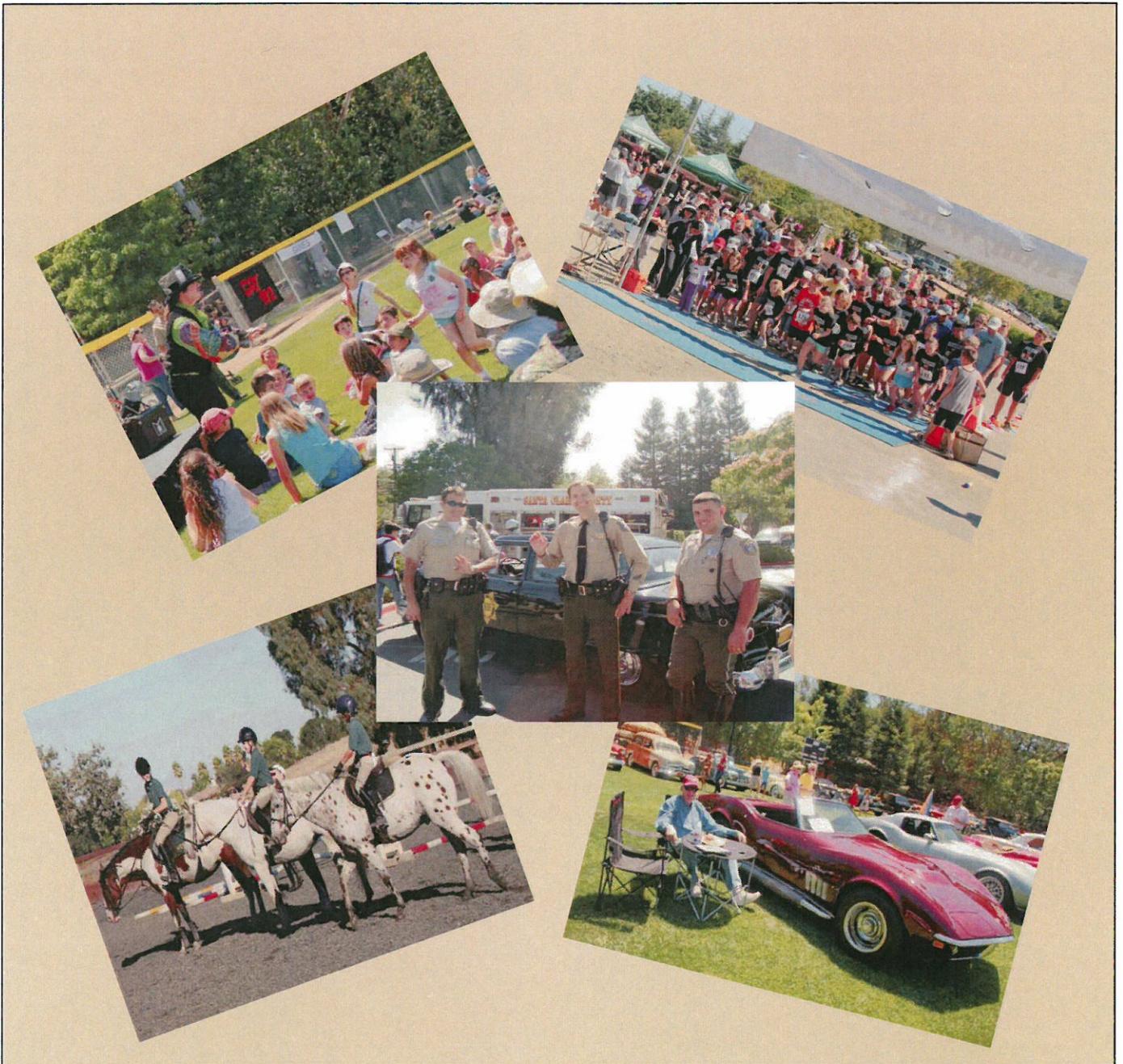


TOWN OF LOS ALTOS HILLS CALIFORNIA



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2014

TOWN OF LOS ALTOS HILLS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

**PREPARED BY:
DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES**

TOWN OF LOS ALTOS HILLS, CALIFORNIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014

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INTRODUCTORY SECTION



November 19, 2014

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

It is a pleasure to submit to you the Comprehensive Annual Financial Report (CAFR) for the Town of Los Altos Hills, California, for the year ended June 30, 2014. The report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) set by the Governmental Accounting Standards Board. The report presents Town information on an entity-wide basis and a more detailed fund level basis. The fund-level reports emphasize the Town's major funds.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). MD&A presents a comparative analysis of current and prior year results, changes in financial position, a comparison of actual versus budget, financial highlights, trends and disclosure of any known significant events or decisions that affect the financial condition of the Town. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors in the financial section of this report.

This report consists of management's representations concerning the finances of the Town of Los Altos Hills. Consequently, responsibility for both the accuracy of the data and the fairness of this presentation, including all disclosures, rests with the Town's management. To present a reasonable basis for making these representations, management personnel of the Town have established and maintained a comprehensive internal control structure designed to ensure that the assets of the Town are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgment by management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to represent fairly the financial position and results of operation of the various funds of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

State statutes require an annual audit by independent certified public accountants. The Town's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Los Altos Hills for the year ended June 30, 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town of Los Altos Hills' financial statements for the year ended June 30, 2014, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

REPORTING ENTITY AND SERVICES

This CAFR document includes all component units and funds of the Town. It reports all activities for which the Town is considered to be financially accountable.

The Town of Los Altos Hills, California is an exclusively residential community with no commercial or industrial base. Encompassing approximately 9 square miles, with an additional 5.2 square mile area of unincorporated land adjacent to the Town's boundaries within Los Altos Hills "sphere of influence", Los Altos Hills is nestled in the scenic hills of northern Santa Clara County adjacent to the cities of Palo Alto and Los Altos, 35 miles south of San Francisco, and 17 miles north of San Jose. Located in the northwestern section of Santa Clara County, the Town boasts easy access to all of Silicon Valley, which is renowned for its technological innovation and entrepreneurship. The County's economy is based on a large variety of high-tech manufacturing and computer software firms, supported by the Valley's business environment, world-class universities and a well-developed specialized professional services industry.

The Town was incorporated on January 27, 1956 and retains a distinctive semi-rural atmosphere with large lots and about 132 acres of town open space and an extensive public trail system that is one of the Town's major recreational assets.

The Town operates under a Council-Manager form of government. Policy-making and legislative authority are vested in the governing City Council, which consists of a five Councilmembers. Councilmembers are elected to overlapping four-year terms and, from amongst themselves, select a Mayor and Mayor Pro Tem every December. The Council is responsible for passing ordinances, adopting the budget, appointing Planning Commission and Volunteer Committee members and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the Town, and for appointing the Town staff.

By means of its own employees, the Town provides general government activities such as management, planning, engineering, building inspection, maintenance of public infrastructure, recreation, limited parks, and open space maintenance. Law enforcement services are contracted with the Santa Clara County Sheriff's Department. The Los Altos Hills County Fire District, a special district provides fire protection services. Sewer collection and treatment services are provided by the cities of Los Altos and Palo Alto.

The Town also utilizes other shared or contract services such as code enforcement, water service, trash collection, IT and payroll services. The Town also owns the historic Westwind Barn. The Barn facility sits on 15 acres and is adjacent to the Byrne Preserve. The Town outsourced the operation of the Barn to a third party, VDE, LLC through a concessionaire agreement that went into effect on February 1, 2014. Boarding is open to the public and options include stalls and pasture with a number of additional services available. Special revenue funds include state and county subventions, gas tax, sewer operations and maintenance, and public safety allocations from the State of California. Other revenue sources include state and federal grants for capital improvements.

The annual budget serves as the foundation for the Town's financial planning and control. Prior to June 30 of each year, the City Manager submits to the City Council a proposed operating and capital improvement budget for review. The Council holds public hearings and a final budget is adopted on or before June 30.

Budgetary reviews and controls are applied as described in the Note to Required Supplementary Information on page 64. Budget to actual comparisons are provided in this report for each governmental fund for which an annual budget has been adopted. For the General Fund, this comparison is presented on page 62 as part of the required supplementary information. For governmental funds other than the General Fund, this comparison is presented in the Combining Statements and Individual Fund Schedules section of this report, starting on page 69. Budgets are also adopted and controlled for the proprietary funds. Budget comparisons for these funds are not legally mandated and thus are not presented.

BUDGET PROCESS

The annual budget serves as the foundation for the Town's financial planning and control. All departments of the Town are required to submit requests for appropriation to the City Manager each spring. The City Manager uses these requests to develop a proposed budget. The City Manager then presents this proposed budget to the Council for review prior to the end of May.

The Council holds a public hearing on the proposed budget and adopts a final budget by the end of June, the close of the Town's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., Public Works). Department heads may request transfers of appropriations within a department. Transfers of appropriations between departments, but within the same fund, can be approved administratively (by the Administrative Services Director or City Manager). Transfers between funds require the approval of the City Council. Budget-to-actual comparisons are presented in the supplementary section of the accompanying financial statements for each individual governmental fund for which an appropriated annual budget has been adopted.

In FY 2013-14, the Town implemented a new zero-based budgeting process. Each department was provided a base budget expenditure allotment consistent with the adopted FY 2012-13 Budget, adjusted by known personnel salary and benefit increases, and a 2-3% inflationary increase for operating expenses. Each Department was then given an opportunity to submit prioritized program changes for enhancements and reductions to the base budget.

The goals of the budget process are to identify necessary and/or desirable service increase options, as well as identify service reduction options, which are all combined to reach a balanced and sustainable budget. To this end, the City Manager formulates a packaged budget recommendation of enhancements and reductions for Council to consider alongside other enhancements and reductions not being recommended by staff. The staff recommendation is based on many considerations, including the potential impacts to the overall Town operation and services provided to the community, employee morale and an attempt to keep cuts relatively uniform across departmental lines.

The City Manager and Administrative Services Director met with each Department individually, and then as a group, to discuss and finalize the FY 2013-2014 Budget recommendations which were presented to the City Council at the May 20 Joint Council and Finance & Investment Committee Budget Study Session, followed by a Special Council Meeting on May 22, 2013. During these meetings, Council identified approximately \$446,600 in program enhancements, \$9,600 in revenue options and \$363,500 in program reductions. The Town's adopted FY 2013-14 Budget is \$11,409, 823. The FY 2013-14 General Fund expenditures of \$8,062,950 inclusive of several operating contingencies and operating transfers to special revenue funds, are balanced with \$7,902,860 in revenues and provided an operating surplus of approximately \$160,090 in the Undesignated General Fund Balance.

FACTORS AFFECTING FINANCIAL CONDITION

State Budget and Local Economy

The Town's reliance on property tax, revenue controlled by the State, makes the State of California's budget a significant factor in the Town's financial condition. Financial forecast reflects continued improvement in California's Finances. The state's budgetary condition is now stronger than at any point in the past decade. According to the California Legislative Analyst's Office (LAO), the State's fiscal condition for fiscal year ending 2014 has significantly improved. The state's 2013-14 budget plan assumed a year-end reserve of \$1.1 billion, yet the current estimate is more than double –\$2.4 billion. The revenue forecast now anticipates \$6.4 billion in higher revenues for 2012-13 and 2013-14 combined. These higher revenues are offset by \$5 billion in increased expenditures, almost entirely due to greater required spending for schools and community colleges. Combined with a projected \$3.2 billion operating surplus for the state in 2014-15, these factors lead to projections that, absent any changes to current laws and policies, the state would end 2014-15 with a \$5.6 billion reserve.

Despite the large surplus that is projected over the forecast period, the state's continued fiscal recovery is dependent on a number of assumptions that may not come to pass. For example, the LAO forecast assumes continuing economic growth and slow, but steady, growth in stock prices. An economic downturn within the next few years could quickly result in a return to operating deficits. Further, the normal volatility of capital gains could depress (or boost) annual revenues. In addition, the forecast assumes that the state repays liabilities with payment schedules set in current law. The state's huge retirement liabilities (particularly those related to the California State Teachers' Retirement System), remain unpaid under the forecast. If additional payments are made in the future to repay these liabilities or to provide inflation adjustments to universities, the courts, state employees, and other programs, the operating surpluses in the forecast would fall significantly below projections.

California's recovery spread to more sectors of the economy in 2014. The unemployment rate fell more quickly than the national rate, from 9.8% as of January of 2013 to 8.1% in January 2014. Although the unemployment rate is not expected to drop below 7.0% until the middle of 2016, the jobs lost during the recession are forecast to recover by the end of 2014 due to relatively robust job growth. California is expected to continue to add jobs at around a 2% annual growth rate (340,000 jobs per year) through 2016.

The economic performance in Silicon Valley and Los Altos Hills continues to show strength. Data from the State of California Employment Development Department paints a similar picture. Employment in the San José/Sunnyvale/Santa Clara Metropolitan Statistical Area (MSA) continues to increase. The reported June 2014 employment level in the MSA was 906,117 a 2.5% increase from the June 2013 level of 884,017. The June 2014 unemployment rate of 5.5% and is lower than the 7.0% rate experienced a year ago. The June unemployment rate in the region is also substantially lower than both the state unemployment rate of 8.1%, and the national unemployment rate of 6.7%.

Housing prices remain strong since the same period in 2013. Santa Clara County has rebounded from the recession to a much larger degree than other counties in the region. The Santa Clara County housing recovery continues with the prices of single family homes up 11.2% compared to June of last year according to the California Association of Realtors. The median single family home value in Los Altos Hills is \$3.5 million and has gone up 11.4% over the last year. The home value index is expected to rise another 5.2% within the next year. Property tax revenue increased by \$367,680 or 10% compared to last year. This increase resulted from sales of 98 residential properties in FY 2013-14 which increased assessed valuation. Construction activity remains strong in Los Altos Hills with the overall strong regional economic conditions driving development growth.

The Town does not have a significant business, tourism, or sales taxes revenue base that would fluctuate with natural ebbs and flows of the economy. The Town's primary revenue base is property tax and fluctuations in the high value real estate markets are of great concern. In fiscal year 2014, approximately \$4.1 million or 52% of the general fund's revenue was derived from property taxes.

The Town of Los Altos Hills experiences a net taxable value increase of 9.79% for the 2013/14 tax roll, which was slightly more than the increase experienced countywide at 8.27%. The year to year increase in residential values due to recaptured Proposition 8 prior reductions and the increase in median sale prices was \$499.7 million accounting for 96% of all growth citywide. Eight additional vacant properties were reported for an increase of \$20.5 million. Properties formerly coded as irrigated land have been posted as Dry Farms shifting \$0.2 million from one category to the other. The total assessed value increase between 2012-13 and 2013-14 was \$521 million.

Additionally, the Town's property tax base increased as a result of property revaluation when a parcel is sold on the open market. In the first eight months of 2013, 21 single family residential properties transferred ownership on the open market removing an additional \$24.3 million from this recapturing pool of values. As properties continue to transfer ownership from this previously reduces pool of values, the Town will see a compressing of the amount that can be recaptured. Additional transfers may have occurred including below market transfers, transfers to trusts, and unrecorded transfers. With the total transfer of 70 properties in FY 2013-14, the Town's overall assessed value increases by approximately \$124 million. As an increase in the Town's property tax base, the Town will receive an on-going \$69,600 per year in new property tax revenue to support core governmental functions.

Long-term financial planning

The long-term financial plan of the Town includes cost containment strategies and a comprehensive cost recovery program both designed to ensure the long-term financial health of the Town. The Town's primary costs are associated with personnel services and management has maintained a practice of using scalable contract and consulting services to meet the fluctuating needs of the Town. Additionally, management has investigated and recommended the implementation of modifications to the Town's benefit structure to reduce long-term costs.

The Town thoroughly evaluates the cost to provide planning, building, and engineering services and proposes a sufficient cost recovery fee schedule. The Town completed the Comprehensive User Fee study prepared by an independent outside consultant in FY 2013-14. The study revised the method of calculating user-based fees to move closer to full-cost recovery, and resulted in adjustments to the Town's Schedule of Fees, Deposits, Charges for Services and Other Assessments. The City Council approved a new fee user fee schedule that went into effect on June 16, 2014. The implementation of this schedule is projected to favorably reflect on general building and planning revenues in fiscal year 2014-15.

Notwithstanding the positive trend in the Town's general revenues, there is a negative impact of increases in Town's retirement contributions to the California Public Employees Retirement System (CalPERS) and long-term increases in medical premium costs. The Town continues to maintain a balance with on-going revenues and personnel costs as part of its overall long-range strategic financial planning.

Risk management

Comprehensive general liability coverage is secured through the Association of Bay Area Governments (ABAG) Plan. The plan consists of a self-insurance pool involving a number of cities in the San Francisco-Oakland area. The cities contract with the Plan through a liability coverage agreement for a comprehensive general liability, commercial auto, and public officials' errors and omissions policy. The Town's limit in the pool is \$10,000,000 with a \$25,000 per occurrence deductible for which it self-insures. In addition, a separate pool of public entities exists for worker's compensation coverage, administered by ABAG. Workers' compensation claims up to \$250,000 are covered by the ABAG Shared Risk Pool; claims in excess of \$250,000 are insured with commercial carriers. Additional information concerning the Town's participation in risk pools for liability and workers' compensation is provided in Note 9 to the financial statements.

The Town focuses on identification of hazards and dangerous conditions and provides on-going training in an effort to reduce exposure and ensure public safety and welfare.

Employee benefit costs

As with other employees in the public sector, Los Altos Hills' employees trade off the higher salaries of the private sectors for benefits, particularly defined retirement and health insurance. The Town must balance its need to control costs with the need to offer a compensation package that will help to attract and retain qualified employees. The Town's compensation package is reviewed by the Employee Compensation Ad Hoc Committee on an annual basis, and is designed to be competitive and consistent with industry standards and, in particular, the Town's benchmark cities. Employee retention promotes organizational continuity, productivity, and ultimately minimizes recruitment and training costs.

The Town provides a defined benefit retirement plan for employees through CalPERS. A few years ago, the Town implemented a Tier II retirement program for employees hired after August 31, 2011, and recent Public Employees' Pension Reform Act reform establishes a Tier III program for new employees without prior municipal employment. The employer retirement contribution (as a percent of salary) for the Town for FY 2013-14 were set as follows: Tier I (2.0 @ 55) 11.1%, Tier II (2.0 @ 60) 8.77% and Tier III (2% @ 62) 6.7%.

In addition, the Town implemented a multi-year plan that eliminates the employee pension share cost for Tier I employees, currently paid by the Town. The Tier I employee pension contribution paid by the Town was reduced from 7% to 6% in FY 2013-14. The Town's Ad Hoc committee may recommend to further reduce this benefit as part of a budget recommendation to the Town Council. Tier 2 and Tier 3 employees are not eligible for this benefit.

The Town provides health insurance for employees and their dependents through the CalPERS Health Plan. PERS medical rates continue to increase by approximately 10% per year on average. In the FY 2013-14 a cost-sharing model was implemented where employees share the cost of up to 10% of the dependent coverage. In 2014, the average monthly cost of health insurance was \$723 for employee only, \$1,446 for employee and one dependent, and \$1,879 for family coverage.

The Town will be conducting a comprehensive study of employee salary and benefits in FY 2014-15 to design a compensation program that will be competitive, fair and affordable.

ACKNOWLEDGEMENTS

I wish to extend my appreciation to all of the Town staff who contributed financial information to this report. Special thanks go to Tony Sandhu and Pak Lin for their continued support of the Finance Department and efforts in the preparation and production of this report.

I would also like to thank the City Council and the Finance and Investment Committee for their continued interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,

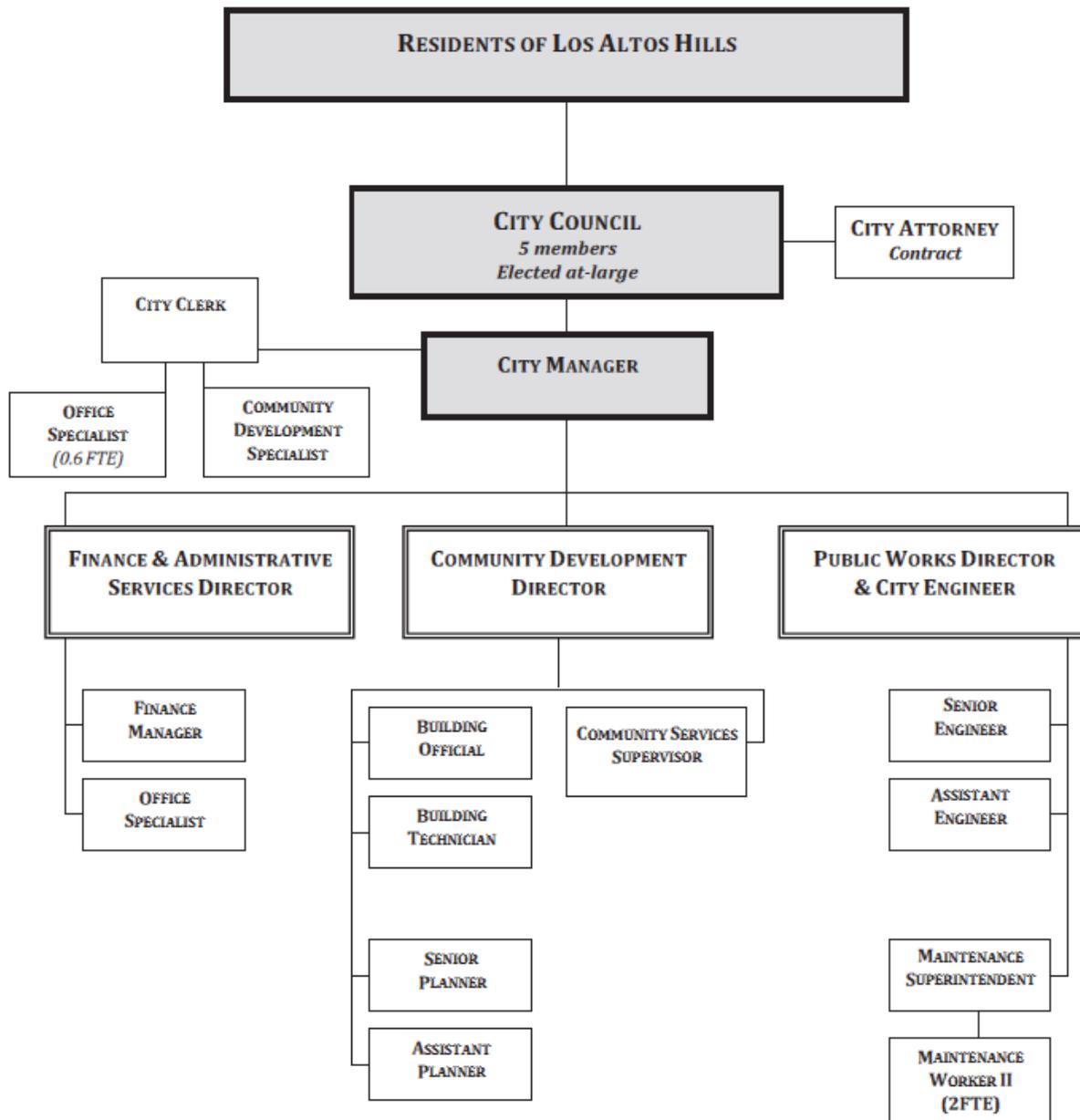


Carl Cahill
City Manager



Yulia Carter
Director of Administrative Services

Town of Los Altos Hills Organizational Chart



Updated - June 2014

TOWN OFFICERS

As of June 30, 2014

<u>City Council</u>	<u>Term Expires</u>
John Radford, Mayor	2018
Courtenay Corrigan, Vice Mayor	2016
Gary Waldeck	2018
John Harpootlian	2016
Rich Larsen	2016

City Council Appointed

Carl Cahill, City Manager

Steve Mattas, City Attorney (contract)

City Manager Appointed

Debbie Pedro, Community Development Director

Yulia Carter, Administrative Services Director

Richard Chiu, Public Works Director & City Engineer

Deborah Padovan, City Clerk

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Altos Hills (Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California

November 19, 2014

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The Town's government-wide assets exceed its liabilities at June 30, 2014, by \$42,030,811 (net position), an increase of \$1,699,656 from the prior year. Of this amount, \$10,199,953 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors; an increase from prior year's unrestricted net position of \$2,623,298 or 35 percent. It is important to note that \$3,075,429 of the net position is unrestricted for Sewer Operations.
- The Town's cash and investments at June 30, 2014 totaled \$14,007,706, of which \$9,860,210 is classified as government activities and \$4,147,496 falls into the business-type activities category (Sewer). The Town's cash and investments increased \$2,203,954, or 19 percent compared to the prior year, primarily due to higher revenue receipts for property taxes, license and permits, other miscellaneous revenues related to the completion of Roadway Impact Fee (RIF) program, and reduction in infrastructure spending.
- The Town's General fund balance at June 30, 2014, was \$5,705,162, an increase of \$2,428,729, or 74 percent over the previous year. Contributing factors to these increases were higher property tax receipts, charges for services, and other revenues mainly from the closure of liability for RIF during the fiscal year. As of June 30, 2014, the General Fund's fund balance was approximately 120 percent of General Fund operating expenditures, which is a substantial increase from 71 percent in the prior year.
- The Town's accounts payable and other current liabilities at June 30, 2014, was \$3,281,921. Of this amount, \$1,191,511 was reported in the Sewer Fund.
- In the fiscal year ended June 30, 2014, the Town's General Fund transferred \$1,031,947 to other funds. Total transfers were down by \$1,075,596 compared to prior year. This decrease was due largely to a lower General Fund support for the special revenue funds and Westwind Barn operations and the consolidation of Parks and Recreation programs into General Fund.
- Fund balances at June 30, 2014, in the Town's Street Capital Projects and Other Capital Projects Funds, increased by a total of \$296,570, or 133 percent, from prior year primarily as result of deferred capital spending in the Storm Drainage and Pathway Capital Project Funds.
- Fund balances at June 30, 2014, in the Town's Nonmajor Governmental Funds include the aggregate of a number of special revenue funds that provide for specific operations such as street maintenance and debt service funds. The fund balances decreased \$399,645, or 21 percent from prior year as the result of lower operating transfers from the General Fund as well as closure of RIF Fund and transfer of its fund balance into General Fund.
- The Town's strong unrestricted net position of governmental activities at June 30, 2014, are \$7,124,524, an increase of \$2,775,030, or 64 percent, compared to the prior year, as a result of an increase in revenue receipts.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

- In 2013-2014, Town implemented a new Cost Allocation Plan (CAP) model prepared by Willdan Financial Services to ensure the equitable allocation of general administrative overhead costs to departments, in a manner that is more transparent and sustainable. The CAP methodology serves to ensure that the Town is accurately accounting for the true cost of providing various programs and services within Town operations and maximizing the recovery of General Fund indirect costs from identified operating departments, as well as from enterprise and other chargeable funds and projects. Total overhead costs allocated under CAP were \$996,856 in 2013-2014.
- In 2013-2014, Town completed refunds of Roadway Impact Fee (RIF) that was originally implemented pursuant to the California Mitigation Fee Act requirements in 2004. This fee was collected as part of building permit and used to improve roads throughout the Town. In 2012, the Council adopted an ordinance repealing the fee, based on an unfavorable legal case from other agency, and directed staff to offer refunds to legally entitled parties over a period of the past four years. At that time the Town created liability account in General Fund and accrued \$1,250,000 to pay for this refund program. The Town completed the RIF refund program in FY 2013-14. The unclaimed RIF amount of \$418,683 remaining in liability account was released to General Fund and recorded as Miscellaneous (Other) Revenues.
- The Town's Sewer Fund unrestricted net position at June 30, 2014, was \$3,075,429, a decrease from the prior year of \$151,732 or 5 percent primarily due to higher spending on capital improvement program and higher overhead charges due to CAP implementation.
- The most recent Other Post Employment Benefits (OPEB) valuation report as of June 30, 2013, prepared by the Town's actuarial consultant, Bartel and Associates, reflects \$1,016,000 in the OPEB plan's unfunded liability, which is a \$905,000 decrease from the June 30, 2011 actuarial valuation. This decrease was a result of changes in assumptions related to retiree demographics, lower number of beneficiaries, and the favorable effects of implementing Tier II and III retiree medical programs. The decrease is also partially due to Town's additional contributions to the California Employers' Retiree Benefit Trust (CERBT) as per City Council direction. As of June 30, 2014, the market value of the Town's CERBT account is \$1,250,000. The Adopted FY 2013-14 budget assumed full funding of the Annual Required Contribution (ARC) of \$214,000, as determined by the actuarial study prepared by Bartel and Associates, which included a pay-as-you-go payment to retirees of approximately \$93,100. This funding level is a result of annual consideration of the City Council.
- According to the November 2013 annual valuation report provided by the CalPERS Actuarial Office, CalPERS assets are insufficient to meet its actuarial liabilities, and the Town's share of the unfunded pension liability on a market value of assets basis as of June 30, 2012, is reported as \$2,279,632. However, according to the most recent annual valuation report released by CalPERS in November 2014, the Town's unfunded pension liability amount is reported as \$2,016,889, which is \$262,734 below the prior year's estimate. In fiscal year 2010-2011, the City Council, adopted a General Fund committed contingency fund balance to fund the pension's unfunded liability as a proactive measure to account for unanticipated changes in CalPERS pension assumptions. As of June 30, 2014, the pension contingency was \$280,000, or 14 percent of the Town's share of the unfunded liability. The Town will be implementing Government Accounting Standard Board (GASB) Statement Number 68 in fiscal year ending June 30, 2015. Under this statement, the Town will be required to report unfunded pension liability on its statements of net position. It may have a significant negative impact on the Town's net position, pending the final determination on unfunded liability from CalPERS.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash outflows in future fiscal periods, for example, earned but unused vacation leave. These government-wide financial statements begin on page 29 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.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

The Town maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Street Capital Projects Fund and Other Capital Projects Funds (which includes capital project funds for General Facilities and Equipment, Pathways, Westwind Barn, and Storm Drainage), which are considered to be major funds. Data from the other seven governmental funds (which includes Storm Drain, Pathway, Parks & Recreation In-Lieu, Street, Roadway Impact Fee, COPS, and Debt Service Funds) are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the "Combining Statements and Individual Fund Statements" section of this report.

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

The basic governmental fund financial statements can be found on pages 31-34 of this report. The budgetary comparison schedule for the General Fund can be found on page 62.

Proprietary Funds

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the internal service fund and sewer operations. The basic proprietary fund financial statements can be found on pages 35-37 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 38 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.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 39-60 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide other post employment benefits to its employees and the General Fund budgetary comparison schedule. Required supplementary information can be found on pages 62-64 of this report.

Combining statements for Nonmajor Governmental Funds are presented after the required supplementary information on pages 67-68. Budgetary schedules for Nonmajor Governmental Funds, Street Capital Projects, Other Capital Projects and Proprietary funds are presented on pages 69-78, and the Statistical Section follows on page 80.

TOWN OF LOS ALTOS HILLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$42,030,811 at June 30, 2014.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and other assets	\$ 10,815,407	\$ 8,673,655	\$ 4,269,889	\$ 3,917,511	\$ 15,085,296	\$ 12,591,166
Capital assets	25,632,965	26,767,790	4,774,920	4,312,151	30,407,885	31,079,941
Total assets	36,448,372	35,441,445	9,044,809	8,229,662	45,493,181	43,671,107
LIABILITIES						
Current	2,090,410	2,449,439	1,191,511	688,042	3,281,921	3,137,481
Non-current liabilities	177,500	200,163	2,949	2,308	180,449	202,471
Total liabilities	2,267,910	2,649,602	1,194,460	690,350	3,462,370	3,339,952
NET POSITION						
Net investment in capital assets	25,535,393	26,654,599	4,774,920	4,312,151	30,310,313	30,966,750
Restricted	1,520,545	1,787,750	-	-	1,520,545	1,787,750
Unrestricted	7,124,524	4,349,494	3,075,429	3,227,161	10,199,953	7,576,655
Total net position	\$ 34,180,462	\$ 32,791,843	\$ 7,850,349	\$ 7,539,312	\$ 42,030,811	\$ 40,331,155

Note: Total assets – liabilities = total net position

The largest portion of the Town's net position, 72 percent, reflects its investment in capital assets – land, buildings, machinery, equipment and infrastructure. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Total net position for Governmental Activities was \$34,180,462, an increase of \$1,388,618, or 4 percent. Unrestricted net position for Governmental Activities increased by \$2,775,030, primarily due to increased revenues as further described on page 19, lower capital investments in infrastructure, and release of remaining accrued liability for RIF refunds back to General Fund due to completion of the program.

Another portion of the Town's net position, \$1,520,545 or 4.4 percent of total net position represents resources that are subject to external restrictions on how they may be used.

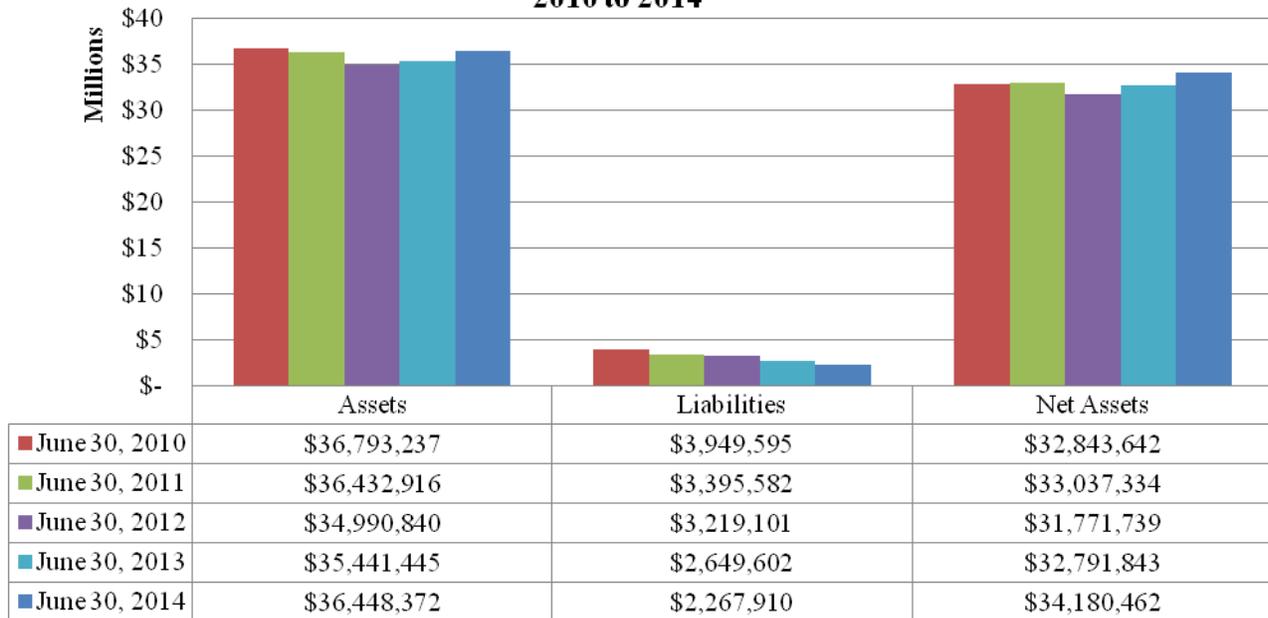
The remaining balance of unrestricted net position, \$10,199,953, of which \$7,124,524 is classified as government activities and \$3,075,429, which falls into the business-type activities category (Sewer), may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2014, the Town is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. Note that the Town's Internal Service Fund is reported as a part of Governmental Activities in the Government-wide Financial Statements.

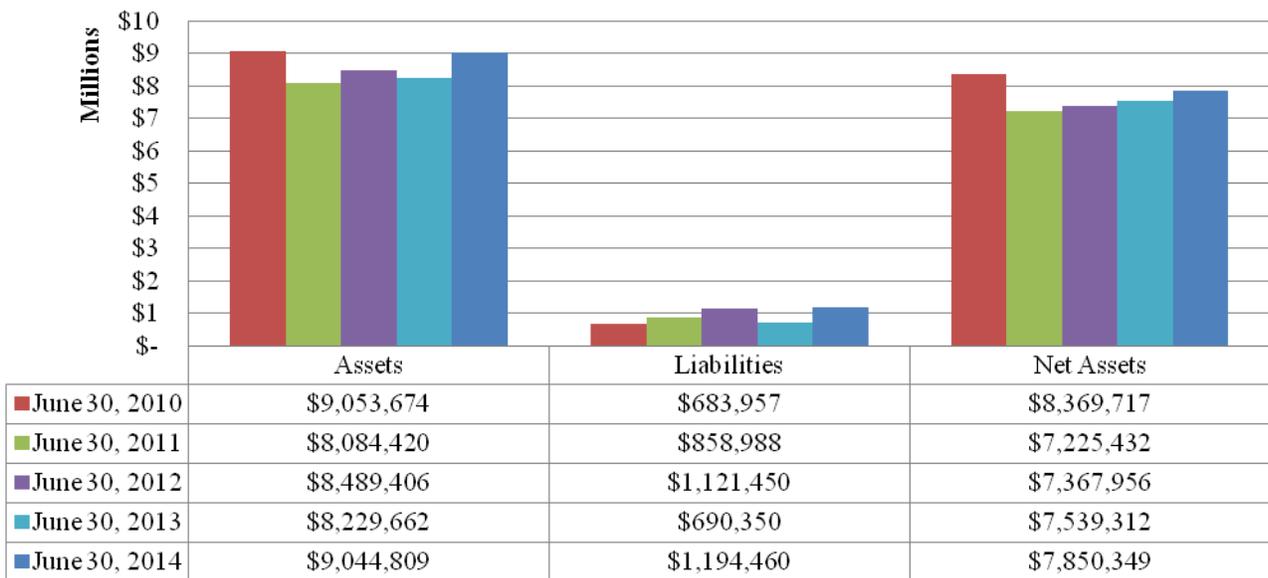
TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

**Governmental Activities - Net Position
2010 to 2014**



**Business-type Activities - Net Position
2010 - 2014**



TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Statement of Activities

The following schedule shows summarized information for the current and prior year on the changes in net position. Governmental activities increased the Town's net position by \$1,388,618 due to an increase in property tax receipts, charges for services mainly from planning related activities, newly implemented CAP overhead allocations model, and closure of RIF refund accrued liability. Business-type activities increased the Town's net position by \$311,037 primarily due to \$50,314 in increased revenues received from sewer connection fees, lower contract services costs, and lower transfers out to General Fund. The revenues were offset by higher CAP overhead allocations. Significant changes year-over-year are discussed in subsequent sections.

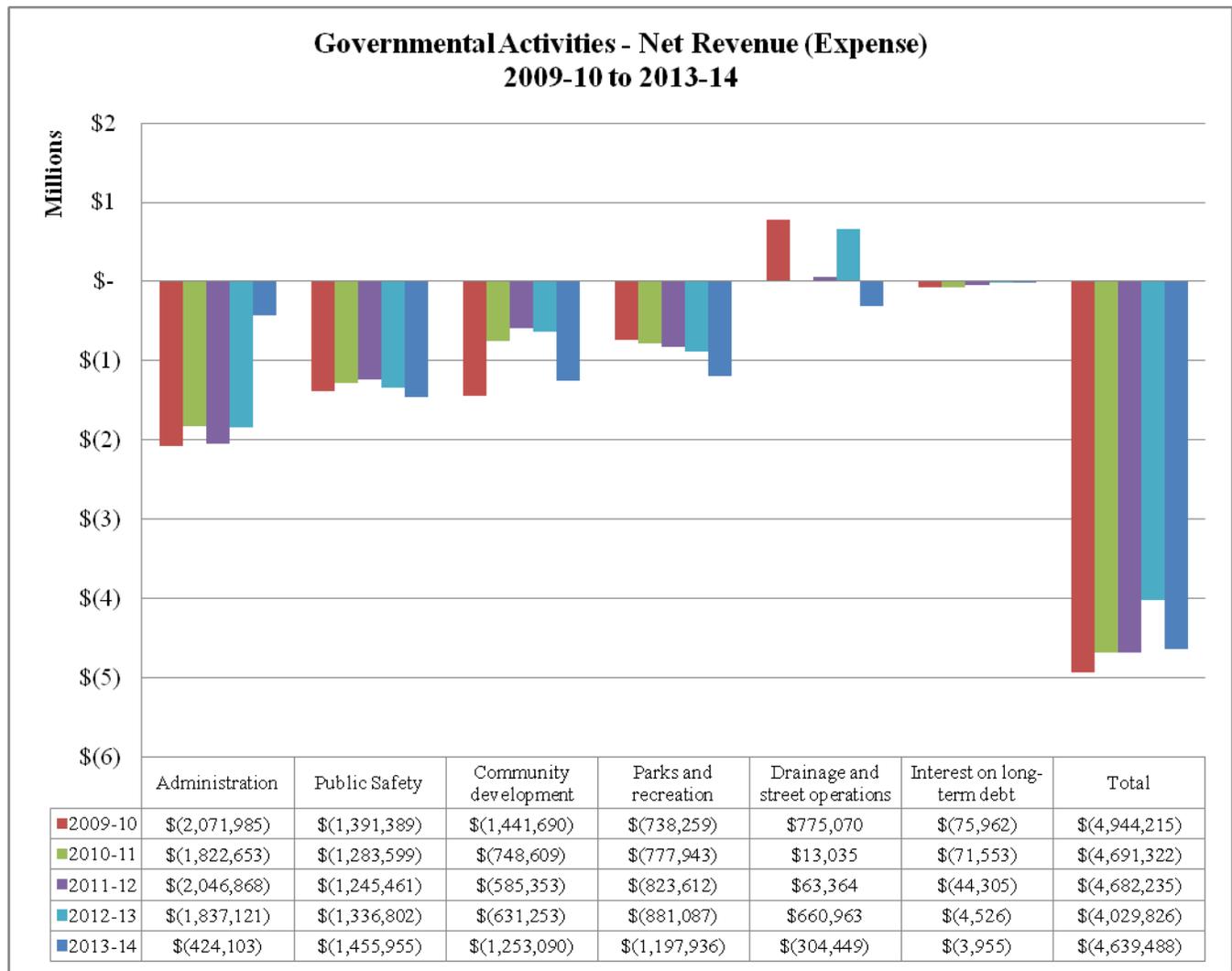
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program revenues						
Charges for services	\$ 2,339,635	\$ 2,375,251	\$ 1,382,472	\$ 1,359,338	\$ 3,722,107	\$ 3,734,589
Operating contributions/grants	500,245	289,100	-	-	500,245	289,100
Capital contributions/grants	266,736	978,677	175,497	125,183	442,233	1,103,860
General revenues						
Property taxes	4,153,331	3,785,652	-	-	4,153,331	3,785,652
Motor vehicle license tax	101,716	49,428	-	-	101,716	49,428
Other taxes	524,763	545,228	-	-	524,763	545,228
Franchise fees	463,598	421,634	-	-	463,598	421,634
Use of money and property	199,609	142,931	24,719	720	224,328	143,651
Other unrestricted	585,089	34,057	-	-	585,089	34,057
Total revenues	<u>9,134,722</u>	<u>8,621,958</u>	<u>1,582,688</u>	<u>1,485,241</u>	<u>10,717,410</u>	<u>10,107,199</u>
EXPENSES						
Administration	639,350	1,837,120	-	-	639,350	1,837,120
Public safety	1,555,955	1,440,002	-	-	1,555,955	1,440,002
Community development	3,224,490	2,448,821	-	-	3,224,490	2,448,821
Parks and recreation	1,479,822	1,314,872	-	-	1,479,822	1,314,872
Drainage and street operations	842,532	627,512	-	-	842,532	627,512
Sewer	-	-	1,271,651	1,242,885	1,271,651	1,242,885
Interest on long-term debt	3,955	4,526	-	-	3,955	4,526
Total expenses	<u>7,746,104</u>	<u>7,672,853</u>	<u>1,271,651</u>	<u>1,242,885</u>	<u>9,017,755</u>	<u>8,915,738</u>
Increase (decrease) in net position						
before transfers and special item	1,388,618	949,105	311,037	242,356	1,699,655	1,191,461
Transfers in (out)	-	71,000	-	(71,000)	-	-
Change in net position	<u>1,388,618</u>	<u>1,020,105</u>	<u>311,037</u>	<u>171,356</u>	<u>1,699,655</u>	<u>1,191,461</u>
Net position, beginning of year	<u>32,791,844</u>	<u>31,771,739</u>	<u>7,539,312</u>	<u>7,367,956</u>	<u>40,331,156</u>	<u>39,139,695</u>
Net position, end of year	<u>\$ 34,180,462</u>	<u>\$ 32,791,844</u>	<u>\$ 7,850,349</u>	<u>\$ 7,539,312</u>	<u>\$ 42,030,811</u>	<u>\$ 40,331,156</u>

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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.



Overall, net revenues (expenses) for governmental activities for 2013-2014 was \$(4,639,488), a difference of \$609,662 or 15 percent, from the previous year. The primary driver of this difference was attributable to termination of non-recurring grant revenues received in 2012-2013.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

	2014			2013		
	Program revenues	Expenses	Net revenue (expenses)	Program revenues	Expenses	Net revenue (expenses)
Administration	\$ 215,247	\$ 639,350	\$ (424,103)	\$ -	\$ 1,837,121	\$ (1,837,121)
Public safety	100,000	1,555,955	(1,455,955)	103,200	1,440,002	(1,336,802)
Community development	1,971,400	3,224,490	(1,253,090)	1,817,568	2,448,821	(631,253)
Parks & recreation	281,886	1,479,822	(1,197,936)	433,785	1,314,872	(881,087)
Drain/street	538,083	842,532	(304,449)	1,288,475	627,512	660,963
Interest expense	-	3,955	(3,955)	-	4,526	(4,526)
	<u>\$ 3,106,616</u>	<u>\$ 7,746,104</u>	<u>\$ (4,639,488)</u>	<u>\$ 3,643,028</u>	<u>\$ 7,672,854</u>	<u>\$ (4,029,826)</u>

Business-type Activities

The Town's sole business-type activity is the sewer fund. In 2013-2014, the sewer operations experienced a net income before contributions, transfers and interest income of \$110,821, down from \$116,453 for a decrease of \$5,632 or 5 percent, mainly as a net result of higher CAP overhead allocation from General Fund offset by revenues generated from an increase in the number of connections for sewer services.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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	Street Capital Project	Other Capital Project	Non-major	Total
Revenues	\$ 8,045,795	\$ 285,473	\$ 124,548	\$ 596,291	\$ 9,052,107
Expenditures	4,753,905	473,262	178,287	1,320,999	6,726,453
Net transfers	(863,161)	201,126	336,972	325,063	-
Net increase/ (decrease)	2,428,729	13,337	283,233	(399,645)	2,325,654
Fund balances, beginning of year	3,276,433	52,345	170,144	1,919,755	5,418,677
Fund balances, end of year	<u>\$ 5,705,162</u>	<u>\$ 65,682</u>	<u>\$ 453,377</u>	<u>\$ 1,520,110</u>	<u>\$ 7,744,331</u>

The net activity for the governmental fund balances for 2013-2014 resulted in an increase of \$2,311,175 compared to prior year. The increase was a result of higher property taxes due to a stronger housing market, more charges for services revenues collected due to increased building/planning activity, one-time miscellaneous revenue recognition related to the completion of the RIF Program, and reduced capital spending on infrastructure.

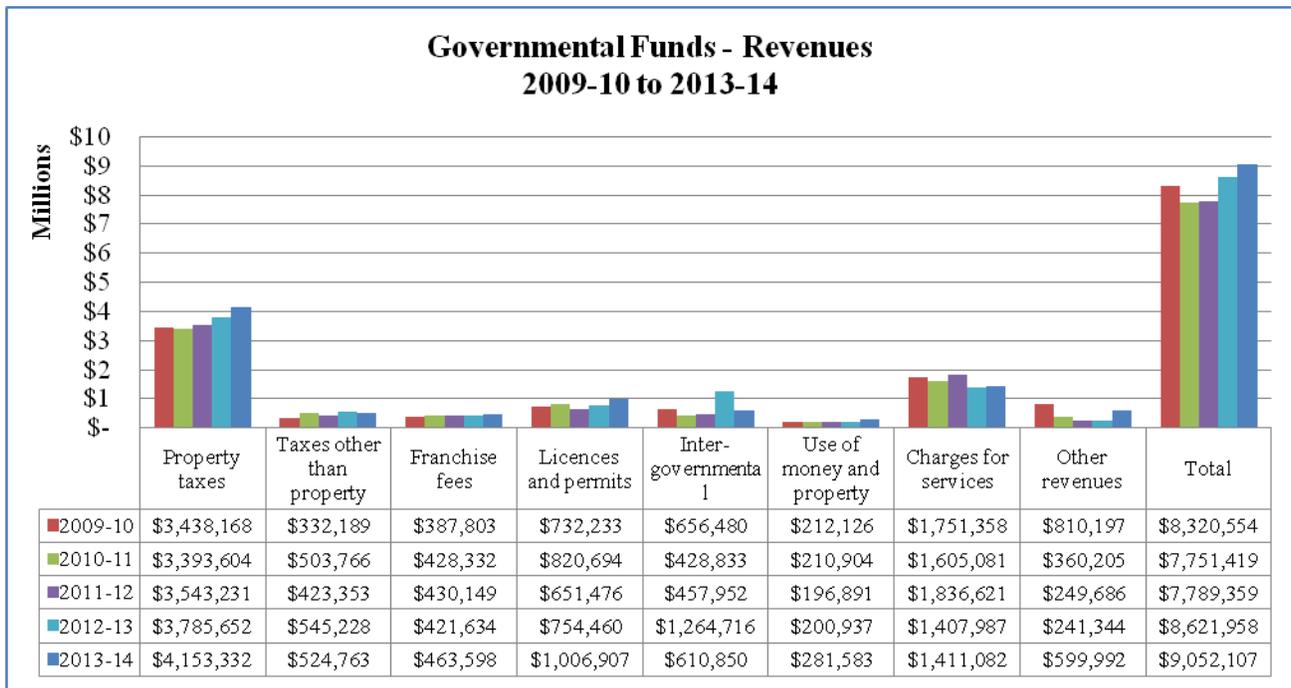
	2014	2013	\$ Increase (decrease)
Revenues	\$ 9,052,107	\$ 8,621,958	\$ 430,149
Expenditures	6,726,453	8,678,479	1,952,026
Net transfers in (out)	-	71,000	(71,000)
Net increase/(decrease)	<u>\$ 2,325,654</u>	<u>\$ 14,479</u>	<u>\$ 2,311,175</u>

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Governmental Funds – Revenues

Overall, revenues in all Governmental Funds increased by \$430,149, or 5 percent, compared to prior year, primarily due to higher property tax receipts, license and permit revenues, and CAP overhead allocation charges to other funds. However, this increase is offset by a one-time federal grant revenues of \$800,000 received for the Town's Safe Routes to School project in prior year. Property taxes recorded a year-over-year increase of \$367,680 or 10 percent. This increase was driven by a high number of sales of single family homes, which resulted in a 10 percent increase in taxable assessed valuation pursuant to Proposition 13. 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 \$20,465, or 4 percent mainly due to decline in business license tax revenues.
- **Franchise Fee** – This category reflects franchise fee revenues received from providers of utility services to Town residents. All types of franchise fee were higher in 2013-2014 with a total increase of \$41,964 or 10 percent compared to prior year due to an increase in their gross receipts from a combination of rate increases and higher volume of services.
- **Licenses and permits** – This category reflects revenues received from building permit issuance activity. Revenues increased by \$252,447, or 33 percent due to a substantial increase in the issuance of building and planning permits in comparison to the prior years. The revenues also reflect higher user fee rates for building permits implemented at the middle of June 2014.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- **Intergovernmental revenues** – This category reports revenue received from the State of California and Federal Government for both operational and capital expenditures. Revenues decreased by \$653,865, or 52 percent, mainly due to the one-time grant of \$800,000 from the Federal Department of Transportation for the Town's Safe Routes to School pathway construction project received in the prior year. The completion of this one-time grant-funded project was offset by a moderate increase in traffic congestion fee, SB 83 vehicle registration fee, and gas tax revenue receipts recorded in this revenue category in 2013-2014.
- **Use of money and property** – This category reports investment income earnings and rents charged for exclusive use of Town owned land or facilities. Revenues increased by \$80,646, or 40 percent. The most notable was an \$18,868 higher rental income generated by the cellular telephone antenna towers located on Town lands based on new lease agreements which were negotiated in 2013-2014. 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 prior 3-4 years as higher yielding bonds matured and the impact of this reduction was clearly visible in the Town's investment earnings. In addition, the Town's investment portfolio, nearly all allocated to U.S. Treasury notes, recorded an unrealized gain of \$20,947 in compliance with Governmental Accounting Standards Board (GASB) Statement 31 which establishes fair value standards for investments. The investment income is recorded net of safekeeping and investment portfolio management fees.
- **Charge for services** – This category reports revenues received from fees charged for direct and indirect services provided by the Town. In 2013-2014 this category shows a marginal overall increase of \$3,095 compared to prior year. This included a substantial drop of \$14,072 in Pathway and Parks and Recreation In-Lieu fee revenues compared to prior year as there were no new subdivision development approved during the year. In addition, Westwind Barn revenues declined by \$67,560 due to structural changes at the Barn associated with the implementation of the concessionaire model of operation and temporary suspension of the year round riding program. These reductions in revenues were offset by CAP overhead allocation of \$104,832 to Sewer Fund, higher encroachment permit fee of \$27,314, and an increase in planning and building permit revenues of \$53,581.
- **Miscellaneous revenues** – This category reports donations, non-governmental grants, and other miscellaneous receipts. In 2013-2014, there was a one-time miscellaneous revenue of \$413,683 related to completion of the RIF refund program and resulted in recognition of its unused liability as General Fund revenues.

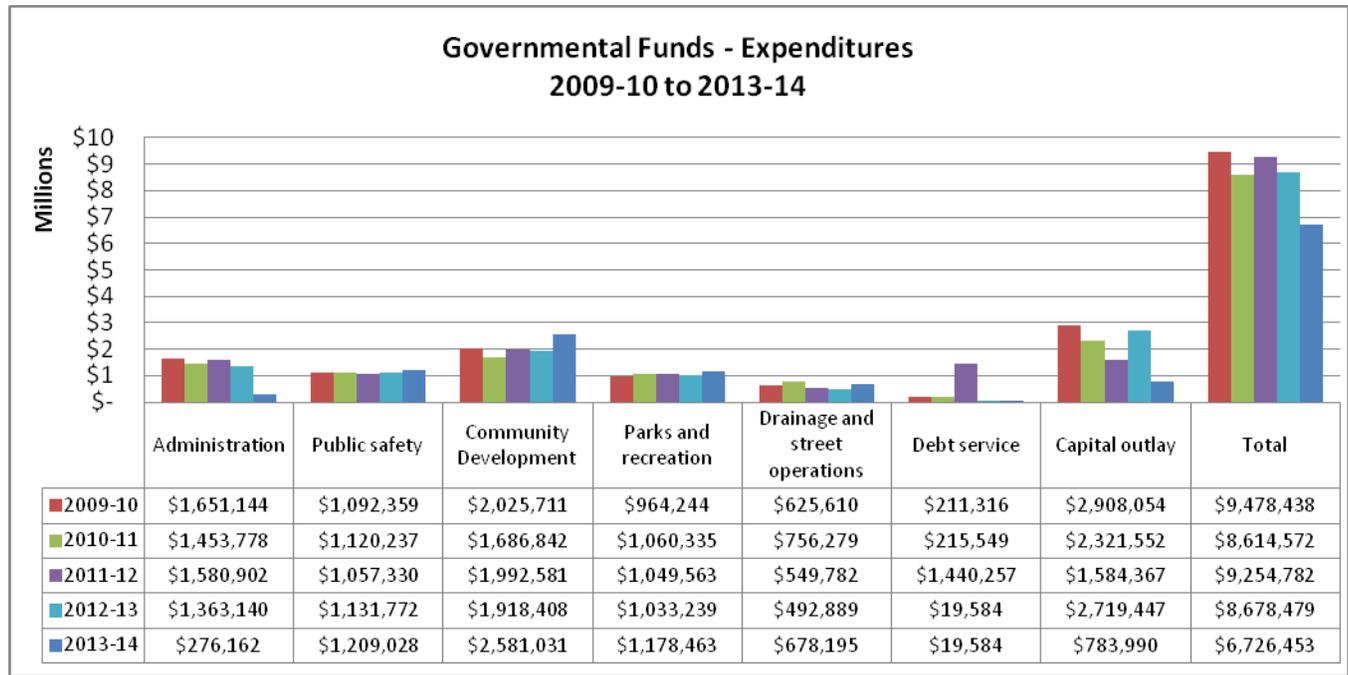
TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Governmental Funds – Expenditures

Overall expenditures in all Governmental Funds decreased by \$1,952,026, or 29 percent compared to prior year, mainly due to the timing of capital outlays. The reductions were offset by increase in other categories. The chart below identifies significant trends in expenditures over the past five fiscal years.



- Administration** – expenditures decreased by \$1,086,978, or 80 percent in comparison to the prior year. As discussed in prior sections, Town implemented a CAP overhead model in 2013-14. Under the CAP allocation methodology, costs for the Town’s administrative departments are allocated directly to operating departments, and special and enterprise funds. The reported expenditures of \$276,162 are net of CAP allocations in 2013-2014.
- Public Safety** – expenditures increased by \$77,256, or 7 percent compared to the prior year due to a slight increase in renegotiated cost of contracts with the Santa Clara County Sheriff’s Office and City of Palo Alto for law enforcement and animal control services, as well as implementation of CAP allocation model in 2013-14.
- Community Development** – increased by \$662,623, or 35 percent, as a result of the combined impact from CAP overhead, Internal Service Funds (ISF) charges and increased contract service costs to backfill for vacant positions.
- Parks and recreation** – expenditures increased by \$145,224, or 14 percent, predominantly as a result of combining Parks and Recreation Facilities Fund (including Westwind Barn Operations) with General Fund. In prior years, the Parks and Recreation Fund was reported as a special revenue non-major fund. Compared to prior year, Westwind Barn operating expenses were \$88,364 lower in 2013-2014 due to structural changes at the Barn associated with outsourcing its operations to a third party concessionaire provider.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- **Drainage and street operations** – expenditures increased \$185,306 or 38 percent in contrast to the prior year mainly due to CAP overhead and ISF charges of \$173,252. In addition, operating costs also increased \$12,054 in both programs.
- **Debt service** – expenditures decreased drastically from prior years due to paying off the Town Hall capital lease balance of \$1,322,691 in 2012. The 2013-2014 remaining debt service of \$97,572 is for solar panels at Town Hall and Westwind Community Barn and is now reported in Nonmajor Governmental funds.
- **Capital outlay** – decreased by \$1,935,457, or 71 percent, mainly due to capital spending on improvements to the Town's pathways system in prior year. In addition, the Town's capital expenditures in storm drainage and street system capital improvements in 2013-14 were also \$908,688 lower compared to prior year due to the timing of the capital projects.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

FINANCIAL ANALYSIS OF TOWN'S FUNDS

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 Administrative Services), 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, 2014, increased by \$1,404,266, or 21 percent, over the prior year. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years.

	<u>2014</u>	<u>2013</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Property taxes	\$ 4,153,332	\$ 3,785,652	\$ 367,680	9.7%
Taxes other than property	524,763	545,228	(20,465)	-3.8%
Franchise fees	463,598	421,634	41,964	10.0%
Licenses and permits	980,307	729,107	251,200	34.5%
Intergovernmental	56,128	66,355	(10,227)	-15.4%
Use of money and property	230,869	142,785	88,084	61.7%
Charges for services	1,070,199	753,608	316,591	42.0%
Miscellaneous	566,599	197,160	369,439	187.4%
Total	<u>\$ 8,045,795</u>	<u>\$ 6,641,529</u>	<u>\$ 1,404,266</u>	21.1%

- **Property Tax** – increased by \$367,680 or around 10 percent in 2013-2014 compared to prior year. The increase was attributable to a corresponding change in assessed valuation reflecting a strong real estate market and increase in new residential construction.
- **Taxes other than property** – reflected a 4 percent decrease compared to prior year due to lower business license revenue.
- **Franchise fees** – increased by \$41,964, or 10 percent, in 2013-2014 when compared to prior year. Franchise fees are charged as a percentage of gross revenue and they were an across-the-board increase in receipts from all utility service providers.
- **Licenses and permits** – experienced a substantial increase year-over-year of \$251,200. This increase is the result of higher building permit activity when compared to prior year.
- **Use of Money and property** – reflected \$88,084 increase driven by higher Cellular Tower ground lease revenues from new terms of two cell tower contracts renegotiated in 2013-2014 and COLA adjustment to the other ones, slight improvement in portfolio investment earnings, and a positive change in unrealized gains on investments per GASB statement 31.
- **Charges for services** – recorded an increase of \$316,591 in 2013-2014 when compared to prior year. This increase is due primarily to higher charges for services and reimbursements for staff time from increased planning activities.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- **Miscellaneous Revenues** – increased by \$369,439, or 187 percent over the prior year, primarily due to one-time revenue recognition of \$413,683 resulted from the closure of unclaimed RIF refund liability in 2013-2014.

General Fund Expenditures

General Fund expenditures for the current year increased by \$121,373, or approximately 3 percent, over the prior fiscal year. As previously stated, the decrease in Administration expenditures is primarily due to the implementation of CAP overhead model in 2013-2014. Under the CAP allocation methodology, Town's administrative departments are allocated directly to recipient departments. In 2013-2014, reported administration expenses of \$276,162 reflect net expenses after the CAP allocation.

The year-over-year increase in Public Safety expenditures is due to CAP overhead allocation as well as COLA adjustment to law enforcement and animal control services contracts. The increase in the Community Development expenditures is due to a combination of CAP overhead allocation and vacant positions filled through contractual services at a higher consulting cost. Higher expenditures in Parks and Recreation are primarily related to reporting of Parks and Recreation Facilities fund as part of General Fund. In the prior year, it was reported as special revenue fund.

	<u>2014</u>	<u>2013</u>	<u>\$ Increase (decrease)</u>	<u>% Increase (decrease)</u>
Administration	\$ 276,162	\$ 1,363,140	\$ (1,086,978)	-79.7%
Public safety	1,134,527	1,047,501	87,026	8.3%
Community development	2,581,031	1,918,408	662,623	34.5%
Parks and recreation	<u>762,185</u>	<u>303,483</u>	<u>458,702</u>	151.1%
Total	<u>\$ 4,753,905</u>	<u>\$ 4,632,532</u>	<u>\$ 121,373</u>	2.6%

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 recently conducted by the Town's staff, it was determined that an annual program funding between \$800,000 and \$1,000,000 per year would be needed to replace aging roadway infrastructure, which is consistent with the Town's recent historical spending. In FY 2013-14 it was determined that 16 local residential streets thought to be privately maintained were in fact public streets. This was discovered after careful research of Town and County records dating back 55 years. This new information has impacted the Town's budgeted assumptions. The 2013-2014 capital improvement program totaled \$473,262, a reduction from the original budget appropriation due to the timing of public vs. private roads determination and pending update to pavement management program.

Revenue sources for the street capital improvement program are somewhat limited. In 2013-2014, the Town received \$285,473 in revenues, of which \$222,712, or 78 percent was from state traffic congestion relief and SB 83 vehicle registration fee revenues.

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

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

In fiscal year 2011-2012, the City Council adopted an ordinance repealing the fee in its entirety. Additionally, City Council directed staff to offer refunds to those legally entitled to a refund of fees paid. The Town estimated the total amount of refunds to be approximately \$1,250,000, which was accrued as a liability to the General Fund. In fiscal year 2013-2014, the Town processed and issued \$328,674 in RIF refunds. The repeal of the fee has resulted in a reduction of the Town's available resources and increased burden on General Fund to fund future street capital improvements, as RIF revenues were estimated at \$340,000 per year.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Other Capital Projects Fund

Expenditures for other capital projects were \$178,287 for fiscal year 2013-2014, compared to \$1,830,847 for the prior year, a decrease of \$1,652,560 on account of the Safe Routes to School and Elena Road/Page Mill Road erosion control projects completed in the prior year. Major work areas reported in Other Capital Projects included:

Facility Improvements - Various	\$77,685
Record Management System	\$30,000
Pathway Improvements Arastradero Road (C-2), Safe Route to Schools	\$68,062

Nonmajor Governmental Funds

Expenditures in the Nonmajor Governmental Funds, the aggregate of the Town's remaining special revenues funds and debt service funds decreased by \$5,501 to \$1,320,999 year-over-year, as detailed on page 68 in the Other Supplementary Information section of the financial statements.. After reclassifying Parks and Recreation Facilities fund as part of the general fund in 2013-2014, expenditures increased \$453,512 or 52 percent. The increase was reflected in all special revenue funds such as drain, pathway, and street maintenance programs. The Town also repaired a \$132,441 Westwind Barn Lower Arena Facility in 2013-2014 that was financed by the Parks & Recreation In-Lieu fees.

Debt Service Fund

The Town received a loan from the California Energy Commission in the amount of \$160,000 to provide funding for energy conservation features at the Town Hall building in 2008 and a \$47,000 loan from the California Energy Commission for energy efficiency improvements at Westwind Community Barn in 2010-2011. Interest payments for both loans during the current year totaled \$3,966 and principal in the amount of \$15,618 was retired. The balance of the two debts as of June 30, 2014 is \$97,572; of that amount, \$16,212 is due within one year and the balance, \$81,360, is due in more than one year.

Obligation	June 30, 2014		
	Principal Balance	Interest Rate	Payoff
2004 California Energy Commission loan	\$ 62,717	3.95%	12/2018
2010 California Energy Commission loan	34,855	3.00%	12/2023
Total	\$ 97,572		

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Enterprise Fund

	Sewer		\$ Increase	% Increase
	June 30, 2014	June 30, 2013	(decrease)	(decrease)
OPERATING REVENUES				
Charges for services	\$ 1,382,472	\$ 1,359,338	\$ 23,134	1.7%
Total Operating Revenues	1,382,472	1,359,338	23,134	1.7%
OPERATING EXPENSES				
Salaries and benefits	72,784	52,970	19,814	37.4%
Contract services	827,506	955,134	(127,628)	-13.4%
Operating expenses	211,665	75,564	136,101	180.1%
Depreciation	159,696	159,217	479	0.3%
Total Operating Expenses	1,271,651	1,242,885	28,766	2.3%
Operating Income (Loss)	110,821	116,453	(5,632)	-4.8%
NONOPERATING REVENUE (EXPENSES)				
Investment income	24,719	720	23,999	3333.2%
Income before contributions and transfers	135,540	117,173	18,367	15.7%
Connection Fees	175,497	125,183	50,314	40.2%
TRANSFERS				
Transfers out	-	(71,000)	71,000	-100.0%
Changes in net position	311,037	171,356	139,681	
Total Net Position, Beginning of Year	7,539,312	7,367,956	171,356	2.3%
Total Net Position, End of Year	\$ 7,850,349	\$ 7,539,312	\$ 311,037	4.1%

The Town's sole enterprise fund provides sanitary sewer to roughly half of the parcels within the jurisdiction. Service fees are collected annually from those properties connected to the sewer system and were last adjusted in 2007-2008. Salaries and benefit increase of \$19,814 or 37 percent was mainly due to benefit allocations for Administrative Departments under the CAP allocation methodology. Contract services decreased \$127,628 or 13 percent from the prior year to \$827,506 partially as a result of actual treatment and conveyance expenses from City of Los Altos were adjusted down by \$47,624 compared to the accrual amount from prior year. Other categories of contract expenses were reduced by \$80,004 in 2013-2014. Operating expenses increased \$136,101 or 180 percent from the prior year to \$211,665 and, reflect CAP overhead and ISF charges to Sewer Fund.

The CAP allocation was partially offset by elimination of \$71,000 transfer from Sewer to General Fund. In 2013-2014, the Sewer Fund had an operating income of \$110,821, compared to \$116,453 for the prior year. Connection fees, or fees paid by new users to connect to the sewer main for future capital improvements to the system, are reported as capital contributions and were up by \$50,314, compared to the prior year due to an increase in the number of connections to the Los Altos and Palo Alto sewer basin. Substantial capital improvements planned by the Sewer Regional Quality Water Control Plant (RQWCP) will significantly increase the Town's capital spending in the upcoming years and will adversely affect the sewer rated for FY 2016 or FY 2017.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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, 2014, the Town's governmental funds reported combined ending fund balances of \$7,744,331, a substantial increase of \$2,325,654, which is indicative of the Town's financial stability. The Town's General Fund's fund balance increased by \$2,428,729 while the combined fund balances for Special Revenue and Capital Projects Funds decreased by \$103,075.

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

	<u>2014</u>	<u>2013</u>	<u>\$ Increase (decrease)</u>
Revenues	\$ 9,052,107	\$ 8,621,958	\$ 430,149
Expenditures	6,726,453	8,678,479	1,952,026
Net transfers in (out)	-	71,000	(71,000)
Net increase/(decrease)	<u>\$ 2,325,654</u>	<u>\$ 14,479</u>	<u>\$ 2,311,175</u>

For fiscal year 2013-2014, governmental fund revenues increased by \$430,149, or 5 percent, and expenditures decreased \$1,952,026, or 22 percent. A discussion of revenues and expenditures trends and comparisons is provided in the "Major Funds" section above.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

The following table presents information about fund balance components.

	<u>General Fund</u>	<u>Street Capital Project</u>	<u>Other Capital Project</u>	<u>Non-major</u>	<u>Total</u>
Restricted for:					
Other capital projects	\$ -	\$ -	\$ -	\$ 1,062,639	\$ 1,062,639
Street and road repairs	-	-	-	337,732	337,732
Law enforcement	-	-	-	120,174	120,174
Committed for:					
Pension contributions	280,000	-	-	-	280,000
IT Equipment Replacement Reserve	5,000	-	-	-	5,000
Other capital projects	-	-	453,377	-	453,377
Street and road repairs	-	65,682	-	-	65,682
Unassigned	<u>5,420,162</u>	<u>-</u>	<u>-</u>	<u>(435)</u>	<u>5,419,727</u>
	<u>\$ 5,705,162</u>	<u>\$ 65,682</u>	<u>\$ 453,377</u>	<u>\$ 1,520,110</u>	<u>\$ 7,744,331</u>

At June 30, 2014, the Town's Governmental Funds fund balance is \$7,744,331. The Town has classified the fund balance in accordance with GASB issued Statement No. 54 (refer to Note 1 - Summary of Significant Accounting Policies). \$1,520,545 of the Town's Governmental Funds fund balance is restricted in that they are subject to externally enforceable legal restrictions or imposed by law through constitutional provisions or enabling legislation. Within these restricted fund balances, \$1,062,639 is restricted for other capital projects, \$337,732 is restricted for the repair, maintenance and construction of streets, and \$120,174 is restricted for law enforcement. \$804,059 of the Town's Governmental Funds fund balance is committed in that they are constrained to specific purposes by a formal action of the Town Council such as an ordinance or resolution. Within these committed fund balances, \$453,377 is committed for other capital projects, and \$65,682 is committed for street and road repairs. Additional committed fund balances are described in more detail below. It is worthwhile to note unrecorded liabilities that are not reflected in the Town's Governmental Funds fund balance, such as the Town's share of CalPERS' pension liability, which will be recorded in subsequent financial statements in compliance with GASB Statement No. 68.

At June 30, 2014, the Town's General Fund's fund balance was \$5,705,162. This includes committed pension contingency fund of \$280,000. The City Council has adopted a pension contingency fund to provide for unanticipated charges from CalPERS to fund the pension's unfunded liability. According to the November 2014 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, 2014, is reported as \$2,279,632. Under the provision of GASB Statement Number 68, it will be reported as a liability on the statements of net position as of June 30, 2015.

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, 2014, the unassigned fund balance and total fund balance represent 114 percent and 120 percent of General Fund expenditures, respectively. At June 30, 2013, the unassigned fund balance and total fund balance represented 65 percent and 71 percent of General Fund expenditures. However, with the implementation of GASB Statement Number 68, this positive trend will be adversely affected in future years.

The Town's net OPEB Asset is \$439,589 and further details are described in Note 11 of the Notes to the Financial Statement.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Enterprise fund net position increased \$311,037 as a result of the business-type activities of the Town. Factors contributing to the net increase are described in the "Enterprise Fund" section above.

Budgetary Summaries

A comparison of the final budget to actual revenues, expenditures, and fund balances for the all funds is presented in sections and Supplementary Information of this report. The most sizable positive fund balance variance was observed in the General Fund, as the actual revenues were over budget in various categories as discussed in prior sections. The most sizable negative variance was recorded in the Street Capital Fund as the amount of budgeted transfer from General Fund was not necessary due to lower spending. Further details on the General Fund budget and actual variance may be found on page 62. The Sewer Fund had a notable positive variance, largely due to differences in presentation between the adopted budget and financial statements related to capital expenditures. It is important to note that the table below reflects fund balance budget and actual variance, while the schedules in the Required Supplementary Information section provide a more detailed variance analysis.

FUND	Amended Budget Ending Fund Balance	Actual Ending Fund Balance	Positive (Negative) Variance
General	\$ 3,542,264	\$ 5,705,162	\$ 2,162,898
Storm Drain	432,410	426,317	(6,093)
Pathway In-Lieu Fees	602,867	636,322	33,455
Parks and Recreation In-Lieu Fees	37,506	(435)	(37,941)
Street Fund	257,600	337,732	80,132
Roadway Impact Fee	-	-	-
Citizens' Option for Public Safety (COPS) Grant	74,574	120,174	45,600
Debt Service	-	-	-
Street Capital	321,658	65,682	(255,976)
Other Capital Projects	252,544	453,377	200,833
Sewer	6,882,647	7,850,349	967,702
TOTAL	\$ 12,404,070	\$ 15,594,680	\$ 3,190,610

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$30,407,885, net of accumulated depreciation, a decrease of \$672,056 reflecting a slowdown in the Town's investment in capital improvements compared to prior year. Capital spending included \$783,990 in infrastructure, and \$622,464 in sewer collection system. Capital assets include land, buildings, equipment, vehicles and infrastructure. No changes were recorded in land for the fiscal year.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

The following table presents summarized information on capital assets net of depreciation for fiscal years 2013 and 2014. Additional information on the Town's capital assets can be found in Note 4 to the financial statements.

Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	3,903,449	4,034,087	-	-	3,903,449	4,034,087
Office equipment	37,111	55,073	-	-	37,111	55,073
Vehicles	154,682	182,378	-	-	154,682	182,378
Sewer collection system Infrastructure	-	-	4,774,920	4,312,151	4,774,920	4,312,151
	21,287,188	22,245,717	-	-	21,287,188	22,245,717
Total capital assets, net	<u>\$ 25,632,965</u>	<u>\$ 26,767,790</u>	<u>\$ 4,774,920</u>	<u>\$ 4,312,151</u>	<u>\$ 30,407,885</u>	<u>\$ 31,079,941</u>

Long-term Debt

The balance of long term debt, excluding compensated absences, at June 30, 2014, is \$97,572; of that amount, \$16,212 is due within one year and the balance is due in more than one year.

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

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

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 9,860,210	\$ 4,147,496	\$ 14,007,706
Accounts receivables	515,608	122,393	638,001
Net OPEB asset	439,589	-	439,589
Total current assets	<u>10,815,407</u>	<u>4,269,889</u>	<u>15,085,296</u>
Capital assets:			
Land	250,535	-	250,535
Other capital assets, net of depreciation:			
Buildings	3,903,449	-	3,903,449
Office equipment	37,111	-	37,111
Vehicles	154,682	-	154,682
Land improvements	-	4,774,920	4,774,920
Infrastructure	21,287,188	-	21,287,188
Total capital assets	<u>25,632,965</u>	<u>4,774,920</u>	<u>30,407,885</u>
Total Assets	<u>36,448,372</u>	<u>9,044,809</u>	<u>45,493,181</u>
LIABILITIES			
Current liabilities:			
Accounts payable	442,156	1,140,335	1,582,491
Other liabilities	85,385	51,176	136,561
Interest payable	68	-	68
Refundable deposits	1,534,168	-	1,534,168
Compensated absences due within one year	12,421	-	12,421
Current portion of long-term debt	16,212	-	16,212
Total current liabilities	<u>2,090,410</u>	<u>1,191,511</u>	<u>3,281,921</u>
Non-current liabilities:			
Compensated absences due in more than one year	96,140	2,949	99,089
Long-term debt due in more than one year	81,360	-	81,360
Total non-current liabilities	<u>177,500</u>	<u>2,949</u>	<u>180,449</u>
Total Liabilities	<u>2,267,910</u>	<u>1,194,460</u>	<u>3,462,370</u>
NET POSITION			
Net investment in capital assets	25,535,393	4,774,920	30,310,313
Restricted for:			
Highways and streets	337,732	-	337,732
Public safety	120,174	-	120,174
Other capital projects	1,062,639	-	1,062,639
Unrestricted	7,124,524	3,075,429	10,199,953
Total Net Position	<u>\$ 34,180,462</u>	<u>\$ 7,850,349</u>	<u>\$ 42,030,811</u>

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

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Program Revenues				Net Revenue (Expense) and Change in Net Position		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Administration	\$ 639,350	\$ -	\$ 215,247	\$ -	\$ (424,103)	\$ -	\$ (424,103)
Public safety	1,555,955	-	100,000	-	(1,455,955)	-	(1,455,955)
Community development	3,224,490	1,871,118	21,139	79,143	(1,253,090)	-	(1,253,090)
Parks and recreation	1,479,822	281,886	-	-	(1,197,936)	-	(1,197,936)
Drainage and street operations	842,532	186,631	163,859	187,593	(304,449)	-	(304,449)
Interest on long-term debt	3,955	-	-	-	(3,955)	-	(3,955)
Total Governmental Activities	<u>7,746,104</u>	<u>2,339,635</u>	<u>500,245</u>	<u>266,736</u>	<u>(4,639,488)</u>	<u>-</u>	<u>(4,639,488)</u>
Business-type Activities:							
Sewer	<u>1,271,651</u>	<u>1,382,472</u>	<u>-</u>	<u>175,497</u>	<u>-</u>	<u>286,318</u>	<u>286,318</u>
Total Business-type Activities	<u>1,271,651</u>	<u>1,382,472</u>	<u>-</u>	<u>175,497</u>	<u>-</u>	<u>286,318</u>	<u>286,318</u>
Total Primary Government	<u>\$ 9,017,755</u>	<u>\$ 3,722,107</u>	<u>\$ 500,245</u>	<u>\$ 442,233</u>	<u>(4,639,488)</u>	<u>286,318</u>	<u>(4,353,170)</u>
General Revenues:							
Taxes:							
Property taxes					4,153,331	-	4,153,331
Motor vehicle license tax					101,716	-	101,716
Other taxes					524,763	-	524,763
Franchise taxes					463,598	-	463,598
Use of money and property					199,609	24,719	224,328
Other unrestricted revenue					585,089	-	585,089
Total General Revenues					<u>6,028,106</u>	<u>24,719</u>	<u>6,052,825</u>
Change in Net Position					1,388,618	311,037	1,699,655
Net Position, Beginning of Year					<u>32,791,844</u>	<u>7,539,312</u>	<u>40,331,156</u>
Net Position, End of Year					<u>\$ 34,180,462</u>	<u>\$ 7,850,349</u>	<u>\$ 42,030,811</u>

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

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
ASSETS					
Cash and investments	\$ 7,146,600	\$ 3,568	\$ 450,979	\$ 1,521,974	\$ 9,123,121
Accounts receivable	392,322	62,114	11,557	49,615	515,608
Total Assets	<u>\$ 7,538,922</u>	<u>\$ 65,682</u>	<u>\$ 462,536</u>	<u>\$ 1,571,589</u>	<u>\$ 9,638,729</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 214,207	\$ -	\$ 9,159	\$ 51,479	\$ 274,845
Other liabilities	85,385	-	-	-	85,385
Refundable deposits	1,534,168	-	-	-	1,534,168
Total Liabilities	<u>1,833,760</u>	<u>-</u>	<u>9,159</u>	<u>51,479</u>	<u>1,894,398</u>
FUND BALANCES					
Restricted	-	-	-	1,520,545	1,520,545
Committed	285,000	65,682	453,377	-	804,059
Unassigned	5,420,162	-	-	(435)	5,419,727
Total Fund Balances	<u>5,705,162</u>	<u>65,682</u>	<u>453,377</u>	<u>1,520,110</u>	<u>7,744,331</u>
Total Liabilities and Fund Balances	<u>\$ 7,538,922</u>	<u>\$ 65,682</u>	<u>\$ 462,536</u>	<u>\$ 1,571,589</u>	<u>\$ 9,638,729</u>

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

TOWN OF LOS ALTOS HILLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2014**

Fund Balances of Governmental Funds	\$ 7,744,331
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	21,397,724
The Internal Service Fund is used by the Town to charge the cost of Town Hall, office, and corporate yard services. The assets and liabilities of the Internal Service Fund are included in the Governmental Activities in the Statement of Net Position.	5,237,949
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(101,902)
Long-term debt	(97,572)
Interest payable	(68)
Net Position of Governmental Activities	<u>\$ 34,180,462</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General	Street Capital Projects	Other Capital Projects	Nonmajor Governmental Funds	Total
REVENUES					
Property taxes	\$ 4,153,332	\$ -	\$ -	\$ -	\$ 4,153,332
Taxes other than property	524,763	-	-	-	524,763
Franchise fees	463,598	-	-	-	463,598
Licenses and permits	980,307	-	-	26,600	1,006,907
Intergovernmental	56,128	222,712	60,000	272,010	610,850
Use of money and property	230,869	-	45,405	5,309	281,583
Charges for services	1,070,199	48,511	-	292,372	1,411,082
Miscellaneous	566,599	14,250	19,143	-	599,992
Total revenues	8,045,795	285,473	124,548	596,291	9,052,107
EXPENDITURES					
Current:					
Administration	276,162	-	-	-	276,162
Public safety	1,134,527	-	-	74,501	1,209,028
Community development	2,581,031	-	-	-	2,581,031
Parks and recreation	762,185	-	-	416,278	1,178,463
Drainage and street operations	-	-	-	678,195	678,195
Debt service					
Principal	-	-	-	15,618	15,618
Interest	-	-	-	3,966	3,966
Capital outlay	-	473,262	178,287	132,441	783,990
Total expenditures	4,753,905	473,262	178,287	1,320,999	6,726,453
Excess (Deficiency) of Revenues Over Expenditures	3,291,890	(187,789)	(53,739)	(724,708)	2,325,654
OTHER FINANCING SOURCES (USES)					
Transfers in	168,786	201,126	336,972	783,135	1,490,019
Transfers out	(1,031,947)	-	-	(458,072)	(1,490,019)
Total Other Financing Sources (Uses)	(863,161)	201,126	336,972	325,063	-
Net Change in Fund Balances	2,428,729	13,337	283,233	(399,645)	2,325,654
Fund Balances, Beginning of Year	3,276,433	52,345	170,144	1,919,755	5,418,677
Fund Balances, End of Year	\$ 5,705,162	\$ 65,682	\$ 453,377	\$ 1,520,110	\$ 7,744,331

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

TOWN OF LOS ALTOS HILLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$ 2,325,654
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	780,527
Depreciation expense charged to governmental activities	(1,739,056)
Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Position.	15,618
Change in Compensated Absences	5,864
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, 2014	(68)
Interest accrual at June 30, 2013	79
Change in Net Position of Governmental Activities	<u>\$ 1,388,618</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF FUND NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2014**

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
ASSETS		
Current Assets:		
Cash and investments	\$ 4,147,496	\$ 737,089
Accounts receivable	122,393	-
Net OPEB Asset	-	439,589
Total Current Assets	<u>4,269,889</u>	<u>1,176,678</u>
Noncurrent Assets:		
Capital assets, net of accumulated depreciation	<u>4,774,920</u>	<u>4,235,241</u>
Total Assets	<u>9,044,809</u>	<u>5,411,919</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	1,140,335	167,311
Other liabilities	51,176	-
Total Current Liabilities	<u>1,191,511</u>	<u>167,311</u>
Noncurrent liabilities:		
Compensated absence payable	<u>2,949</u>	<u>6,659</u>
Total noncurrent liabilities	<u>2,949</u>	<u>6,659</u>
Total Liabilities	<u>1,194,460</u>	<u>173,970</u>
NET POSITION		
Investment in Capital Assets	4,774,920	4,235,241
Unrestricted	<u>3,075,429</u>	<u>1,002,708</u>
Total Net Position	<u>\$ 7,850,349</u>	<u>\$ 5,237,949</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014 AND 2013**

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	Enterprise Fund Sewer	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 1,382,472	\$ -
Town Hall services	-	646,255
Corporate yard services	-	126,939
Vehicle services	-	78,124
	<u>1,382,472</u>	<u>851,318</u>
OPERATING EXPENSES		
Salaries and benefits	72,784	172,399
Contract services	827,506	116,839
Operating expenses	211,665	385,785
Depreciation	159,696	176,295
	<u>1,271,651</u>	<u>851,318</u>
Operating Income (Loss)	<u>110,821</u>	<u>-</u>
NONOPERATING REVENUE (EXPENSES)		
Interest income	24,719	-
	<u>135,540</u>	<u>-</u>
Income Before Contributions and Transfers	<u>135,540</u>	<u>-</u>
Connection Fees	175,497	-
Changes in Net Position	311,037	-
Total Net Position, Beginning of Year	<u>7,539,312</u>	<u>5,237,949</u>
Total Net Position, End of Year	<u>\$ 7,850,349</u>	<u>\$ 5,237,949</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,356,286	\$ 851,318
Payments to suppliers	(535,702)	(353,805)
Payments to employees	(72,143)	(285,502)
Net Cash Provided (Used) by Operating Activities	<u>748,441</u>	<u>212,011</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(622,465)	-
Proceeds from connection fees	175,497	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(446,968)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>24,719</u>	<u>-</u>
Net Increase (Decrease) in Cash and Investments	326,192	212,011
Cash and Cash Equivalents, Beginning of Year	<u>3,821,304</u>	<u>525,078</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,147,496</u>	<u>\$ 737,089</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 110,821	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	159,696	176,295
(Increase) decrease in accounts receivable and prepaid expense	(26,186)	-
(Increase) decrease in OPEB assets	-	(113,123)
Increase (decrease) in accounts payable	<u>504,110</u>	<u>148,839</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 748,441</u>	<u>\$ 212,011</u>

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

TOWN OF LOS ALTOS HILLS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014**

	<u>Agency Fund</u>
ASSETS	
Restricted Cash and Investments	\$ 306,471
Miscellaneous Receivables	1,294
Total Assets	<u>\$ 307,765</u>
LIABILITIES	
Due to bondholders	\$ 306,415
Accounts Payable	1,350
Total Liabilities	<u>\$ 307,765</u>

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

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, the Town's population was 8,334. The Town operates under a Council-Manager form of government and provides the following services: management, planning, code enforcement, engineering, building inspection, maintenance of public infrastructure, recreation, law enforcement and sewer service.

For financial reporting purposes, the Town's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the Town Council. There are no component units. The financial statements may be obtained by writing to the Town of Los Altos Hills, Administrative Services Department, 26379 Fremont Road, Los Altos Hills, California 94022.

B. Basis of Presentation

Government-wide Financial Statements

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

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

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

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, equipment maintenance and usage fees, and support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation of capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise fund:

- The *Sewer Fund* is used to account for the maintenance of the Town's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town reports the following additional fund types:

- The *Internal Service Fund* is used to account for the maintenance and replacement of vehicles and equipment; the operation, maintenance, and replacement of office equipment used by the Town's departments; costs incurred for printing/reproduction services and mailing services for all of the Town's departments; and the charges against each department for its share of the costs of operations for the Finance Department.
- The *Agency Fund* is used to account for assets held by the Town in the capacity of agent for a special assessment district. The Town's Agency Fund includes West Loyola Sewer Assessment District #1.
- The *Special Revenue Funds* are used to account for specific revenues that are legally restricted to expenditures for particular purposes.
- The *Debt Service Fund* is used to account for principal and interest payments on long-term obligations.

Fund Balance Classification

Fund balance is classified in accordance with current governmental accounting standards, which requires classification of fund balances into five different components, where applicable. 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 City Council such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the City 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. The City Council, by action, has the authority to assign amounts to be used for specific purposes. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.
- Unassigned fund balance is the residual classification and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

C. Measurement Focus, Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time that liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include property and sales tax, grants, entitlements, franchise fees and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales tax, interest, certain state, and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental fund. Proceeds of long-term debt and capital leases are reported as other financing sources.

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

D. Internal Investment Pool

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

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Town considers all highly liquid investments with maturity of three month or less when purchased to be cash equivalents.

F. 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 \$392,322 in the General Fund, \$62,114 in the Street Capital Projects, \$11,557 in the Other Capital Projects Fund, \$49,615 in Nonmajor Governmental Funds, and \$122,393 in the Sewer Fund.

G. 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.

H. 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

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

J. 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.

K. 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.

L. Changes in Accounting Principles

GASB Statement No. 65

In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of Statement 65 are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The Town has implemented the provisions of this Statement as of July 1, 2013 with no significant impact on the financial statements.

GASB Statement No. 66

In March, 2012, GASB issued Statement No. 66, *Technical Correction – 2012 – an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of Statement 66 are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The Town implemented this standard on July 1, 2013 with no significant impact on the financial statements.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 70

In April, 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of Statement 70 are effective for reporting periods beginning after June 15, 2013, and should be applied on a prospective basis, with earlier application encouraged. The Town has implemented this standard with no significant impact on the financial statements.

M. Subsequent Events

Management has considered subsequent events through November 17, 2014, the date which the financial statements were available to be issued.

N. New Accounting Pronouncements

Upcoming

GASB Statement No. 68

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

GASB Statement No. 69

In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis, with earlier application encouraged. The Town has not determined its effect on the financial statements.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 71

In November, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Town has not determined its effect on the financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and Investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Cash on hand	\$	900
Deposits with financial institutions		4,390,374
Cash and investment with fiscal agent		188,601
Investments		9,734,302
Total Deposits and Investments	\$	<u>14,314,177</u>

Cash and investment as of June 30, 2014, consist of the following:

Statement of Net Position:		
Cash and investments	\$	14,007,706
Fiduciary funds:		
Cash and investments		306,471
Total Deposits and Investments	\$	<u>14,314,177</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, 2014.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	30%	30%
Registered State Bonds, Notes, Warrants	5 years	30%	30%
U.S. Treasury Bills	5 years	None	None
U.S. Treasury Notes	5 years	None	None
U.S. Agency Securities	5 years	None	None
Certificates of Deposit	180 days	30%	30%
Money Market Mutual Funds	5 years	20%	10%
Local Agency Investment Fund (LAIF)	5 years	None	None
Passbook Savings and Demand Deposits	5 years	30%	30%
California Asset Management Program (CAMP)	5 years	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, 2014, 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
U.S. Treasury Bonds/Notes	\$ 7,969,722	\$ 2,709,476	\$ 4,065,356	\$ 1,194,890	\$ -
Corporate Notes	1,472,248	-	-	1,472,248	-
U.S. Agency Notes	197,871	-	-	197,871	-
LAIF Investment Pool	19,361	19,361	-	-	-
CAMP Investment Pool	75,100	75,100	-	-	-
Money Market Mutual Funds	188,601	188,601	-	-	-
Total Securities	<u>\$ 9,922,903</u>	<u>\$ 2,992,538</u>	<u>\$ 4,065,356</u>	<u>\$ 2,865,009</u>	<u>\$ -</u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

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

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End					Unrated
			AAA _m	AA+	AA-	AA	A+	
U.S. Treasury Notes	\$ 7,969,722	N/A	\$ -	\$ 7,969,722	\$ -	\$ -	\$ -	\$ -
Corporate Notes	1,472,248	A	265,958	489,217	201,001	266,286	249,786	-
U.S. Agency Notes	197,871	N/A	-	197,871	-	-	-	-
LAIIF Investment Pool	19,361	N/A	-	-	-	-	-	19,361
CAMP Investment Pool	75,100	N/A	75,100	-	-	-	-	-
Money Market	188,601	N/A	188,601	-	-	-	-	-
Total	\$ 9,922,903		\$ 529,659	\$ 8,656,810	\$ 201,001	\$ 266,286	\$ 249,786	\$ 19,361

Concentration of Credit Risk

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

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy, as well as the *California Government Code*, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the Town's bank balance of \$4,805,278, with a reported balance of \$4,390,374, is insured for the first \$299,160 and the balance is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Town.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Investments

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

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

NOTE 3 – INTERFUND TRANSACTIONS

The following schedule briefly summarizes the Town's transfer activity for the fiscal year ended June 30, 2014:

	Transfers Out				Total
	General Fund	Non-Major			
Transfers In		Storm Drain Fund	Pathway In-Lieu Fee Fund	Roadway Impact Fee Fund	
General Fund	\$ -	\$ -	\$ -	\$ 168,786	\$ 168,786
Street Capital Project Fund	201,126	-	-	-	201,126
Other Capital Project Fund	47,686	156,945	132,341	-	336,972
Governmental Non-Major Funds	783,135	-	-	-	783,135
Total	\$ 1,031,947	\$ 156,945	\$ 132,341	\$ 168,786	\$ 1,490,019

The Town's annual inter-fund transfers provide for operating, capital, and debt service activities to funds without sufficient revenue sources to provide for the expenditures included in the Town Council approved budget. Capital improvements and operations accounted for 36 percent and 53 percent, respectively, of the total annual transfers in FY 2013-14.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
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	75,980,804	780,527	-	76,761,331
Buildings	5,152,825	-	-	5,152,825
Vehicles	523,882	-	-	523,882
Office equipment	444,411	-	-	444,411
Total capital assets being depreciated	<u>82,101,922</u>	<u>780,527</u>	<u>-</u>	<u>82,882,449</u>
Less accumulated depreciation for:				
Infrastructure	(53,735,087)	(1,739,056)	-	(55,474,143)
Buildings	(1,118,738)	(130,638)	-	(1,249,376)
Vehicles	(341,504)	(27,696)	-	(369,200)
Office equipment	(389,338)	(17,962)	-	(407,300)
Total accumulated depreciation	<u>(55,584,667)</u>	<u>(1,915,352)</u>	<u>-</u>	<u>(57,500,019)</u>
Total capital assets being depreciated, net	<u>26,517,255</u>	<u>(1,134,825)</u>	<u>-</u>	<u>25,382,430</u>
Governmental activities capital assets, net	<u>\$ 26,767,790</u>	<u>\$ (1,134,825)</u>	<u>\$ -</u>	<u>\$ 25,632,965</u>
Business-type activities				
Capital assets being depreciated:				
Sewer collection system	\$ 6,387,830	\$ 622,465	\$ -	\$ 7,010,295
Office equipment	1,509	-	-	1,509
Total capital assets being depreciated	<u>6,389,339</u>	<u>622,465</u>	<u>-</u>	<u>7,011,804</u>
Less accumulated depreciation for:				
Sewer collection system	(2,075,679)	(159,696)	-	(2,235,375)
Office equipment	(1,509)	-	-	(1,509)
Total accumulated depreciation	<u>(2,077,188)</u>	<u>(159,696)</u>	<u>-</u>	<u>(2,236,884)</u>
Total capital assets being depreciated, net	<u>4,312,151</u>	<u>462,769</u>	<u>-</u>	<u>4,774,920</u>
Business-type activities capital assets, net	<u>\$ 4,312,151</u>	<u>\$ 462,769</u>	<u>\$ -</u>	<u>\$ 4,774,920</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 282,974
Public safety	346,927
Community development	643,459
Parks and recreation	301,359
Drainage and street operations	164,337
Capital assets held by the Town's Internal Service Fund charged to the various functions based on their usage of the assets	<u>176,295</u>
 Total depreciation - governmental activities	 <u><u>\$ 1,915,351</u></u>

Depreciation expense was charged to proprietary functions as follows:

Sewer Fund	<u><u>\$ 159,696</u></u>
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NOTE 5 – LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Retirement	Balance June 30, 2014	Current portion	Interest rate
Governmental activities:						
California Energy Commission Loans	\$ 113,191	\$ -	\$ (15,619)	\$ 97,572	\$ 16,212	3.00-3.95%
Subtotals	113,191	-	(15,619)	97,572	16,212	
Compensated Absences	114,407	9,823	(15,669)	108,561	12,421	N/A
Governmental activity long-term liabilities	<u>227,598</u>	<u>9,823</u>	<u>(31,288)</u>	<u>206,133</u>	<u>28,633</u>	
Business-type activities:						
Compensated Absences	2,308	693	(52)	2,949	-	N/A
Total Governmental and Business-type activity long-term liabilities	<u><u>\$ 229,906</u></u>	<u><u>\$ 10,516</u></u>	<u><u>\$ (31,340)</u></u>	<u><u>\$ 209,082</u></u>	<u><u>\$ 28,633</u></u>	

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

On February 18, 2004 and July 15, 2010, the town entered into loan agreements with the State Energy Conservation Assistance to provide financing for the Town Hall to implement energy efficiency measures. Payments will be financed by transfers from the General Fund.

Loan repayment schedule is as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 16,212	\$ 3,372	\$ 19,584
2016	16,820	2,764	19,584
2017	17,466	2,118	19,584
2018	18,130	1,454	19,584
2019	11,145	765	11,910
2020-2024	17,799	1,372	19,171
Total	\$ 97,572	\$ 11,845	\$ 109,417

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, 2014, the balance of the assessment district's outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/2014
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25%-6.15%	\$30,000 - \$775,000	2010 - 2040	\$ 1,870,000

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 – NET POSITION/FUND BALANCES

A. Net Position

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

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

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, or restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, restricted net position consisted of \$337,732 for street projects, \$120,174 for public safety grants, and \$1,062,639 for other capital projects.

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

There is \$804,059 in unrestricted net position that is committed to fund the various future liabilities and projects.

B. Fund Balances - Components

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

	<u>General Fund</u>	<u>Street Capital Project</u>	<u>Other Capital Project</u>	<u>Non-major</u>	<u>Total</u>
Restricted for:					
Other capital projects	\$ -	\$ -	\$ -	\$ 1,062,639	\$ 1,062,639
Street and road repairs	-	-	-	337,732	337,732
Law enforcement	-	-	-	120,174	120,174
Committed for:					
Pension contributions	280,000	-	-	-	280,000
IT Equipment Replacement Reserve	5,000	-	-	-	5,000
Other capital projects	-	-	453,377	-	453,377
Street and road repairs	-	65,682	-	-	65,682
Unassigned	5,420,162	-	-	(435)	5,419,727
	<u>\$ 5,705,162</u>	<u>\$ 65,682</u>	<u>\$ 453,377</u>	<u>\$ 1,520,110</u>	<u>\$ 7,744,331</u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 – PENSION PLAN

A. Plan Description

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

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

B. Funding Policy

Active plan members in the Miscellaneous Plan have an obligation to contribute seven percent of their salary to the Fund. The Town makes the contributions required of the Town's employees on their behalf and for their account. The Town is required to contribute at an actuarially determined rate. The required employer contribution rate for fiscal year 2013-2014 was 11.104 percent for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The Town provides a defined benefit retirement plan for employees through CalPERS. On July 21, 2011, the Town implemented a Tier II retirement program for employees hired after August 31, 2011, and recent Public Employees' Pension Reform Act reform establishes a Tier III program for new employees without prior municipal employment. The employer retirement contribution (as a percent of salary) for the Town for FY 2013-14 were set as follows: Tier I (2.0 @ 55) 11.1%, Tier II (2.0 @ 60) 8.77% and Tier III (2% @ 62) 6.7%.

In addition, the Town implemented a multi-year plan that eliminates the employee pension share cost for Tier I employees, currently paid by the Town. The Tier I employee pension contribution paid by the Town was reduced from 7% to 6% in FY 2013-14. The Town's Ad Hoc committee may recommend to further reduce this benefit as part of a budget recommendation to the Town Council. Tier 2 and Tier 3 employees are not eligible for this benefit.

In September 2011, the Town implemented a second tier pension benefit where employees hired on or after September 1, 2011, are enrolled in the "two percent at 60" pension benefit plan. The change was in response to a Santa Clara County Grand Jury report on employee compensation costs in May 2010. Employees belonging to the second tier pension benefit plan contribute the full seven percent of their salary to the Fund, while the Town's contribution rate is two percent less than the first tier pension benefit plan for the contribution rates in effect for fiscal year 2013-2014.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 – PENSION PLAN (CONTINUED)

In January 2013, the Town implemented a third tier pension benefit where employees hired on or after January 1, 2013 are enrolled in the "two percent at 62" pension benefit plan, pursuant to the Public Employees' Pension Reform Act of 2013 (PEPRA) and related Public Employees' Retirement Law (PERL) amendments in Assembly Bill (AB) 340, passed by the California Legislature on August 31, 2012 and signed by the Governor on September 12, 2012. Employees belonging to the third tier pension benefit plan contribute 6.5 percent of reportable compensation to the Fund, while the Town's contribution rate is 6.7 percent, or 4.4 percent less than the first tier pension benefit plan for the contribution rates in effect for fiscal year 2013-2014.

C. Annual Pension Cost

For fiscal year 2013-2014, the Town's annual pension cost of \$310,823 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay.

D. Three-Year Trend Information

The following table shows the Town's required contributions and percentage contributed, for the current year and each of the preceding two years.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2012	\$ 278,575	100%	\$ -
6/30/2013	279,845	100%	-
6/30/2014	310,823	100%	-

E. Social Security

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing system as of January 1, 1992 be covered by either Social Security or an alternative plan. Part-time seasonal and temporary employees are covered under Social Security, which requires these employees and the Town to each contribute 6.2 percent of the employees' pay.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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). The ABAG Plan ensures liability and property claims. The Town's general liability claims are insured up to \$5 million per occurrence and \$10 million per year. The Town's property claims are insured for up to \$25 million per year. 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, 2014, the Town contributed \$113,963 for current year coverage. Settlement amounts did not exceed insurance coverage for the past three years. The Town's insurance costs are increased for its own adverse claims experience and can be increased for adverse claims experience of other agencies in the Town's risk pool.

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, 2014, the Town contributed \$82,522 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 generally equal to the ratio of the Town's payroll to the total payrolls of all entities participating in the same layer of each program further adjusted for adverse claims experience, in each program year.
- Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. Financial statements for each agency can be obtained from ABAG, P.O. Box 2050, Oakland, California, 94604.

B. Liability for Uninsured Claims

- The Town has retained the risk for the deductible and uninsured portion of claims. The Town's liability for reported uninsured claims at June 30, 2014, estimated by ABAG was \$25,500.

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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

The Town's agent multiple-employer defined benefit Other Postemployment Benefit (OPEB) Plan provides postretirement healthcare benefits to eligible employees who retire directly from the Town. The Town pays healthcare coverage up to a cap (dependent of coverage) for eligible retirees. Healthcare coverage is with PEMHCA (CalPERS medical program). Dental and vision benefits are not available to retirees. In fiscal year 2007-2008, the Town of Los Altos Hills elected to prefund its OPEB liabilities in an irrevocable trust established through California Public Employees Retirement System. The Prefunding Plan (sometimes also referred to as CERBT) is an agent multiple-employer benefit trust fund which is administered by the CalPERS Board of Administration. The trust will be used to accumulate and invest assets necessary to pay for healthcare costs and administrative costs of the Prefunding Plan.

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

B. Funding Policy

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

C. Annual Postemployment Benefit Cost and Net Postemployment Benefit Obligation

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

Based upon the valuation as of June 30, 2013, the most recent valuation available, the annual required contribution for fiscal year 2013-2014 was \$125,000. 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, 2014
Normal Cost at Year End	\$ 40,000
Amortization of UAAL	85,000
Annual Required Contribution	125,000
Interest on Prior Year Net OPEB Asset	(20,000)
Adjustment to ARC	(4,123)
Annual OPEB Cost	100,877
Contributions Made	(214,000)
(Increase) Decrease in Net OPEB Asset	(113,123)
Net OPEB Obligation (Asset)- Beginning of Year	(326,466)
Net OPEB Obligation (Asset)- End of Year	\$ (439,589)

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

D. Plan Funded Status and Funding Progress

The Town is following the reporting requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*. As of June 30, 2013, the latest valuation date, the funded status of the Town, was as follows:

Actuarial accrued liability (AAL)	\$	2,229,000
Actuarial value of plan assets		1,213,000
Unfunded actuarial accrued liability (UAAL)		1,016,000
Funded ratio (actuarial value of plan assets/AAL)		54.4%
Covered payroll (active plan members)		1,640,000
UAAL as percentage of covered payroll		62.0%

The Town's annual OPEB cost (expense), the percentage of OPEB cost contributed to the plan, and the Net OPEB asset for 2014 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, 2012	\$ 221,000	136%	\$ (251,345)
June 30, 2013	224,879	133%	(326,466)
June 30, 2014	100,877	212%	(439,589)

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

E. Actuarial Methods and Assumptions

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

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

In the June 30, 2013 actuarial valuation, the entry age normal actuarial cost method was used with a level percentage of pay amortization method. The actuarial value of asset gains/losses is recognized over five years, with a corridor of 80 percent and 120 percent of market value. The unfunded liability amortization is based off a 20-year fixed (closed) period for plan changes, a 15-year fixed (closed) period for method and assumption changes. The actuarial assumptions are as follows:

- The CPI was assumed to be a constant at 3 percent per year.
- Investment rate of return is assumed to be 6 percent, which is same as in the prior valuation. Assets in the plan will be invested in a moderately conservative money market portfolio that will provide current income with capital appreciation as a secondary objective.
- Aggregate payroll increase is assumed to be 3.25 percent per year.
- Healthcare costs trends utilized actual rates for 2013 and 2014, with an 8 percent increase for Non-Medicare eligible premiums and 8.3 percent increase for Medicare eligible premiums. Future years were reduced to an ultimate rate of five percent, same as prior year, for both Non-Medicare and Medicare eligible premiums by 2021.
- Everyone will be eligible for Medicare and will elect Part B coverage.
- Participation in the Plan is assumed to be 100 percent for average premium cap benefits with 70 percent PEMHCA minimum.
- Retirees will choose same medical plan as active employees.
- Marital Status is the same as current election with 80 percent married currently waived.
- 10 percent of the Pre-65 and zero percent of post-65 members were assumed to have dependents.
- No current member of the Town Council was assumed to be eligible for retiree healthcare benefits.

NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of expenditures over appropriations

No individual funds had an excess of expenditures over appropriations during the fiscal year 2013-2014.

B. Deficit fund balances

The Park and Rec In-Lieu Fee Fund had a deficit fund balance of \$435 at June 30, 2014. The deficit will be eliminated by either future revenues or transfers from 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 FISCAL YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property tax	\$ 4,067,700	\$ 4,157,700	\$ 4,153,332	\$ (4,368)
Taxes other than property	461,400	511,400	524,763	13,363
Franchise fees	425,200	425,200	463,598	38,398
Licenses and permits	670,600	734,900	980,307	245,407
Intergovernmental	53,500	49,100	56,128	7,028
Use of money and property	181,400	193,600	230,869	37,269
Charges for services	934,592	902,409	1,070,199	167,790
Miscellaneous	196,900	93,352	566,599	473,247
Total Revenues	6,991,292	7,067,661	8,045,795	978,134
EXPENDITURES				
Current:				
Administration	212,592	186,192	276,162	(89,970)
Public safety	1,220,984	1,220,984	1,134,527	86,457
Community development	2,869,619	2,869,619	2,581,031	288,588
Parks and recreation	994,506	789,576	762,185	27,391
Total Expenditures	5,297,701	5,066,371	4,753,905	312,466
Excess (Deficiency) of Revenues Over Expenditures	1,693,591	2,001,290	3,291,890	1,290,600
OTHER FINANCING SOURCES (USES)				
Transfers in	773,292	478,128	168,786	(309,342)
Transfers out	(2,306,793)	(2,213,587)	(1,031,947)	1,181,640
Total Other Financing Sources (Uses)	(1,533,501)	(1,735,459)	(863,161)	872,298
Net Change in Fund Balance	160,090	265,831	2,428,729	2,162,898
Fund Balance, Beginning of Year	3,276,433	3,276,433	3,276,433	-
Fund Balance, End of Year	\$ 3,436,523	\$ 3,542,264	\$ 5,705,162	\$ 2,162,898

See note to required supplementary information.

TOWN OF LOS ALTOS HILLS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

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)
7/23/2010	\$ 1,472	\$ 345	\$ 1,127	23.4%	\$ 1,554	72.5%
7/24/2012	2,624	703	1,921	26.8%	1,512	127.1%
8/28/2014	2,229	1,213	1,016	54.4%	1,640	62.0%

See note to required supplementary information.

TOWN OF LOS ALTOS HILLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

SUPPLEMENTARY INFORMATION

TOWN OF LOS ALTOS HILLS

NON MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2014

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

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

Roadway Impact Fee - This fund is used to account for roadway impact fees, which are collected in connection with building permits and refuse collection accounts. The fees are transferred to the Street Operations and Street Capital Projects Funds and designated for street maintenance, improvement, and construction. The fee was repealed by the City Council in June 2012.

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

DEBT SERVICE FUND

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

TOWN OF LOS ALTOS HILLS

**COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Special Revenue Funds						Debt Service Fund	Total Nonmajor Governmental
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS	CA Energy Loans	
ASSETS								
Cash and investments	\$ 426,863	\$ 638,970	\$ 39,235	\$ 326,275	\$ -	\$ 90,631	\$ -	\$ 1,521,974
Accounts receivable	-	-	-	16,282	-	33,333	-	49,615
Total Assets	\$ 426,863	\$ 638,970	\$ 39,235	\$ 342,557	\$ -	\$ 123,964	\$ -	\$ 1,571,589
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 546	\$ 2,648	39,670	\$ 4,825	\$ -	\$ 3,790	\$ -	\$ 51,479
Total Liabilities	546	2,648	39,670	4,825	-	3,790	-	51,479
FUND BALANCES								
Restricted	426,317	636,322	-	337,732	-	120,174	-	1,520,545
Unassigned	-	-	(435)	-	-	-	-	(435)
Total Fund Balances	426,317	636,322	(435)	337,732	-	120,174	-	1,520,110
Total Liabilities and Fund Balances	\$ 426,863	\$ 638,970	\$ 39,235	\$ 342,557	\$ -	\$ 123,964	\$ -	\$ 1,571,589

TOWN OF LOS ALTOS HILLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds	
	Storm Drain	Pathway In-Lieu Fee	Parks & Rec In-Lieu Fee	Street	Roadway Impact Fee	COPS		CA Energy Loans
REVENUES								
License and permits	\$ -	\$ -	\$ -	\$ 26,600	\$ -	\$ -	\$ -	\$ 26,600
Intergovernmental	-	8,151	-	163,859	-	100,000	-	272,010
Use of money and property	-	2,143	-	2,766	-	400	-	5,309
Charges for services	156,945	132,341	-	3,086	-	-	-	292,372
Total Revenues	156,945	142,635	-	196,311	-	100,400	-	596,291
EXPENDITURES								
Current:								
Public safety	-	-	-	-	-	74,501	-	74,501
Parks and recreation	-	416,278	-	-	-	-	-	416,278
Drainage and street operations	316,251	-	-	361,944	-	-	-	678,195
Debt Service:								
Principal	-	-	-	-	-	-	15,618	15,618
Interest	-	-	-	-	-	-	3,966	3,966
Capital Outlay	-	-	132,441	-	-	-	-	132,441
Total Expenditures	316,251	416,278	132,441	361,944	-	74,501	19,584	1,320,999
Excess (Deficiency) of Revenues Over Expenditures	(159,306)	(273,643)	(132,441)	(165,633)	-	25,899	(19,584)	(724,708)
Transfers in	316,252	334,276	-	113,023	-	-	19,584	783,135
Transfers out	(156,945)	(132,341)	-	-	(168,786)	-	-	(458,072)
Total Other Financing Sources (Uses)	159,307	201,935	-	113,023	(168,786)	-	19,584	325,063
Net Change in Fund Balances	1	(71,708)	(132,441)	(52,610)	(168,786)	25,899	-	(399,645)
Fund Balances, Beginning of year	426,316	708,030	132,006	390,342	168,786	94,275	-	1,919,755
Fund Balances, End of Year	\$ 426,317	\$ 636,322	\$ (435)	\$ 337,732	\$ -	\$ 120,174	\$ -	\$ 1,520,110

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 125,800	\$ 125,800	\$ 156,945	\$ 31,145
Total Revenues	125,800	125,800	156,945	31,145
EXPENDITURES				
Current:				
Drainage operations	427,203	427,203	316,251	110,952
Total Expenditures	427,203	427,203	316,251	110,952
Excess (Deficiency) of Revenues Over Expenditures	(301,403)	(301,403)	(159,306)	142,097
OTHER FINANCING SOURCES (USES)				
Transfers in	433,297	433,297	316,252	(117,045)
Transfers out	(125,800)	(125,800)	(156,945)	(31,145)
Total Other Financing Sources (Uses)	307,497	307,497	159,307	(148,190)
Net Change in Fund Balance	6,094	6,094	1	(6,093)
Fund Balance, Beginning of Year	426,316	426,316	426,316	-
Fund Balance, End of Year	\$ 432,410	\$ 432,410	\$ 426,317	\$ (6,093)

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 8,151	\$ 8,151
Use of money and property	700	700	2,143	1,443
Charges for services	146,700	146,700	132,341	(14,359)
Total Revenues	147,400	147,400	142,635	(4,765)
EXPENDITURES				
Current:				
Parks and recreation	444,739	440,139	416,278	23,861
Total Expenditures	444,739	440,139	416,278	23,861
Excess (Deficiency) of Revenues Over Expenditures	(297,339)	(292,739)	(273,643)	19,096
OTHER FINANCING SOURCES (USES)				
Transfers in	334,276	334,276	334,276	-
Transfers out	(146,700)	(146,700)	(132,341)	14,359
Total Other Financing Sources (Uses)	187,576	187,576	201,935	14,359
Net Change in Fund Balance	(109,763)	(105,163)	(71,708)	33,455
Fund Balance, Beginning of Year	708,030	708,030	708,030	-
Fund Balance, End of Year	\$ 598,267	\$ 602,867	\$ 636,322	\$ 33,455

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 40,000	\$ 40,000	\$ -	\$ (40,000)
Total Revenues	40,000	40,000	-	(40,000)
EXPENDITURES				
Capital Outlay	-	134,500	132,441	2,059
Total Expenditures	-	134,500	132,441	2,059
Excess (Deficiency) of Revenues Over Expenditures	40,000	(94,500)	(132,441)	(37,941)
Net Change in Fund Balance	40,000	(94,500)	(132,441)	(37,941)
Fund Balance, Beginning of Year	132,006	132,006	132,006	-
Fund Balance, End of Year	\$ 172,006	\$ 37,506	\$ (435)	\$ (37,941)

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses and permits	\$ 40,000	\$ 26,500	\$ 26,600	\$ 100
Intergovernmental	139,900	139,900	163,859	23,959
Use of money and property	600	600	2,766	2,166
Charges for services	500	500	3,086	2,586
Total Revenues	181,000	167,500	196,311	28,811
EXPENDITURES				
Current:				
Street operations	413,265	413,265	361,944	51,321
Total Expenditures	413,265	413,265	361,944	51,321
Excess (Deficiency) of Revenues Over Expenditures	(232,265)	(245,765)	(165,633)	80,132
OTHER FINANCING SOURCES (USES)				
Transfers in	113,023	113,023	113,023	-
Total Other Financing Sources (Uses)	113,023	113,023	113,023	-
Net Change in Fund Balance	(119,242)	(132,742)	(52,610)	80,132
Fund Balance, Beginning of Year	390,342	390,342	390,342	-
Fund Balance End of Year	\$ 271,100	\$ 257,600	\$ 337,732	\$ 80,132

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers out	(168,786)	(168,786)	(168,786)	-
Total Other Financing Sources (Uses)	(168,786)	(168,786)	(168,786)	-
Net Change in Fund Balance	(168,786)	(168,786)	(168,786)	-
Fund Balance, Beginning of Year	168,786	168,786	168,786	-
Fund Balance, End of Year	\$ -	\$ -	\$ -	\$ -

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Use of money and property	100	100	400	300
Total Revenues	100,100	100,100	100,400	300
EXPENDITURES				
Current:				
Public safety	119,801	119,801	74,501	45,300
Total Expenditures	119,801	119,801	74,501	45,300
Excess (Deficiency) of Revenues Over Expenditures	(19,701)	(19,701)	25,899	45,600
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(19,701)	(19,701)	25,899	45,600
Fund Balance, Beginning of Year	94,275	94,275	94,275	-
Fund Balance, End of Year	\$ 74,574	\$ 74,574	\$ 120,174	\$ 45,600

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, 2014**

	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	113,191	15,048	15,618	(570)
Interest	-	4,537	3,966	571
Total Expenditures	113,191	19,585	19,584	1
Excess (Deficiency) of Revenues Over Expenditures	(113,191)	(19,585)	(19,584)	1
OTHER FINANCING SOURCES (USES)				
Transfers in	113,191	19,585	19,584	(1)
Total Other Financing Sources (Uses)	113,191	19,585	19,584	(1)
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance End of Year	\$ -	\$ -	\$ -	\$ -

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
STREET CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 172,800	\$ 176,000	\$ 222,712	\$ 46,712
Charges for services	8,000	8,000	48,511	40,511
Miscellaneous	-	14,300	14,250	(50)
Total Revenues	180,800	198,300	285,473	87,173
EXPENDITURES				
Capital outlay	800,000	548,187	473,262	74,925
Total Expenditures	800,000	548,187	473,262	74,925
Excess (Deficiency) of Revenues Over Expenditures	(619,200)	(349,887)	(187,789)	162,098
OTHER FINANCING SOURCES (USES)				
Transfers in	619,200	619,200	201,126	(418,074)
Total Other Financing Sources (Uses)	619,200	619,200	201,126	(418,074)
Net Change in Fund Balance	-	269,313	13,337	(255,976)
Fund Balance, Beginning of Year	52,345	52,345	52,345	-
Fund Balance, End of Year	\$ 52,345	\$ 321,658	\$ 65,682	\$ (255,976)

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 195,100	\$ 182,100	\$ 60,000	\$ (122,100)
Use of money and property	42,000	42,000	45,405	3,405
Miscellaneous	-	-	19,143	19,143
Total Revenues	237,100	224,100	124,548	(99,552)
EXPENDITURES				
Capital outlay:				
General CIP	261,400	261,400	107,686	153,714
Pathways	156,700	103,300	68,062	35,238
Westwind Barn Projects	65,000	-	-	-
Drainage	138,800	138,800	2,539	136,261
Total Expenditures	621,900	503,500	178,287	325,213
Excess (Deficiency) of Revenues Over Expenditures	(384,800)	(279,400)	(53,739)	225,661
OTHER FINANCING SOURCES (USES)				
Transfers in	361,800	361,800	336,972	(24,828)
Total Other Financing Sources (Uses)	361,800	361,800	336,972	(24,828)
Net Change in Fund Balance	(23,000)	82,400	283,233	200,833
Fund Balance, Beginning of Year	170,144	170,144	170,144	-
Fund Balance, End of Year	\$ 147,144	\$ 252,544	\$ 453,377	\$ 200,833

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENSES, AND
 CHANGES IN FUND NET POSITION – BUDGET AND ACTUAL
 PROPRIETARY FUND - SEWER
 FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,374,800	\$ 1,374,800	\$ 1,382,472	\$ 7,672
Total Operating Revenues	<u>1,374,800</u>	<u>1,374,800</u>	<u>1,382,472</u>	<u>7,672</u>
OPERATING EXPENSES				
Salaries and benefits	110,906	110,906	72,784	38,122
Contract services	1,104,700	1,174,700	827,506	347,194
Operating expenses	225,759	225,759	211,665	14,094
Depreciation	170,200	170,200	159,696	10,504
Total Operating Expenses	<u>1,611,565</u>	<u>1,681,565</u>	<u>1,271,651</u>	<u>409,914</u>
Operating Income (Loss)	<u>(236,765)</u>	<u>(306,765)</u>	<u>110,821</u>	<u>417,586</u>
NONOPERATING REVENUE (EXPENSES)				
Investment income	11,900	11,900	24,719	12,819
Income Before Contributions and Transfers	<u>(224,865)</u>	<u>(294,865)</u>	<u>135,540</u>	<u>430,405</u>
Connection Fees	<u>143,200</u>	<u>143,200</u>	<u>175,497</u>	<u>32,297</u>
Changes in Net Position	(81,665)	(151,665)	311,037	462,702
Total Net Position, Beginning of Year	<u>7,539,312</u>	<u>7,539,312</u>	<u>7,539,312</u>	<u>-</u>
Total Net Position, End of Year	<u>\$ 7,457,647</u>	<u>\$ 7,387,647</u>	<u>\$ 7,850,349</u>	<u>\$ 462,702</u>

TOWN OF LOS ALTOS HILLS

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
WEST LOYOLA SEWER ASSESSMENT DISTRICT				
ASSETS				
Restricted cash and investments	\$ 306,192	\$ 150,464	\$ 150,185	\$ 306,471
Miscellaneous receivables	-	1,294	-	1,294
	<u>\$ 306,192</u>	<u>\$ 151,758</u>	<u>\$ 150,185</u>	<u>\$ 307,765</u>
LIABILITIES				
Due to bond holders	\$ 306,161	\$ 254	\$ -	\$ 306,415
Accounts payable	31	1,350	31	1,350
	<u>\$ 306,192</u>	<u>\$ 1,604</u>	<u>\$ 31</u>	<u>\$ 307,765</u>

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STATISTICAL SECTION

**TOWN OF LOS ALTOS HILLS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities:										
Invested in capital assets, net of related debt	\$ 20,346,535	\$ 19,272,946	\$ 19,777,871	\$ 21,225,843	\$ 22,733,833	\$ 23,564,257	\$ 24,421,688	\$ 25,681,352	\$ 26,654,599	\$ 25,535,393
Restricted	1,348,592	1,090,633	1,102,922	651,518	936,212	1,447,591	960,737	1,507,673	1,787,750	1,520,545
Unrestricted	5,640,439	6,844,268	7,372,911	9,719,357	9,131,068	7,831,794	7,654,909	4,582,714	4,349,494	7,124,524
Total governmental activities net position	\$ 27,335,566	\$ 27,207,847	\$ 28,253,704	\$ 31,596,718	\$ 32,801,113	\$ 32,843,642	\$ 33,037,334	\$ 31,771,739	\$ 32,791,843	\$ 34,180,462
Business-type activities:										
Invested in capital assets, net of related debt	\$ 662,208	\$ 974,302	\$ 1,155,552	\$ 1,172,175	\$ 2,427,865	\$ 4,022,707	\$ 4,369,141	\$ 4,452,208	\$ 4,312,151	\$ 4,774,920
Restricted					2,999,604	1,727,745	-	-	-	
Unrestricted	3,090,517	2,650,690	2,301,817	2,745,457	2,002,327	2,619,265	2,856,291	2,915,748	3,227,161	3,075,429
Total business-type activities net position	\$ 3,752,725	\$ 3,624,992	\$ 3,457,369	\$ 3,917,632	\$ 7,429,796	\$ 8,369,717	\$ 7,225,432	\$ 7,367,956	\$ 7,539,312	\$ 7,850,349
Primary government:										
Invested in capital assets, net of related debt	\$ 21,008,743	\$ 20,247,248	\$ 20,933,423	\$ 22,398,018	\$ 25,161,698	\$ 27,586,964	\$ 28,790,829	\$ 30,133,560	\$ 30,966,750	\$ 30,310,313
Restricted	1,348,592	1,090,633	1,102,922	651,518	3,935,816	3,175,336	960,737	1,507,673	1,787,750	1,520,545
Unrestricted	8,730,956	9,494,958	9,674,728	12,464,814	11,133,395	10,451,059	10,511,200	7,498,462	7,576,655	10,199,953
Total net position	\$ 31,088,291	\$ 30,832,839	\$ 31,711,073	\$ 35,514,350	\$ 40,230,909	\$ 41,213,359	\$ 40,262,766	\$ 39,139,695	\$ 40,331,155	\$ 42,030,811

Source: Audited Financial Statements.

**TOWN OF LOS ALTOS HILLS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses:										
Governmental activities*:										
Administration	\$ 1,798,562	\$ 1,916,042	\$ 1,979,197	\$ 1,834,475	\$ 2,198,029	\$ 2,071,985	\$ 1,822,653	\$ 2,046,868	\$ 1,837,120	\$ 639,350
Public safety	1,263,433	1,221,699	1,333,011	1,381,626	1,469,522	1,491,760	1,384,604	1,345,461	1,440,002	1,555,955
Community development	2,142,334	2,123,580	2,377,965	2,522,067	2,422,892	2,660,434	2,111,541	2,437,335	2,448,821	3,224,490
Parks and recreation	442,717	557,503	703,112	802,066	1,240,406	1,279,596	1,310,566	1,300,211	1,314,872	1,479,822
Drainage and street operations	473,206	535,985	664,229	578,324	558,980	830,146	934,755	700,017	627,512	842,532
Interest on long-term debt	-	-	-	88,539	82,603	75,962	71,553	44,305	4,526	3,955
Total governmental activities expenses	<u>6,120,252</u>	<u>6,354,809</u>	<u>7,057,514</u>	<u>7,207,097</u>	<u>7,972,432</u>	<u>8,409,883</u>	<u>7,635,672</u>	<u>7,874,197</u>	<u>7,672,853</u>	<u>7,746,104</u>
Business-type activities:										
Sewer	689,701	889,866	1,005,104	1,080,206	1,097,072	947,450	1,022,325	1,328,856	1,242,885	1,271,651
Solid waste	<u>1,336,329</u>	<u>1,479,694</u>	<u>1,440,098</u>	<u>1,512,251</u>	<u>387,335</u>	-	-	-	-	-
Total business-type activities expenses	<u>2,026,030</u>	<u>2,369,560</u>	<u>2,445,202</u>	<u>2,592,457</u>	<u>1,484,407</u>	<u>947,450</u>	<u>1,022,325</u>	<u>1,328,856</u>	<u>1,242,885</u>	<u>1,271,651</u>
Total primary government expenses	<u>8,146,282</u>	<u>8,724,369</u>	<u>9,502,716</u>	<u>9,799,554</u>	<u>9,456,839</u>	<u>9,357,333</u>	<u>8,657,997</u>	<u>9,203,053</u>	<u>8,915,738</u>	<u>9,017,755</u>
Program revenues:										
Governmental activities:										
Charges for services:										
Administration	-	-	-	-	-	-	-	-	-	-
Public safety	6,932	10,783	14,651	13,217	1,958	-	-	-	3,200	-
Community development	1,022,833	1,061,923	1,095,175	1,255,246	1,278,407	1,218,744	1,362,932	1,843,682	1,768,740	1,871,118
Parks and recreation	135,184	290,494	279,008	234,258	566,446	541,337	532,623	476,599	433,785	281,886
Drainage and street operations	278,074	434,090	727,329	722,151	620,523	709,133	601,078	340,010	169,526	186,631
Operating contributions and grants	262,570	304,114	536,042	1,292,756	1,619,218	996,454	447,717	531,671	1,267,777	500,245
Capital contributions and grants	-	-	-	-	-	-	-	-	-	266,736
Total governmental activities program revenues	<u>1,705,593</u>	<u>2,101,404</u>	<u>2,652,205</u>	<u>3,517,628</u>	<u>4,086,552</u>	<u>3,465,668</u>	<u>2,944,350</u>	<u>3,191,962</u>	<u>3,643,028</u>	<u>3,106,616</u>
Business-type activities:										
Charges for services:										
Sewer	894,156	983,196	1,136,302	1,511,372	1,335,790	1,643,706	1,406,130	1,355,667	1,359,338	1,382,472
Solid waste	1,400,422	1,411,507	1,399,347	1,472,296	361,763	-	-	-	-	-
Operating contributions and grants	7,198	4,900	6,107	7,270	-	-	-	-	-	-
Capital contributions and grants	-	-	-	-	3,208,687	272,405	(1,486,331)	170,955	125,183	175,497
Total business-type activities program revenues	<u>2,301,776</u>	<u>2,399,603</u>	<u>2,541,756</u>	<u>2,990,938</u>	<u>4,906,240</u>	<u>1,916,111</u>	<u>(80,201)</u>	<u>1,526,622</u>	<u>1,484,521</u>	<u>1,557,969</u>
Total primary government program revenues	<u>4,007,369</u>	<u>4,501,007</u>	<u>5,193,961</u>	<u>6,508,566</u>	<u>8,992,792</u>	<u>5,381,779</u>	<u>2,864,149</u>	<u>4,718,584</u>	<u>5,127,549</u>	<u>4,664,585</u>
Net revenues (expenses)										
Governmental activities	(4,414,659)	(4,253,405)	(4,405,309)	(3,689,469)	(3,885,880)	(4,944,215)	(4,691,322)	(4,682,235)	(4,029,825)	(4,639,488)
Business-type activities	275,746	30,043	96,554	398,481	3,421,833	968,661	(1,102,526)	197,766	241,636	286,318
Total net revenues (expenses)	<u>(4,138,913)</u>	<u>(4,223,362)</u>	<u>(4,308,755)</u>	<u>(3,290,988)</u>	<u>(464,047)</u>	<u>(3,975,554)</u>	<u>(5,793,848)</u>	<u>(4,484,469)</u>	<u>(3,788,189)</u>	<u>(4,353,170)</u>
General revenues and other changes in net position:										
Governmental revenues:										
Taxes										
Property taxes	2,336,506	2,492,070	2,998,724	3,216,837	3,410,921	3,444,173	3,393,604	3,543,231	3,785,652	4,153,331
Other taxes	448,831	493,145	536,746	477,705	404,678	366,442	544,092	427,826	594,656	626,479
Franchise fees	318,606	336,798	371,717	389,224	431,574	387,803	428,332	430,149	421,634	463,598
Sale of Capital Assets-net	-	-	-	1,430,776	143,518	242	6,600	-	-	-
Use of money and property	271,826	325,514	521,425	744,677	498,721	212,126	178,450	156,743	142,931	199,609
Other intergovernmental revenue	29,826	94,276	513,899	502,482	108,147	140,947	69,166	-	-	-
Other unrestricted revenue	408,993	123,235	113,700	154,061	69,520	303,395	193,425	39,448	34,057	585,089
Special Item**	-	-	-	-	-	-	-	(1,250,000)	-	-
Transfers	160,090	260,648	394,955	116,721	23,196	131,616	71,345	69,243	71,000	-
Total governmental activities	<u>3,974,678</u>	<u>4,125,686</u>	<u>5,451,166</u>	<u>7,032,483</u>	<u>5,090,275</u>	<u>4,986,744</u>	<u>4,885,014</u>	<u>3,416,640</u>	<u>5,049,930</u>	<u>6,028,106</u>
Business-type activities:										
Use of money and property	73,872	102,872	130,778	178,503	113,527	102,876	29,585	14,001	720	24,719
Transfers	<u>(160,090)</u>	<u>(260,648)</u>	<u>(394,955)</u>	<u>(116,721)</u>	<u>(23,196)</u>	<u>(131,616)</u>	<u>(71,345)</u>	<u>(69,243)</u>	<u>(71,000)</u>	<u>-</u>
Total business-type activities	<u>(86,218)</u>	<u>(157,776)</u>	<u>(264,177)</u>	<u>61,782</u>	<u>90,331</u>	<u>(28,740)</u>	<u>(41,760)</u>	<u>(55,242)</u>	<u>(70,280)</u>	<u>24,719</u>
Total primary government	<u>3,888,460</u>	<u>3,967,910</u>	<u>5,186,989</u>	<u>7,094,265</u>	<u>5,180,606</u>	<u>4,958,004</u>	<u>4,843,254</u>	<u>3,361,398</u>	<u>4,979,650</u>	<u>6,052,825</u>
Changes in net position										
Governmental activities	(439,981)	(127,719)	1,045,857	3,343,014	1,204,395	42,529	193,692	(1,265,595)	1,020,105	1,388,618
Business-type activities	189,528	(127,733)	(167,623)	460,263	3,512,164	939,921	(1,144,286)	142,524	171,356	311,037
Total primary government	<u>\$ (250,453)</u>	<u>\$ (255,452)</u>	<u>\$ 878,234</u>	<u>\$ 3,803,277</u>	<u>\$ 4,716,559</u>	<u>\$ 982,450</u>	<u>\$ (950,594)</u>	<u>\$ (1,123,071)</u>	<u>\$ 1,191,461</u>	<u>\$ 1,699,655</u>

* Governmental Activities affected by implementation of cost allocation plan in 2014.

** Special item is related to provision for one-time refund of Roadway Impact Fee

**TOWN OF LOS ALTOS HILLS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	170,000	240,000	286,150	285,000
Unassigned	<u>2,978,537</u>	<u>3,702,083</u>	<u>4,188,511</u>	<u>2,964,602</u>	<u>3,623,779</u>	<u>3,810,511</u>	<u>5,607,882</u>	<u>3,063,979</u>	<u>2,990,283</u>	<u>5,420,162</u>
Total General Fund	<u>\$ 4,578,537</u>	<u>\$ 5,302,083</u>	<u>\$ 5,788,511</u>	<u>\$ 4,564,602</u>	<u>\$ 5,223,779</u>	<u>\$ 5,410,511</u>	<u>\$ 5,777,882</u>	<u>\$ 3,303,979</u>	<u>\$ 3,276,433</u>	<u>\$ 5,705,162</u>
All other governmental funds										
Restricted	\$ 678,691	\$ 662,056	\$ 473,772	\$ 846,908	\$ 1,148,960	\$ 1,557,669	\$ 960,737	\$ 1,507,673	\$ 1,787,750	\$ 1,520,545
Committed	1,779,909	1,801,067	1,897,547	4,633,079	3,441,870	1,820,403	1,311,759	75,112	354,495	519,059
Unassigned	<u>-</u>	<u>5,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(184,268)</u>	<u>-</u>	<u>(435)</u>
Total all other governmental funds	<u>\$ 1,779,909</u>	<u>\$ 1,806,637</u>	<u>\$ 1,897,547</u>	<u>\$ 4,633,079</u>	<u>\$ 3,441,870</u>	<u>\$ 1,820,403</u>	<u>\$ 1,311,759</u>	<u>\$ 1,398,517</u>	<u>\$ 2,142,245</u>	<u>\$ 2,039,169</u>

Source: Audited Financial Statements.

**TOWN OF LOS ALTOS HILLS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues:										
Property taxes	\$ 1,756,344	\$ 2,433,918	\$ 2,991,481	\$ 3,205,734	\$ 3,403,586	\$ 3,438,168	\$ 3,393,604	\$ 3,543,251	\$ 3,785,652	\$ 4,153,332
Taxes other than property	448,831	493,145	536,746	434,126	366,282	332,189	503,766	423,353	545,228	524,763
Franchise fees	318,606	336,798	371,717	389,224	431,574	387,803	428,332	430,149	421,634	463,598
Licenses and permits	416,060	472,344	519,492	693,964	612,092	732,233	820,694	651,476	754,460	1,006,907
Intergovernmental	867,516	448,633	1,049,941	1,838,817	889,209	656,480	428,833	457,952	1,264,716	610,850
Use of money and property	309,951	388,826	657,793	851,667	612,902	212,126	210,904	196,891	200,937	281,583
Charges for services	1,001,407	1,255,116	1,426,492	1,396,904	1,749,121	1,751,358	1,605,081	1,836,621	1,407,987	1,411,082
Miscellaneous	405,258	137,662	154,751	192,178	945,347	810,197	360,205	249,686	241,344	599,992
Total revenues	5,523,973	5,966,442	7,708,413	9,002,614	9,010,113	8,320,554	7,751,419	7,789,379	8,621,958	9,052,107
Expenditures										
Current:										
Administration	1,088,855	1,219,107	1,589,309	1,345,356	1,481,883	1,651,144	1,453,778	1,580,902	1,363,140	276,162
Public safety	911,093	918,444	1,036,511	1,067,269	1,130,438	1,092,359	1,120,237	1,057,330	1,131,772	1,209,028
Community development	1,544,585	1,547,665	1,773,386	1,855,950	1,792,913	2,025,711	1,686,842	1,992,581	1,918,408	2,581,031
Parks and recreation	344,137	389,528	527,075	590,228	900,850	964,244	1,060,335	1,049,563	1,033,239	1,178,463
Drainage and street operation	298,950	377,243	474,274	425,579	413,625	625,610	756,279	549,782	492,889	678,195
Debt service:										
Principal	-	61,220	116,092	121,470	127,128	133,693	142,285	1,377,532	15,048	15,618
Interest	-	145,113	95,224	89,846	84,188	77,623	73,264	62,725	4,536	3,966
Capital outlay	385,542	995,131	2,199,242	3,169,654	3,475,782	2,908,054	2,321,552	1,584,367	2,719,447	783,990
Total expenditures	4,573,162	5,653,451	7,811,113	8,665,352	9,406,807	9,478,438	8,614,572	9,254,782	8,678,479	6,726,453
Excess (deficiency) of revenues over (under) expenditures	950,811	312,991	(102,700)	337,262	(396,694)	(1,157,884)	(863,153)	(1,465,403)	(56,521)	2,325,654
Other financing sources (uses)										
Special Item*	-	-	-	-	-	-	-	(1,250,000)	-	-
Sale of assets	-	-	-	1,430,776	143,518	242	6,600	-	-	-
Transfers in	6,058,436	1,532,618	2,484,132	4,021,974	2,075,139	2,009,503	2,406,621	2,900,401	2,178,543	1,490,019
Transfers out	(10,310,230)	(1,271,970)	(2,089,178)	(3,905,254)	(2,051,943)	(1,877,887)	(2,335,276)	(2,831,158)	(2,107,543)	(1,490,019)
Proceeds from debt	2,000,000	160,000	-	-	-	-	47,000	-	-	-
Other financing sources (uses)	(2,251,794)	420,648	394,954	1,547,496	166,714	131,858	124,945	(1,180,757)	71,000	-
Net change in fund balances	\$ (1,300,983)	\$ 733,639	\$ 292,254	\$ 1,884,758	\$ (229,980)	\$ (1,026,026)	\$ (738,208)	\$ (2,646,160)	\$ 14,479	\$ 2,325,654
Debt service as a percentage of noncapital expenditures	0.0%	4.6%	3.9%	4.0%	3.7%	3.3%	3.5%	23.1%	0.3%	0.3%

Note* Special item is related to provision for one-time refund of Roadway Impact Fee
Source: Audited Financial Statements.

**TOWN OF LOS ALTOS HILLS
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**

<u>Fiscal year ended June 30</u>	<u>Secured roll</u>	<u>Unsecured roll</u>	<u>Less exemptions</u>	<u>Taxable assessed value</u>	<u>Total direct tax rate</u>	<u>% change in assessed value</u>
2005	\$ 3,439,287,589	\$ 4,494,454	\$ 15,596,000	\$ 3,459,378,043	0.051%	0.00%
2006	3,780,949,515	3,401,643	15,335,600	3,799,686,758	0.064%	9.84%
2007	4,108,003,987	3,994,564	15,283,800	4,127,282,351	0.072%	8.62%
2008	4,372,539,911	12,144,678	15,300,600	4,399,985,189	0.073%	6.61%
2009	4,751,981,600	3,396,490	15,632,400	4,771,010,490	0.071%	8.43%
2010	4,888,694,340	3,417,417	15,596,000	4,907,707,757	0.070%	2.87%
2011	4,885,232,815	3,203,017	15,335,600	4,903,771,432	0.069%	-0.08%
2012	5,068,419,730	6,024,790	15,283,800	5,089,728,320	0.070%	3.79%
2013	5,313,742,001	5,859,024	15,300,600	5,334,901,625	0.071%	4.82%
2014	5,835,114,060	5,041,770	15,632,400	5,855,788,230	0.071%	9.76%

The total direct tax rate is computed by dividing the amount of property tax revenue recognized in the financial statements by the taxable assessed value.

Note: In fiscal year 2014, property tax revenue increased by \$367,680 (10%) over the prior fiscal year. This increase resulted from property sales which increased assessed valuation.

Source: Santa Clara County Assessor 2013/14 Combined Tax Rolls

**TOWN OF LOS ALTOS HILLS
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Basic county-wide levy</u>	<u>El Camino Hospital levy</u>	<u>School/College district levy</u>	<u>Santa Clara Valley Water District</u>	<u>County and library retirement</u>	<u>Per hundred \$ total</u>
2005	1.0000	-	0.1412	0.0092	0.0412	1.1916
2006	1.0000	-	0.1276	0.0078	0.0412	1.1766
2007	1.0000	0.01290	0.1506	0.0072	0.0412	1.2119
2008	1.0000	0.01290	0.1260	0.0071	0.0412	1.1872
2009	1.0000	0.01290	0.1201	0.0061	0.0412	1.1803
2010	1.0000	0.01290	0.1453	0.0074	0.0534	1.2190
2011	1.0000	0.01290	0.1522	0.0072	0.0507	1.2230
2012	1.0000	0.01290	0.1495	0.0064	0.0459	1.2147
2013	1.0000	0.01290	0.1956	0.0069	0.0463	1.2617
2014	1.0000	0.01290	0.1859	0.0070	0.0447	1.2505

Data Source: County of Santa Clara Assessor 2004/05-2013/14 Tax Rate Table

**TOWN OF LOS ALTOS HILLS
PRINCIPAL TAXPAYERS
CURRENT YEAR AND TEN YEARS AGO**

Taxpayer	Type of property	2014		2005	
		Assessed value	Percentage of total assessed valuation	Assessed value	Percentage of total assessed valuation
LaPaloma Property LLC	Single family residential	\$ 52,574,908	0.90%		
Douglas E Leone trustee and Et Al	Single family residential	25,994,394	0.45%		
Sehat Sutardja and Dai Weili	Single family residential	19,522,751	0.33%		
Kumar Malavalli Trustee and Et Al	Single family residential	18,069,090	0.31%		
Old Trace Trust	Single family residential	16,874,700	0.29%		
David Hitz Trustee	Single family residential	16,741,094	0.29%		
Book LLC	Single family residential	16,102,370	0.28%		
Young P Duan Trust	Single family residential	14,100,000	0.24%		
Homa Natoma LLC	Single family residential	14,085,237	0.24%		
Mark Jung Et Al	Single family residential	13,824,292	0.24%		
Large House LLC	Single family residential			\$ 23,532,000	0.68%
Northfork Vineyards LLC	Single family residential			15,509,403	0.45%
Wilfred J Corrigan Trustee	Single family residential			15,053,629	0.44%
James A Dorrian Trustee and Et Al	Single family residential			14,915,663	0.43%
Sehat Sutardja and Dai Weili	Single family residential			14,474,891	0.42%
David Hitz Trustee	Single family residential			13,397,089	0.39%
Pradeep S Sindhu & Marie Bertrand	Single family residential			12,865,102	0.37%
Neary-Vidovich	Single family residential			10,905,888	0.32%
Kumar and Vijay Malavalli Trustee	Single family residential			9,909,481	0.29%
William H Kind Trustee and Et Al	Single family residential			9,307,826	0.27%
Totals		<u>\$ 207,888,836</u>	<u>3.56%</u>	<u>\$ 139,870,972</u>	<u>4.06%</u>

Note: There are no commercial or industrial facilities within Town limits; only two of the top ten principal taxpayers for fiscal year 2005 are included in the top ten taxpayer list for fiscal year 2014.

Source: Santa Clara County Assessor 2004/05 and 2013/14 Combined Tax Rolls and the SBE Non Unitary Tax Roll

**TOWN OF LOS ALTOS HILLS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year	Property tax levies and collections	Value of property subject to local tax rate
2005	\$ 1,756,344	\$ 3,443,782,043
2006	2,433,918	3,784,351,158
2007	2,991,481	4,111,998,551
2008	3,205,734	4,384,684,589
2009	3,403,586	4,755,378,090
2010	3,438,168	4,892,111,757
2011	3,393,604	4,888,435,832
2012	3,543,251	5,074,444,520
2013	3,785,652	5,319,601,025
2014	4,153,332	5,840,155,830

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.

Sources: Santa Clara County Assessor Office 2014-2013 Combined Tax Rolls
Town of Los Altos Hills financial reports

**TOWN OF LOS ALTOS HILLS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Capital lease</u>	<u>Loan</u>	<u>Total governmental activities and primary government</u>	<u>Debt per capita</u>	<u>Population</u>
2005	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 238	8,387
2006	1,948,518	150,263	2,098,781	249	8,420
2007	1,841,934	140,755	1,982,689	234	8,475
2008	1,730,337	130,882	1,861,219	218	8,556
2009	1,614,148	120,601	1,734,749	197	8,799
2010	1,491,146	109,910	1,601,056	180	8,890
2011	1,363,047	142,724	1,505,771	167	9,042
2012	-	128,239	128,239	16	8,027
2013	-	113,191	113,191	14	8,264
2014	-	97,572	97,572	12	8,354

Prior to fiscal year 2005, the Town had no debt. Details regarding the Town's outstanding debt can be found in Note #5 to financial statements.

The Town entered into a lease agreement in the amount of \$2,000,000 in September, 2004 to finance the new Town Hall project. In Fiscal Year 2011-12, Town paid-off outstanding loan amount of \$1363,047.

The Town received a loan in the amount of \$160,000 during fiscal year 2006 to provide funding for energy conservation features of the new building. In fiscal year 2010-11, Town received additional loan in the amount of \$47,000 for another energy efficiency project.

Source: Debt Data - Town of Los Altos Hills Financial Statements
Population: California Department of Finance

TOWN OF LOS ALTOS HILLS
 DIRECT AND OVERLAPPING DEBT
 FOR THE YEAR ENDED JUNE 30, 2014

TOWN OF LOS ALTOS HILLS

2013-14 Assessed Valuation: \$5,840,155,830

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt <u>6/30/14</u>	<u>% Applicable (1)</u>	Town's Share of <u>Debt 6/30/14</u>
Santa Clara County	\$804,700,000	1.746%	\$ 14,050,062
Foothill-De Anza Community College District	613,179,288	5.139	31,511,283
Palo Alto Unified School District	289,574,249	7.376	21,358,996
Mountain View-Los Altos Union High School District	65,436,599	13.803	9,032,213
Los Altos School District	76,158,560	28.031	21,348,005
El Camino Hospital District	140,010,000	9.756	14,226,199
Santa Clara Valley Water District Benefit Assessment District	115,045,000	1.746	<u>2,086,685</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$113,613,443
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Santa Clara County General Fund Obligations	\$757,814,320	1.746%	\$13,231,438
Santa Clara County Pension Obligation Bonds	375,419,144	1.746	6,554,818
Santa Clara County Board of Education Certificates of Participation	9,730,000	1.746	169,885
Foothill-De Anza Community College District Certificates of Participation	13,468,694	5.139	692,156
Mountain View-Los Altos Union High School District Certificates of Participation	4,170,000	13.802	575,543
Midpeninsula Regional Park District General Fund Obligations	133,209,717	3.010	4,009,612
Santa Clara County Vector Control District Certificates of Participation	3,275,000	1.746	<u>57,181</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$25,290,633
Less: Santa Clara County supported obligations			<u>9,292,268</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$15,998,3655
TOTAL DIRECT DEBT			\$0
TOTAL GROSS OVERLAPPING DEBT			\$138,904,076
TOTAL NET OVERLAPPING DEBT			\$129,611,808
GROSS COMBINED TOTAL DEBT			\$138,904,076 (2)
NET COMBINED TOTAL DEBT			\$129,611,808

- (1) The percentage of overlapping debt applicable to the town is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Total Overlapping Tax and Assessment Debt	2.37%
Total Direct Debt (\$0)	0.00%
Gross Combined Total Debt.....	2.37%
Net Combined Total Debt	2.22%

Source: Santa Clara County Assessor 2004/05-2013/2014 Tax Rate Table

**TOWN OF LOS ALTOS HILLS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

<u>Fiscal year ended June 30</u>	<u>Total assessed valuation</u>	<u>Bonded debt limit - 15% of assessed valuation</u>	<u>Amount of debt subject to limit</u>	<u>Legal debt margin</u>
2005	\$ 3,443,782,043	\$ 516,567,306	\$ -	\$ 516,567,306
2006	3,784,351,158	567,652,674	-	567,652,674
2007	4,111,998,551	616,799,783	-	616,799,783
2008	4,384,684,589	657,702,688	-	657,702,688
2009	4,755,378,090	713,306,714	-	713,306,714
2010	4,892,111,757	733,816,764	-	733,816,764
2011	4,888,435,832	733,265,375	-	733,265,375
2012	5,074,444,520	761,166,678	-	761,166,678
2013	5,319,601,025	797,940,154	-	797,940,154
2014	5,840,155,830	876,023,375	-	876,023,375

The Government Code of the State of California limits the amount of general bonded indebtedness for public improvements to 15% of the assessed valuation of all real and personal property of the Town.

The Town of Los Altos Hills has no general bonded indebtedness.

Source: Santa Clara County Assessor 2013-14 Combined Tax Rolls

**TOWN OF LOS ALTOS HILLS
 DEMOGRAPHICS AND ECONOMIC STATISTICS
 LAST TEN YEARS**

Year	Town Population	Personal Income (in thousand)	Per Capita Personal Income	Unemployment Rate	Median Age	% of Pop 25+ with High School Degree	% of Pop 25+ with Bachelor's Degree
2004	8,387	\$ 787,262	\$ 93,867	3.2%			
2005	8,420	810,511	96,260	2.7%			
2006	8,475	845,942	99,816	2.2%			
2007	8,556	874,247	102,179	2.3%			
2008	8,799	903,883	102,726	3.0%			
2009	8,890	898,010	101,014	5.6%	48.6	98.1%	81.7%
2010	9,042	915,964	101,301	5.7%	48.3	97.9%	80.7%
2011	8,027	933,355	116,277	4.9%	48.8	98.6%	82.2%
2012	8,264	867,894	105,021	3.2%	48.5	98.3%	83.3%
2013	8,354	843,253	100,940	2.6%	48.9	98.1%	84.2%

Note: 2004 to 2008 information on median age, 25+ with high school degree, and 25+ with Bachelor's degree not available.

Sources:

Population: California State Department of Finance

2000-2009 Income, Age, Education Data: ESRI - Demographics Estimates are based on the last available Census.

2010 and later - Income, Age, and Education Data - US Census Bureau, most recent American Community Survey

**TOWN OF LOS ALTOS HILLS
 PRINCIPAL EMPLOYERS
 CURRENT YEAR**

Employer	2014	
	Number of Employees	Percent of Total Employment
Foothill Community College	372	64.58%
Pinewood School	65	11.28%
Saint Nicholas School	33	5.73%
Fremont Hills Country Club	32	5.56%
Congregation Beth Am	24	4.17%
Town of Los Altos Hills	19	3.30%
Los Altos School District	22	3.82%
Purissima Hills Water	9	1.56%
Totals	<u>576</u>	<u>100.00%</u>

The agencies listed above have operated in the Town during the past ten years, however, employment information for prior years is not available. There are no commercial or industrial employers in the Town.

Information for 2005 is not available.

Source: Information available from employers and websites.

**TOWN OF LOS ALTOS HILLS
 FULL TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS**

	Fall and Part-Time Employees as of June 30,									
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Administration	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.42	3.42
Public safety	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.60	-
Community development	9.28	9.28	9.28	9.28	8.90	8.90	8.90	8.90	9.36	9.16
Town center and corpyard oper	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.50	2.09
Parks and recreation	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.54	0.75
Pathways	2.02	1.85	1.85	1.85	1.69	1.69	1.69	1.69	1.25	1.25
Drainage and street operations	2.00	2.62	2.62	2.62	2.46	2.46	2.46	2.46	1.92	2.02
Sewer	0.73	0.83	0.83	0.83	0.53	0.53	0.53	0.53	0.41	0.51
Solid waste	0.05	0.10	0.10	0.10	-	-	-	-	-	-
	<u>20.50</u>	<u>21.00</u>	<u>21.00</u>	<u>21.00</u>	<u>20.00</u>	<u>21.00</u>	<u>21.00</u>	<u>21.00</u>	<u>21.00</u>	<u>19.20</u>

Source: Town of Los Altos Hills Personnel Records

**TOWN OF LOS ALTOS HILLS
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Building permits issued:										
New homes	17	20	21	23	15	17	18	16	20	21
Valuation	\$ 8,696,466	\$ 12,156,957	\$ 13,570,895	\$ 19,575,954	\$ 15,674,840	\$ 13,277,815	\$ 22,801,520	\$ 14,446,905	\$ 20,970,084	\$ 25,266,696
Additions and remodels	120	105	60	107	70	88	103	92	88	116
Valuation	10,888,751	10,794,340	8,021,100	11,604,584	7,704,603	11,734,420	11,739,278	9,004,645	10,623,625	13,485,643
Planning permits issued	248	247	261	305	162	107	132	152	76	162
Streets resurfaced/rehabilitated	2.68	3.40	2.50	3.44	4.37	2.87	2.61	1.48	4.13	7.0
Recreation classes and activities offered*	12	16	18	22	164	195	147	177	131	72

**FY2014 decrease in recreation and activities offered resulted from outsourcing of Town's Barn operations*

Source: Town of Los Altos Hills

**TOWN OF LOS ALTOS HILLS
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Parks and Recreation										
Baseball fields	4	4	4	4	4	4	4	4	4	4
Playground	1	1	1	1	1	1	1	1	1	1
Park	1	1	1	1	1	1	1	1	1	1
Riding Ring	1	1	1	1	1	1	1	1	1	1
Westwind Barn	1	1	1	1	1	1	1	1	1	1
Pathways - miles	62	62	62	62	67	71	75	80	82	85
Open space - acres	55	55	55	55	55	55	55	55	55	55
Drainage and Street Operations										
Street lights	6	6	6	6	6	6	6	6	6	6
Traffic lights	3	3	3	3	3	3	3	3	3	3
Paved roadway - miles	55	55	55	55	58	55	58	58	58	60
Storm drains - miles	20	20	20	20	20	20	20	20	20	20
Sewer Operations										
Sanitary sewers - miles	52	52	52	52	53	52	53	54	55	56

Source: Town of Los Altos Hills