

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016



Town of Los Altos Hills, California

This Page Left Intentionally Blank

TOWN OF LOS ALTOS HILLS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

PREPARED BY:
DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES

TOWN OF LOS ALTOS HILLS, CALIFORNIA
Comprehensive Annual Financial Report
For the Fiscal Year Ending June 30, 2016

Table of Contents

INTRODUCTION SECTION:

Letter of Transmittal	i
Organizational Chart	vi
Town Officers	vii
GFOA Certificate of Achievement	viii

FINANCIAL SECTION:

<i>Independent Auditors Report</i>	1
<i>Management’s Discussion and Analysis</i>	5

Basic Financial Statements:

Governmental-wide Financial Statements:

Statement of Net Position	30
Statement of Net Position	31

Fund Financial Statements:

Balance Sheet – Government Funds	32
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position	33
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position	33
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	34
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities and Changes in Net Position	35
Statement of Fund Net Position – Proprietary Funds	36
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	37
Statement of Cash Flows – Proprietary Funds	38
Statement of Fiduciary Net Position – Fiduciary Funds	39
Notes to Basic Financial Statement	43

TOWN OF LOS ALTOS HILLS, CALIFORNIA
Comprehensive Annual Financial Report
For the Fiscal Year Ending June 30, 2016

Table of Contents

FINANCIAL SECTION (Continued):

Required Supplementary Information:

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund	73
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Capital Projects Fund	74
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Sewer Enterprise Fund	75
Schedule of Proportionate Share of Net Pension Liability	76
Schedule of Contributions	77
Schedule of Funding Progress	78
Notes to Required Supplementary Information	79

Supplementary Information

Combining Statements and Individual Fund Schedules:

Nonmajor Governmental Funds:

Combining Balance Sheets – Nonmajor Governmental Funds	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	86
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgeted Nonmajor Funds	88

Agency Funds:

Statement of Changes in Assets and Liabilities	92
--	----

STATISTICAL SECTION:

Net Position by Component	96
Changes in Net Position	97
Fund Balances of Governmental Funds	99
Changes in Fund Balance of Governmental Funds	100

TOWN OF LOS ALTOS HILLS, CALIFORNIA
Comprehensive Annual Financial Report
For the Fiscal Year Ending June 30, 2016

Table of Contents

STATISTICAL SECTION (Continued):

Assessed and Estimated Actual Value of Taxable Property	102
Property Tax Rates – Direct and Overlapping Governments	103
Principal Taxpayers	104
Property Tax Levies and Collections	105
Ratios of Outstanding Debt by Type	106
Direct and Overlapping Debt	107
Legal Debt Margin Information	108
Demographics and Economic Statistics	109
Principal Employers	110
Full-Time Equivalent City Government Employees by Function	111
Operating Indicators by Function	112
Capital Asset Statistics by Function	113

INTRODUCTORY SECTION

This Page Left Intentionally Blank



November 7, 2016

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for the Town of Los Altos Hills, California (Town), for the year ended June 30, 2016. The CAFR was prepared in accordance with principles and standards set by the Governmental Accounting Standards Board. The report presents Town's financial information on an entity-wide basis and at fund level, with emphasis on the Town's major funds.

As part of the required presentation, the report includes a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). It presents a comparative analysis of current and prior year results, changes in financial position, financial highlights, trends and disclosure of any known significant events or decisions that affect the financial condition of the Town. This transmittal letter 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.

The responsibility for the accuracy of the information and the completeness and fairness of the presentation rests on Town's management. This includes note disclosures, required supplemental information and statistical summary. We believe that the information reported is accurate in all material respects and its presentation fairly shows the financial position and the results of the Town's operations. In providing a basis for making these representations, management has established a reasonable and cost effective internal control system designed to protect the government's assets from loss, theft, or misuse and to compile necessary information for preparing the Town's financial statements.

In compliance with State statutes and the Town's municipal code Section 2-3.221, this financial statements have been audited by the certified public accounting firm of Maze & Associates. 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, 2016, 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 unqualified opinion that the Town of Los Altos Hills' financial statements for the year ended June 30, 2016, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the Government

The Town of Los Altos Hills is a residential community located in Santa Clara County, California. It is about 18.6 miles northwest of San Jose and 38.5 miles southeast of San Francisco. Incorporated on January 27, 1956, the Town currently encompasses 9 square miles, maintains over 100 acres of pathways and open space and has influence on an additional 5.2 square miles of unincorporated land adjacent to the Town's boundaries, the "Sphere of Influence."

It 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. City Council members are elected in overlapping four-year terms and, from amongst themselves, select a Mayor and Vice Mayor 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.

The Town provides a full range of essential services through a combination of in-house staff and contract services. Services provided by the Town's 20.2 full-time equivalent employees include planning, engineering, building inspection, maintenance of public infrastructure, recreation, limited parks, open space maintenance and general management. Partnership with neighboring cities, counties and special districts are utilized to provide law enforcement services, fire services, sewer conveyance and treatment, water services and technology support. The Town also entered into public-private partnership in areas of code enforcement, trash collection, payroll services, staff augmentation and Westwind Barn management.

The cost to provide these essential services are reviewed annually as part of the Town's operating and capital budget. The annual budget serves as the foundation for the Town's financial planning, monitoring 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. 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 Notes to Required Supplementary Information on page 79. 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 73 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 Statements section of this report, starting on page 84. Budgets are also adopted and controlled for the proprietary funds. Budget comparisons for proprietary funds are not legally mandated but are presented after the Combining Statements and Individual Fund Statements section of this report.

Throughout the year, the Administrative Services Department monitors economic changes that may affect the Town's revenue stream, coordinates with departments in identifying changing needs and demands, and presents budget adjustments to the City Council as part of the mid-year review. Public inputs are filtered through the Town's standing committees and to staff liaisons. These inputs are considered in the development of the budget and presented to the City Council for consideration as part of the budget review and throughout the year as separate Council action items.

Los Altos Hills Financial Outlook

As shown in the Basic Financial Statements, starting on page 30, the Town is financially healthy. As of June 30, 2016, the Town has no outstanding debt, the unfunded pension liability per CalPERS Actuary is estimated at \$2.0 million, and the total unrestricted fund balance is \$9.7 million, of which \$7.6 is unassigned and available to meet current and future liabilities. The combination of the increase in single-family property value, increase in planning and building activities, and hold-the-line spending philosophy are the reasons for the \$2.3 million increase in unrestricted general fund reserves from June 30, 2015.

Local Economic Conditions and its Impact on the Town

Los Altos Hills has eleven non-residential properties and 3,300 single-family residential properties. The eleven non-residential properties are Fremont Country Club, Purissima Hills Water District, County Fire District, Town Hall, Foothill College, two churches, and four primary schools. With no commercial base, Los Altos Hills' primary revenue sources are property tax and permit revenues from private development.

Property tax revenues are generally one year behind from the housing market. The property valuation used to calculate tax revenues is based on price of homes sold in the previous year. As shown in the chart below, the average home price (in orange) has arisen back to the pre-recession prices. This increase in average home price and the steady home sales (in yellow) are the reasons for the increase in property tax revenues (in blue).

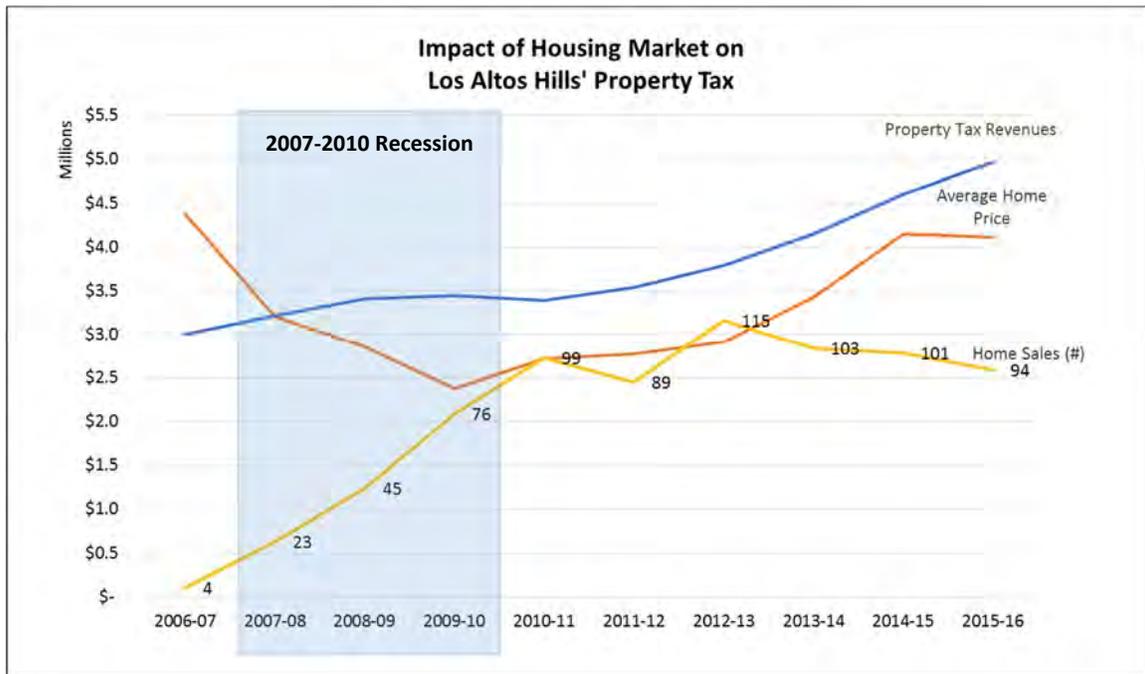


Figure 1. Impact of Housing Market on Los Altos Hills' Property Tax

For 2016-17, the Town is anticipating property tax revenues to increase by 6 percent as a result of 2015-16 average home price, number of homes sold and the second year impact from Assembly Bill 117.

By June 30, 2016, the price of a single-family home in Los Altos Hills has stabilized, setting the average home prices at \$4.1 million. The Town expects the stabilized housing market in Los Altos Hills to continue into 2016-17 as a result of the growing economy in the region. For fiscal year ending June 30, 2016, the Bay Area housing market continues to be strong. The average single-family homes in greater California increased by 6 percent, to \$488,000; Bay Area, which includes Santa Clara County and San Mateo County increased by 4 percent; and Santa Clara County average housing price escalated by 10 percent to \$989,000. Additionally, the Town currently has a little over 1,000 homes with county assessed values below one million dollars. The sale of five of these homes can result in a one percent increase in the Town's property tax revenues. As of June 30, 2016, there are 2,700 out of 3,330 homes below the average home price of \$4.1 million.

In September 2015, California Assembly Bill 117 passed in September 2015 shifting a portion of the assessed property tax from the County of Santa Clara to Los Altos Hills. The shift is estimated to increase the Town's annual property tax revenues by \$319,000. The increase will occur in five equal steps commencing in 2016-17.

Long-term financial planning and relevant financial policies

The increase in general fund revenues and the increase in unreserved and unrestricted fund balance offers the Town a unique opportunity to address its major concerns in the coming years. These concerns include the ever growing unfunded pension and OPEB liabilities. As of June 30, 2016, the Town's pension liability is \$2.0 million and the OPEB liability is \$0.8 million. On May 19, 2016, the City Council adopted a reserve policy to set aside unrestricted general fund balance for pension, operating contingency, disaster contingency, and technology infrastructure reserves. The Town plans to expand and refine the reserve policy in the coming years.

Major Initiatives

In 2015-16, a Town-wide survey was completed. The results of the survey were presented to the City Council in February 2016. According to the survey, 87.7% of Town's residents are satisfied or very satisfied with Town services. The survey identified potential areas for service level enhancements to meet Residents' priorities and needs. These areas include traffic enforcement, crime prevention, and patrol services; better building permit processing, additional recreation programs and community events, and enhanced maintenance of public infrastructure. The elements in the 2016-17 Operating Budget that addresses these concerns include upgrading the building permit system, contracting for additional sheriff services, and adding two new staff positions: Recreation Specialist and Maintenance Worker I.

Award and Acknowledgement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, the Town had to publish an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements. The GFOA award is valid for a one-year period only. We believe that our current Comprehensive Annual Financial Report continues to meet the program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Town also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2016. In order to qualify for this Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communication device.

We wish to extend our appreciation to all of the Town staff who contributed financial information to this report. Special thanks go to Karen Huang and Frances Reed for their continued support of the Finance Department and efforts in the preparation and production of this report.

We 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,

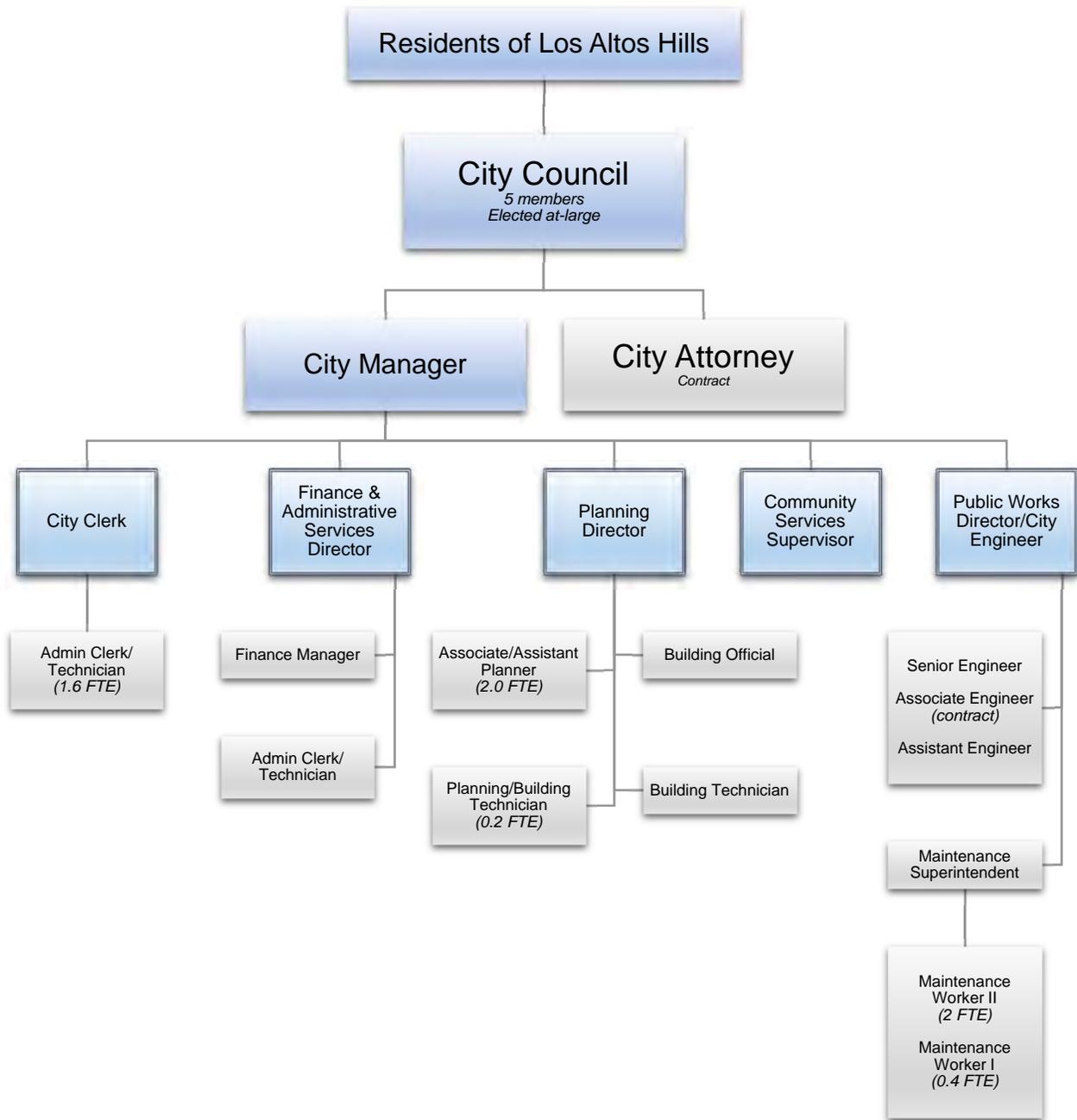


Carl Cahill
City Manager



Pak Lin
Director of Administrative Services

Town of Los Altos Hills Organizational Chart



TOWN OFFICERS

As of June 30, 2016

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

City Council Appointed

Carl Cahill, City Manager
Steve Mattas, City Attorney (contract)

City Manager Appointed

Suzanne Avila, Planning Director
Pak Lin, Administrative Services Director
Richard Chiu, Public Works Director & City Engineer
Deborah Padovan, City Clerk



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Los Altos Hills
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

FINANCIAL SECTION

This Page Left Intentionally Blank

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
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, California, as of and for the year ended June 30, 2016, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof listed as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2016 as discussed in Note 1E and 2 to the financial statements:

Statement No. 72 – *Fair Value Measurement and Application*

Statement No.79 – *Certain External Investment Pools and Pool Participants*

Management early-implemented the provisions of the following Governmental Accounting Standards Board Statement during the year ended June 30, 2016, that had a material effect on the required supplementary information:

Statement No. 82 – *An Amendment of GASB Statements No. 67, No. 68, and No. 73*

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis and other Required Supplementary Information 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 as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Supplemental Information is 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 7, 2016, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Marc + Associates

Pleasant Hill, California

November 7, 2016

This Page Left Intentionally Blank

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- The Town's governmental activities' assets exceed its liabilities at June 30, 2016, by \$36,095,340 (net position). Of this amount, \$9,687,552 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors. The unrestricted net position increased by \$2,623,278, compared to the prior year, and is primarily driven by the \$2,312,212 net change in general fund balance.
- Business-type activities' assets exceed its liabilities at June 30, 2016, by \$7,827,383, an increase of \$31,214 from prior year. Sewer operation is the Town's only business-type activity.
- The Town's cash and investments at June 30, 2016 totals \$18,801,273, of which \$15,494,471 is classified as government activities and \$3,306,802 falls into the business-type activities category (Sewer). The Town's cash and investments increased \$1,798,811 or 11 percent compared to the prior year, primarily due to the \$2,025,259 change in net position.
- The Town's accounts payable and other current liabilities at June 30, 2016, is \$3,210,465. Of this amount, \$710,975 was reported in the Sewer Fund.

Governmental Funds

- The Town's general fund balance at June 30, 2016, was \$9,721,176, an increase of \$2,312,212, or 31 percent over the previous year. The contributing factors include carrying over \$799,158 of capital spending budget into 2016-17 and a structural surplus of \$1,513,052.
- Fund balances at June 30, 2016, in the Town's Street Capital Projects stayed at \$65,682, when compared to the prior year.
- Fund balances at June 30, 2015, 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, other capital projects, and debt service funds. The fund balances increase of \$167,511, or 7 percent from prior year, is primarily due to receipt of \$131,968 in grant revenues from Santa Clara Valley Water District for completing the monitoring phase at O'Keefe and Adobe Creek Preserves.

Proprietary Funds

- The Town's Sewer Fund unrestricted net position at June 30, 2016, was \$2,582,858, a decrease from the prior year of \$191,277 or 7 percent primarily due to higher spending on sewer treatment cost and sewer consultant activities.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Other Highlights

- The most recent Other Post-Employment Benefits (OPEB) valuation report as of June 30, 2015, prepared by the Town's actuarial consultant, Bartel Associates, reflects \$1,398,000 in the OPEB plan's unfunded liability, which is a \$95,000 decrease from the June 30, 2013 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, offset by implementation of implied subsidy between retiree and active employees. 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, 2016, the market value of the Town's CERBT account is \$1,727,551. The Adopted 2015-16 budget assumed full funding of the Annual Required Contribution (ARC) of \$216,000, as determined by the actuarial study prepared by Bartel Associates, which included a pay-as-you-go payment to retirees of approximately \$97,000. This funding level is a result of annual consideration by the City Council.
- According to the annual valuation report provided by the CalPERS Actuarial Office, CalPERS assets are insufficient to meet its actuarial liabilities. The report states that the Town's share of the unfunded pension liability is \$1,804,965 based on a market value as of June 30, 2014 – decrease in unfunded liability by \$214,483 compared to the June 30, 2013 valuation. Generally, CalPERS valuation reports are one year behind and impacts the employer contribution rate three years later. To prepare the Town for significant changes in employer contribution, the City Council adopted by resolution to commit a portion of the General Fund unassigned reserves for unfunded pension liability. As of June 30, 2016, the pension contingency was \$500,000, or 27 percent of the Town's share of the unfunded liability.
- As part of Governor Jerry Brown's September 2015 budget, Assembly Bill 117 was passed to shift a portion of the property tax rate from Santa Clara County to Los Altos Hills. The shift will gradually increase the Town's property tax rate and will reduce the County's tax rate portion, equally. The estimated increase in annual tax revenue when this shift is complete is \$319,000.
- The groupings of Community Development and Parks & Recreation functions changed in 2015-16. Previously, Public Works Engineering function was grouped under Community Development. Pathway Operations was grouped under Parks & Recreation. For consistency with the Town's budget, Public Works Engineering, Pathway Operations, and Streets and drainage categories are grouped under Public Works. Community Development consists of only Planning and Building functions and Parks & Recreation consists of Field Rentals, Recreation Programs, Special Community Events, and Riding Program functions. For comparability, the 2014-15 audited financials are regrouped to be consistent with the department function groupings in 2015-16. Where possible, both the original 2014-15 audited numbers and the 2014-15 regrouped numbers are presented.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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 businesses.

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 inflows and outflows in future fiscal periods, for example, earned but unused vacation leave. These government-wide financial statements begin on page 30 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. 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. A reconciliation is provided for governmental funds to government activities reported in the Governmental Funds Statement of net Position and Statement of Activities.

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

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The Town of Los Altos Hills adopts an annual 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 32-35 of this report. The budgetary comparison schedule for the General Fund can be found on page 73.

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 sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses an internal service fund to account for the central services, corporation yard services, and the repair and replacement of equipment and vehicles. Because these services predominantly benefit governmental rather than business-type functions, it 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 36-38 of this report.

Fiduciary Funds

The Town is the trustee, or *fiduciary*, for funds held on behalf of others. The fiduciary activities reported on page 39 are for the West Loyola bond issue funds. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43-69 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 73-79 of this report.

Combining statements for Nonmajor Governmental Funds are presented after the required supplementary information on pages 83-87. Budgetary schedules for Sewer Fund is presented on Page 75 and Nonmajor Governmental Funds, Street Capital Projects, and Other Capital Projects are presented on pages 88-91. The Statistical Section begins on Page 95.

TOWN OF LOS ALTOS HILLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 \$43,922,723 at June 30, 2016.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current and other assets	\$ 16,340,993	\$ 14,049,999	\$ 3,428,417	\$ 3,850,630	\$ 19,769,410	\$ 17,900,629
Capital assets	24,700,834	25,451,569	5,244,525	5,022,034	29,945,359	30,473,603
Total assets	41,041,827	39,501,568	8,672,942	8,872,664	49,714,769	48,374,232
DEFERRED OUTFLOWS OF RESOURCES						
Related to pensions	220,480	215,675	12,305	9,475	232,785	225,150
LIABILITIES						
Current	2,499,490	2,794,435	710,975	965,654	3,210,465	3,760,089
Non-current liabilities	100,159	151,975	3,607	3,032	103,766	155,007
Net pension liability	2,020,651	1,923,052	112,773	84,488	2,133,424	2,007,540
Total liabilities	4,620,300	4,869,462	827,355	1,053,174	5,447,655	5,922,636
DEFERRED INFLOWS OF RESOURCES						
Related to pensions	546,667	746,486	30,509	32,796	577,176	779,282
NET POSITION						
Net investment in capital assets	24,700,834	25,370,209	5,244,525	5,022,034	29,945,359	30,392,243
Restricted	1,706,954	1,666,812	-	-	1,706,954	1,666,812
Unrestricted	9,687,552	7,064,274	2,582,858	2,774,135	12,270,410	9,838,409
Total net position	\$ 36,095,340	\$ 34,101,295	\$ 7,827,383	\$ 7,796,169	\$ 43,922,723	\$ 41,897,464

Note: Total assets – liabilities = total net position

The largest portion of the Town's net position, 68 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.

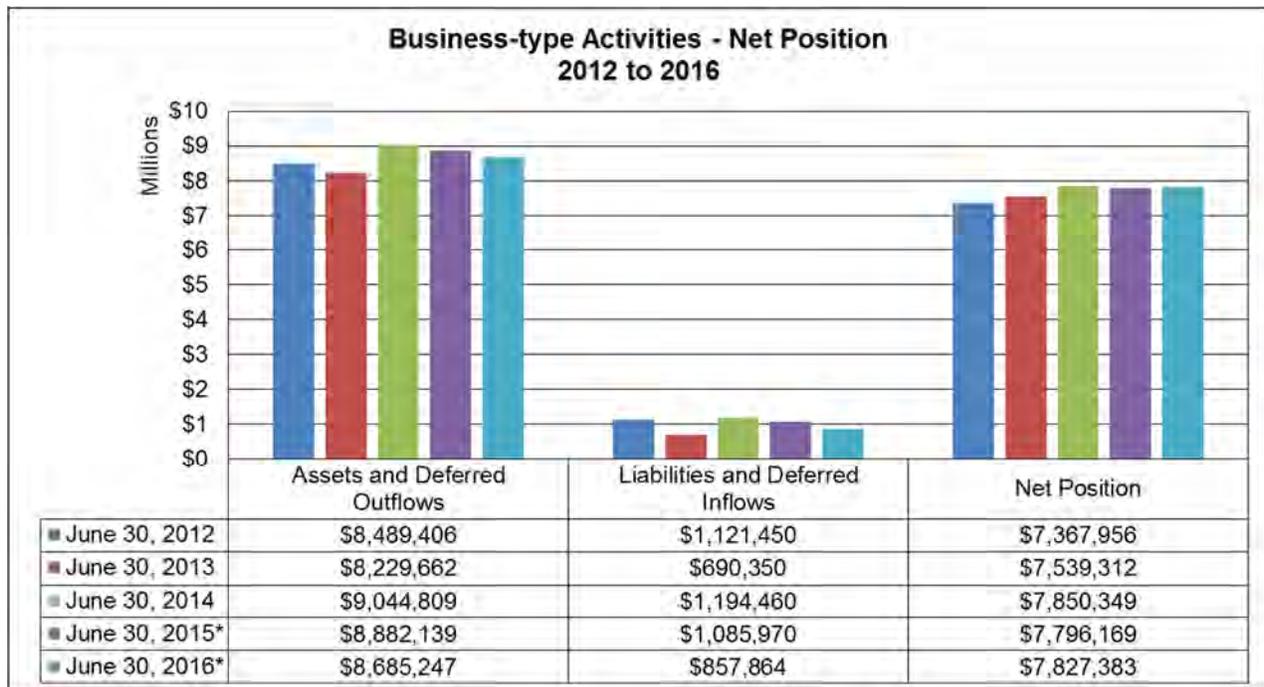
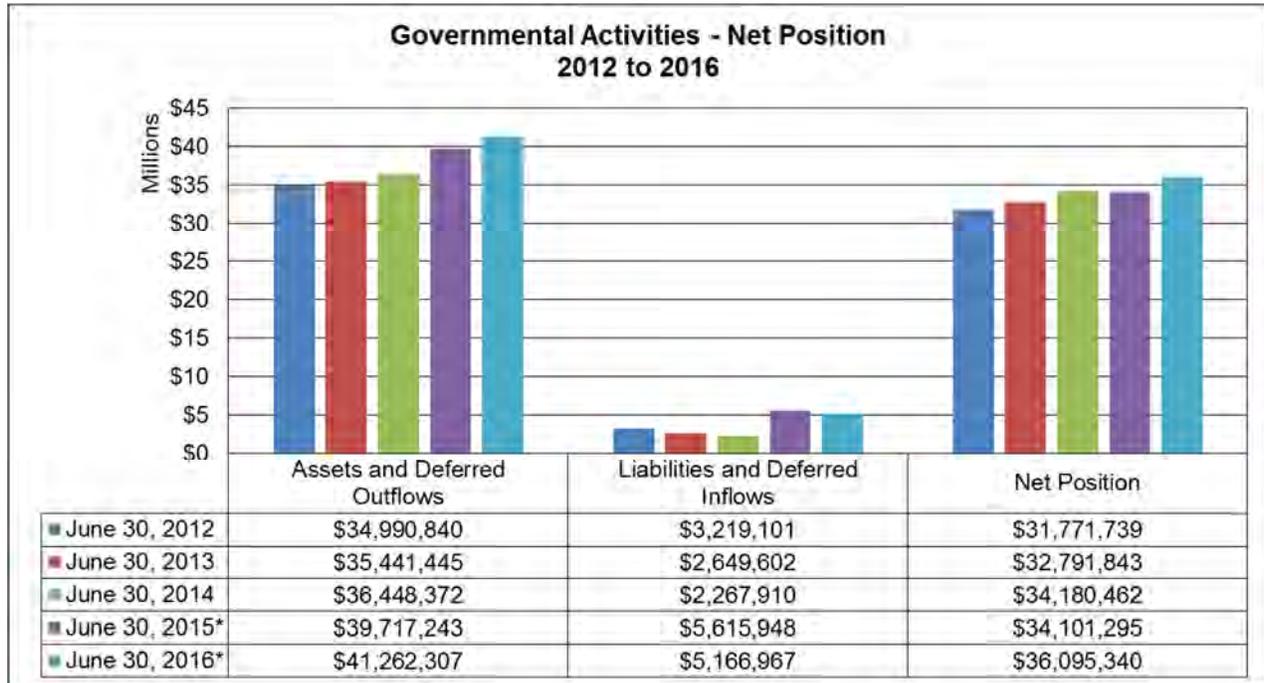
The Town's net position increased by \$40,142 in restricted resources from \$1,666,812 in 2014-15 to \$1,706,954 in 2015-16. These resources are subject to external restrictions on how they may be used. These includes in-lieu fees collected on pathways, storm drain, and parks. These may also include grants and restricted donations.

The remaining balance is unrestricted net position, \$12,270,410, of which \$9,687,552 is classified as government activities and may be used to meet the Town's ongoing obligations to citizens and creditors. The \$2,582,858 in business-type activities (Sewer) may only be used to meet the Town's sewer obligations to citizens and creditors.

On June 30, 2016, 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, 2016



* In accordance with GASB Nos. 68 and 71, net pension liability and related deferred inflows and outflows of resources are included in the Net Position for June 30, 2015 and June 30, 2016.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Statement of Activities

The following schedule shows summarized information for the current and prior year on the changes in net position. The net change in Governmental net position totals \$1,994,045, which is \$392,693 less than the net change in 2014-15. This results from an increase in spending of \$469,042 and a decrease in revenues by \$30,210. Business-type activities net position did not change significantly during 2015-16, with a decrease of \$31,214. With the implementation of GASB 68, the 2014-15 beginning net positions were re-stated to account for unfunded liabilities. Significant changes year-over-year are discussed in subsequent sections.

	Governmental Activities		Business-type Activities		Total	
	2016	2015*	2016	2015*	2016	2015*
REVENUES						
Program revenues						
Charges for services	\$ 2,878,612	\$ 3,262,772	\$ 1,925,636	\$ 1,392,029	\$ 4,804,248	\$ 4,654,801
Operating contributions/grants	303,292	300,643	-	-	303,292	300,643
Capital contributions/grants	398,990	224,657	221,010	234,339	620,000	458,996
General revenues						
Property taxes	4,960,016	4,606,184	-	-	4,960,016	4,606,184
Motor vehicle license tax	53,964	3,706	-	-	53,964	3,706
Other taxes	511,091	645,836	-	-	511,091	645,836
Franchise fees	474,732	513,997	-	-	474,732	513,997
Use of money and property	356,479	282,791	32,557	19,533	389,036	302,324
Other unrestricted	4,538	131,338	2,829	-	7,367	131,338
Total revenues	<u>9,941,714</u>	<u>9,971,924</u>	<u>2,182,032</u>	<u>1,645,901</u>	<u>12,123,746</u>	<u>11,617,825</u>
EXPENSES						
Administration	2,339,474	1,923,816	-	-	2,339,474	1,923,816
Public safety	1,601,654	1,379,621	-	-	1,601,654	1,379,621
Community development*	2,167,702	2,289,743	-	-	2,167,702	2,289,743
Parks and recreation	738,495	621,974	-	-	738,495	621,974
Public works*	1,252,271	1,413,587	1,997,399	1,544,883	3,249,670	2,958,470
Interest on long-term debt	1,492	3,305	-	-	1,492	3,305
Total expenses	<u>8,101,088</u>	<u>7,632,046</u>	<u>1,997,399</u>	<u>1,544,883</u>	<u>10,098,487</u>	<u>9,176,929</u>
Increase (decrease) in net position before transfers and special item	1,840,626	2,339,878	184,633	101,018	2,025,259	2,440,896
Transfers in (out)	153,419	46,860	(153,419)	(46,860)	-	-
Change in net position	<u>1,994,045</u>	<u>2,386,738</u>	<u>31,214</u>	<u>54,158</u>	<u>2,025,259</u>	<u>2,440,896</u>
Net position, beginning of year	34,101,295	34,180,462	7,796,169	7,850,349	41,897,464	42,030,811
Prior period adjustment	-	(2,465,905)	-	(108,338)	-	(2,574,243)
Net position, beginning of year, as restated	<u>34,101,295</u>	<u>31,714,557</u>	<u>7,796,169</u>	<u>7,742,011</u>	<u>41,897,464</u>	<u>39,456,568</u>
Net position, end of year	<u>\$ 36,095,340</u>	<u>\$ 34,101,295</u>	<u>\$ 7,827,383</u>	<u>\$ 7,796,169</u>	<u>\$ 43,922,723</u>	<u>\$ 41,897,464</u>

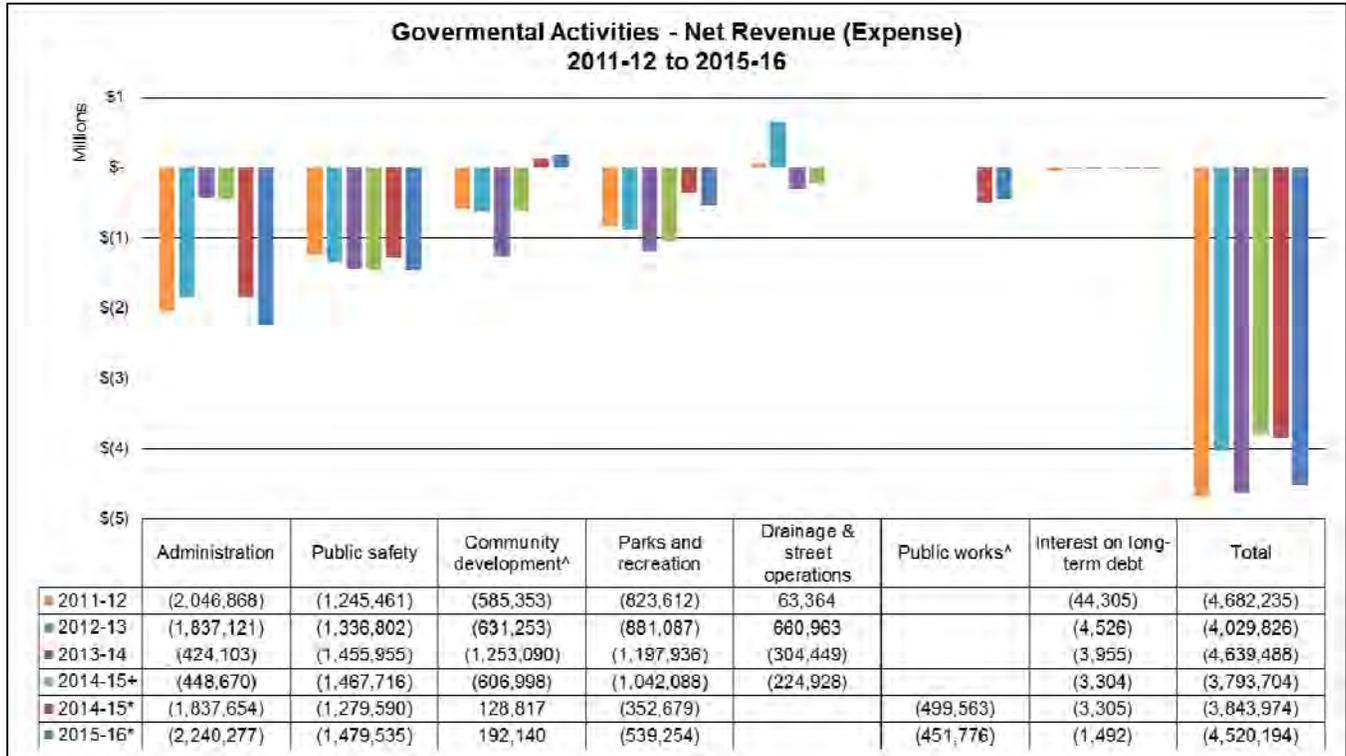
* 2014-15 revenues and expenses were regrouped to be consistent with 2015-16. Changes include reclassifying overhead allocation of \$46,860 from Governmental Activities program revenues to transfers in (out); eliminating intra-fund overhead allocations from Governmental Activities public safety, community development, parks and recreation and public works functions; and group all public works functions out of community development and parks and recreation and into public works category.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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.



⁺ The 2014-15 numbers are consistent with the 2014-15 audited CAFR.

^{*} For comparison purposes, 2014-15 audited numbers are regrouped to be consistent with the new grouping in 2015-16. This includes eliminating intra-fund overhead allocations rather than netting the overhead allocation in against Administration expenses. Another change involves the treatment of overhead allocation paid by the sewer fund. The original 2014-15 audited charges for services included \$46,860 overhead allocation paid by the sewer fund. The new grouping records this as "transfers" and is shown under "Other Financing Sources."

[^] Community development grouping, prior to 2014-15, included public works engineering services. For consistency with the Town's annual budget, the expenditure grouping has changed where Community Development only includes Planning and Building functions and Public Works category includes engineering, storm drain operation, pathway operation, and street operation.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Overall, net revenues (expenses) for governmental activities for 2015-16 was (\$4,520,194), a difference of \$676,220 or 17 percent, from the previous year. The primary driver of the increase in net program expense is attributable to elevated program spending in Administration and Public Safety. Further details can be found in the subsequent section on Fund Financial Analysis within the General Fund Expenditure discussion.

Net Program Revenue (Expense)	2016			2015 - restated		
	Program revenues	Expenses	Net revenue (expense)	Program revenues	Expenses	Net revenue (expense)
Administration	\$ 99,197	\$ 2,339,474	\$ (2,240,277)	\$ 86,162	\$ 1,923,816	\$ (1,837,654)
Public safety	122,119	1,601,654	(1,479,535)	100,031	1,379,621	(1,279,590)
Community development*	2,359,842	2,167,702	192,140	2,418,560	2,289,743	128,817
Parks and recreation	199,241	738,495	(539,254)	269,295	621,974	(352,679)
Public works*	800,495	1,252,271	(451,776)	914,024	1,413,587	(499,563)
Interest on long-term debt	0	1,492	(1,492)	0	3,305	(3,305)
Net program revenue (expense)	<u>\$ 3,580,894</u>	<u>\$ 8,101,088</u>	<u>\$ (4,520,194)</u>	<u>\$ 3,788,072</u>	<u>\$ 7,632,046</u>	<u>\$ (3,843,974)</u>

Business-type Activities. The Town's sole business-type activity is the sewer fund. The net program expense for business-type activities is \$149,247 – a \$114,622 increase compared to 2014-2015. The primary driver is an increased in sewer treatment cost and other contract services. Further details can be found in the subsequent section on Fund Financial Analysis.

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	Nonmajor Governmental Funds	Total
Revenues	\$ 8,813,003	\$ 302,280	\$ 826,431	\$ 9,941,714
Less: Expenditures	(5,446,269)	(919,467)	(1,249,673)	(7,615,409)
Net transfers in (out)	(1,054,522)	617,188	590,753	153,419
Net change - increase (decrease)	2,312,212	1	167,511	2,479,724
Fund balances, beginning of year	7,408,964	65,681	2,560,174	10,034,819
Fund balances, end of year	<u>\$ 9,721,176</u>	<u>\$ 65,682</u>	<u>\$ 2,727,685</u>	<u>\$ 12,514,543</u>

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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.

Street Capital Projects Fund - account for street paving and rehabilitation related capital expenditures. The main source of revenues comes from State of California Gas Tax revenues, developer fees for street excavation, grants, and the General Fund.

Nonmajor Governmental Funds - is an aggregate of the Town's remaining special revenues funds, debt service funds, and other capital projects funds. The Funds are listed out in detail on page 83 in the Other Supplementary Information section of the financial statement.

Governmental Funds – Changes in Fund Balances

The net activity for the governmental fund balances for 2015-16 Net Change is \$2,479,724. It is \$189,239 more than the net change in 2014-15. The increase is mainly attributed to increased overhead allocation transferred in from Sewer Fund. In 2014-15, the City Council by resolution changed the overhead allocation methodology and approved to retroactively correct the 2013-14 allocation in 2014-15. This resulted in a one-time \$54,998 reduction in 2014-15.

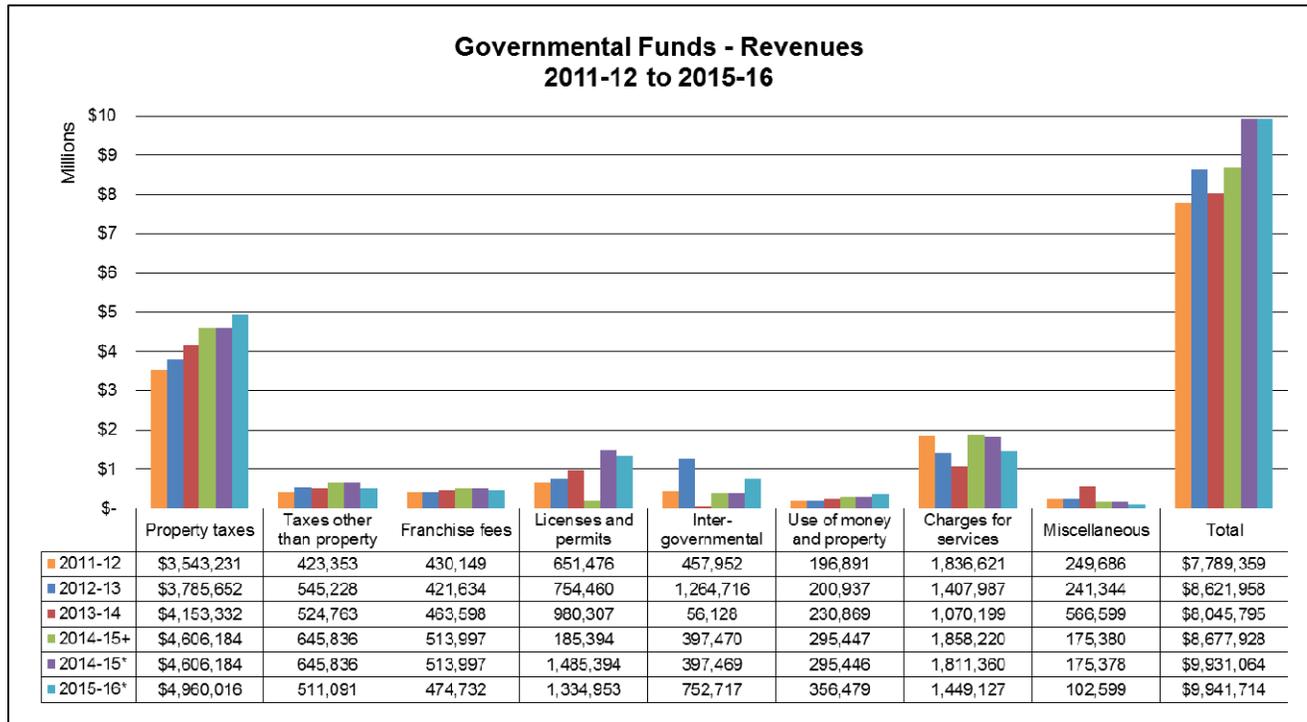
Governmental Funds	2016	restated 2015	Increase (decrease)	
			\$	%
Revenues	\$ 9,941,714	\$ 9,931,064	\$ 10,650	0%
Expenditures	(7,615,409)	(7,678,024)	62,615	-1%
Net transfers in (out)	153,419	37,445	115,974	310%
Net change - increase (decrease)	<u>\$ 2,479,724</u>	<u>\$ 2,290,485</u>	<u>\$ 189,239</u>	<u>8%</u>

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Governmental Funds – Revenues

Overall, revenues in all Governmental Funds increased by \$10,650 compared to prior year. The primary drivers are higher property tax and inter-government revenues offset by reductions in other taxes, license and permit revenues, and charges for services.



+ The 2014-15 numbers are consistent with the 2014-15 audited CAFR.

* For comparison purposes, 2014-15 audited numbers are regrouped to be consistent with the new grouping in 2015-16. One main difference in the 2014-15 numbers is in the treatment of overhead allocation paid by the sewer fund. The original 2014-15 audited charges for services included \$46,860 overhead allocation paid by the sewer fund. The new grouping records this as "transfers" and is shown under "Other Financing Sources."

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

GENERAL FUND REVENUES

General Fund revenues for the year ended June 30, 2016 had a minimal change from 2014-15, a small increase of \$14,724. The following chart summarizes revenues into major categories for comparative purposes across two fiscal years. For comparability, the 2014-15 revenues are regrouped to be consistent with 2015-16.

<u>General Fund Revenues</u>	<u>2016</u>	<u>restated</u>	<u>Increase (decrease)</u>	
		<u>2015</u>	<u>\$</u>	<u>%</u>
Property taxes	\$ 4,960,016	\$ 4,606,184	\$ 353,832	8%
Taxes other than property	511,091	645,836	(134,745)	-21%
Franchise fees	474,732	513,997	(39,265)	-8%
Licenses and permits	1,281,266	1,407,564	(126,298)	-9%
Intergovernmental	59,300	41,513	17,787	43%
Use of money and property	299,886	250,773	49,113	20%
Charges for services	1,129,113	1,256,284	(127,171)	-10%
Miscellaneous	97,599	76,128	21,471	28%
Total General Fund revenues	<u>\$ 8,813,003</u>	<u>\$ 8,798,279</u>	<u>\$ 14,724</u>	<u>0.2%</u>

Majority of the changes in General Fund revenues are in property taxes, taxes other than property, licenses and permits and charges for services.

- **Property tax** experienced an 8 percent increase in 2015-16, compared to prior year. This increase was driven by an increase in single family homes assessed value through property transfers, reversals of Proposition 8 valuation adjustments, and the shift of property tax from County of Santa Clara to the Town per the Tax Equality Allocation (AB 117).
- **Taxes other than property** decreased by \$134,745 or 21 percent compared to prior year. All tax revenues recorded under this category were reduced in 2015-16, when compared to 2014-15.

<u>Taxes other than property</u>	<u>2016</u>	<u>restated</u>	<u>Increase (decrease)</u>	
		<u>2015</u>	<u>\$</u>	<u>%</u>
Business tax	\$ 192,395	\$ 223,369	\$ (30,974)	-14%
Real property transfer tax	217,676	254,535	(36,859)	-14%
Sales & use tax	50,473	113,333	(62,860)	-55%
Public safety sales tax	50,547	54,599	(4,052)	-7%
Total General Fund revenues	<u>\$ 511,090</u>	<u>\$ 645,836</u>	<u>\$ (134,746)</u>	<u>-21%</u>

- **Business tax** decreased by \$30,974, bringing the total revenues down to \$192,395. This reduction is a result of a decline in business licenses issued. Eighty percent of business license issuance is associated with planning design and building construction activities. Since both planning and building activities have declined in 2015-16 when compared to 2014-15 levels, as stated below, business license revenues were reduced by 14 percent in 2015-16.
- **Real property transfer tax** is linked to the number of homes sold, which decreased by 14 percent, or seven homes.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- **Sales and use tax** in 2014-15 included a one-time payment of \$53,000 by the State Board of Equalization (BOE) which belonged to another agency. As a result, BOE withheld distribution for part of the year in 2015-16, instead of requiring a refund.
- **Public safety sales tax** is a half-cent sales tax approved by voters in 1992 dedicated to local public safety services. The decrease of \$4,052 resulted from one extra receipt in 2014-15.
- The Town collected \$1,281,266 in **licenses and permits** revenue, a \$126,298 reduction from 2014-15. Licenses and permits are assessed on building permits and as shown on page 102 of the Statistical Section, total valuation for new homes, additions and remodels declined by 18 percent. In addition, the number of building permits issued declined from 169 in 2014-15 to 148 in 2015-16, a decrease of 12 percent. The reduction in number of permits issued and the valuation of the building permits resulted in the reduction in license and permit revenues by 9 percent.
- **Charges for services** includes revenues from planning permit, recreation programs and community events. Overall, charges for services decreased by 10 percent, bringing total receipts to \$1,129,113 in 2015-16 from \$1,256,284 in 2014-15. The majority of the changes are in planning permit charges for services. As show below, total planning permit revenues decreased by \$120,004. This decrease is a result of the reduction in planning permit issuance –17 percent than 2014-15.

Charges for services	2016	restated 2015	Increase (decrease)	
			\$	%
Administration	\$ 108,014	\$ 118,033	\$ (10,019)	-8%
Planning permits	879,071	999,075	(120,004)	-12%
Parks and recreation	142,028	139,176	2,852	2%
Total General Fund revenues	\$ 1,129,113	\$ 1,256,284	\$ (127,171)	-10%

STREET CAPITAL PROJECTS FUND REVENUE

In 2015-16, the Town received \$302,280 in revenues, of which \$93,445 was from state traffic congestion relief and SB 83 vehicle registration fee revenues. The Town received a one-time grant payment in 2015-16 for the rehabilitation of El Monte Road. Total grant revenues is \$279,447.

Street Capital Revenues	2016	2015	Increase (decrease)	
			\$	%
Intergovernmental	\$ 279,447	\$ 83,704	\$ 195,743	234%
Charges for services	22,833	40,444	(17,611)	-44%
Total street capital revenues	\$ 302,280	\$ 124,148	\$ 178,132	143.5%

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

NONMAJOR FUNDS REVENUE

Beginning in 2015-16, Other Capital Projects category are combined into Nonmajor Funds. In aggregate, nonmajor funds revenues for 2015-16 are \$826,431, a \$182,207 decrease or 18 percent. Most significant changes in nonmajor funds are in storm drain and parks and recreation in-lieu revenues.

Nonmajor Funds Revenues	2016	2015	Increase (decrease)	
			\$	%
Storm drain in-lieu fee	\$ 136,654	\$ 262,280	\$ (125,626)	-48%
Pathway construction fee	165,985	144,215	21,770	15%
Parks & recreation in-lieu	0	109,964	(109,964)	-100%
Street operations	201,192	229,605	(28,413)	-12%
Citizens' option for public safety (COPS)	123,392	100,615	22,777	23%
Special donation	5,000	27,474	(22,474)	-82%
Other capital projects	194,208	134,485	59,723	44%
Total nonmajor revenues	\$ 826,431	\$ 1,008,638	\$ (182,207)	-18%

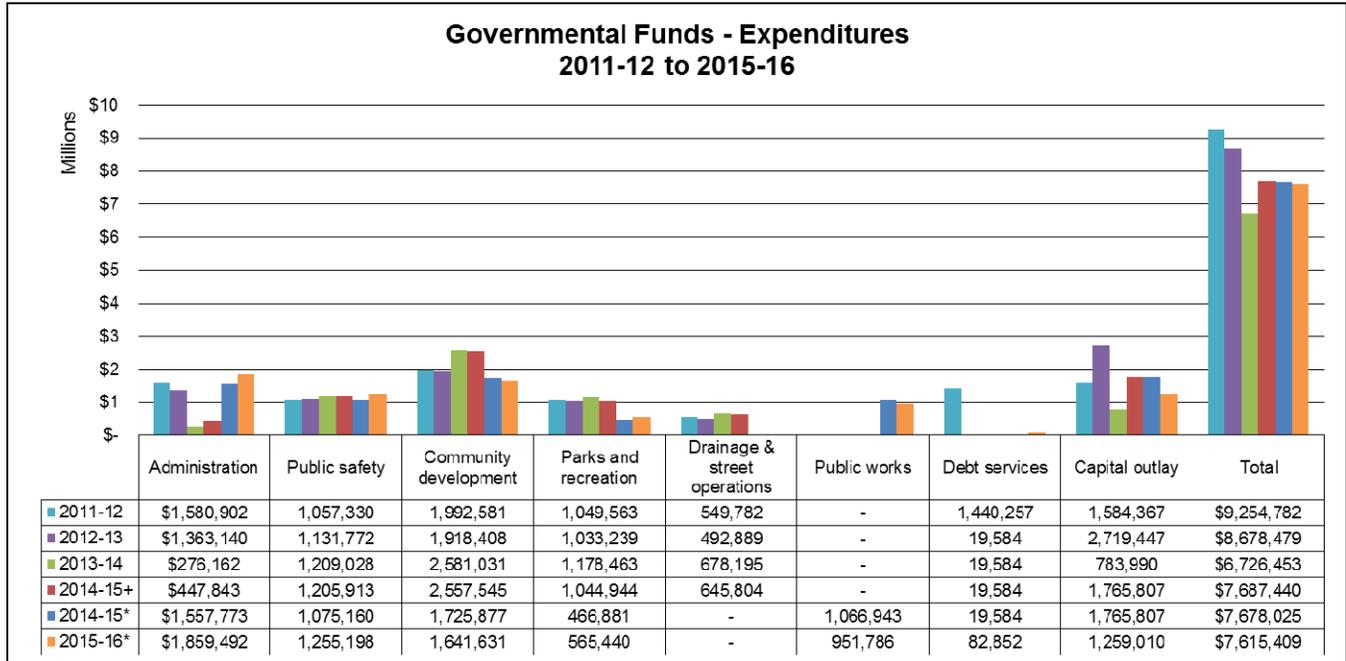
- **Storm drain fund (012)** records revenues from drainage in-lieu fees that are assessed on private development permits. The \$125,626 reduction in storm drain fund is due to the reduction of drainage in-lieu fees assessed.
- **Parks and recreation in-lieu (016)** records revenues from in-lieu fees assessed on approved subdivisions. The private subdivisions process is long and rare. In 2014-15, the Town completed one subdivision permit request and collected \$109,964. As of June 30, 2016, the Town has one outstanding nine-lot subdivision in process.

Governmental Funds – Expenditures

Overall expenditures in all Governmental Funds decreased by \$62,616, or 1 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.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016



+ The 2014-15 numbers are consistent with the 2014-15 audited CAFR.

* As mentioned in the Other Highlights, above, the grouping for 2015-16 expenditures changed in two ways (1) public works function was added to incorporate engineering, pathway operation and drainage & street operation. Previously, engineering was grouped with community development, pathway operations with parks & recreation and drainage & street operation is listed separately. The second change is the treatment of overhead allocation, where, intrafund overhead allocations are eliminated and interfund allocations are moved to transfers out.

For comparison purposes, the 2014-15 audited CAFR numbers are regrouped to be consistent with the new grouping in 2015-16. This change resulted in a reduction in expenditure by \$9,415. This is primarily due to recording overhead allocations distributed to special revenues funds are removed from expenditures and recorded as transfers out.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

GENERAL FUND EXPENDITURES

General Fund expenditures for the current year increased by \$436,466 or approximately 9 percent over the prior fiscal year.

<u>General Fund Expenditures</u>	<u>2016</u>	<u>restated</u>	<u>Increase (decrease)</u>	
		<u>2015</u>	<u>\$</u>	<u>%</u>
Administration	\$ 1,859,492	\$ 1,557,773	\$ 301,719	19%
Public safety	1,171,380	1,023,319	148,061	14%
Community development	1,641,631	1,725,877	(84,246)	-5%
Parks and recreation	565,440	466,881	98,559	21%
Public works	208,326	235,953	(27,627)	-12%
Total General Fund Expenditures	<u>\$ 5,446,269</u>	<u>\$ 5,009,803</u>	<u>\$ 436,466</u>	<u>9%</u>

Significant year-over-year expenditure changes are in Administration and Public Safety, with increases of \$301,719 and \$148,061 respectively.

- **Administration** includes City Council, City Manager, City Clerk, Administrative Services, City Attorney, General Liability, Community Services Grant, and Committees & Commissions. Spending in these departments, excluding Community Services Grant and Committees & Commissions, are allocated as overhead allocation to all service departments. To avoid duplication in financial presentation, the overhead allocation has been removed from the service departments in 2015-16. For comparability, the 2014-15 audited financials are also regrouped in the same manner as 2015-16.

The overall Administration spending in 2015-16 is \$301,719 more than 2014-15. The main increases from year-to-year are personnel expenses, professional services, and operations.

<u>Administration Expenditures</u>	<u>2016</u>	<u>restated</u>	<u>Increase (decrease)</u>	
		<u>2015</u>	<u>\$</u>	<u>%</u>
Personnel expenses	\$ 1,057,502	\$ 996,476	\$ 61,026	6%
Contract services	111,506	108,322	3,184	3%
Professional services	236,098	157,427	78,671	50%
Operations	454,386	295,548	158,838	54%
Total Administration Expenditures	<u>\$ 1,859,492</u>	<u>\$ 1,557,773</u>	<u>\$ 301,719</u>	<u>19%</u>

- **Personnel expenses** increased by \$61,026 as a result of increase in CalPERS pension cost and medical benefit costs. The total required employer contribution for pension cost increased by 22 percent, due to the higher effective employer rate for Tier 1 and Tier 3 employees.

	<u>2015-16</u>	<u>2014-15</u>
Tier 1	15.265%	11.840%
Tier 2	7.510%	8.715%
Tier 3	6.730%	6.700%

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

- **Professional services** increased by \$78,671 as a result of the increase in legal services. The monthly retainer for the City Attorney increased by \$24,000, from \$8,000 per month to \$10,000 per month. The City Attorney also provided additional services on a private development issue – total cost through June 30, 2016 is \$48,300.
- **Operations** increased by \$158,838 as a result of new charges in 2015-16. These charges include \$27,000 for website update completed, \$30,000 for 2015 Community Satisfaction Survey, \$25,000 for participating in the Silicon Valley Clean Energy Authority, \$23,500 subsidy for the Town's 60th anniversary gala and anthology, an increase in general liability insurance by \$18,500, Town's website upgrade, and \$17,000 for business license processing fees. The remaining \$17,838 increase in operations is resulted from miscellaneous ongoing operating expenditure increase.
- **Public safety** includes general law enforcement and animal control. The Town contracts with the Santa Clara County Sheriff for general law enforcement and with the City of Palo Alto for animal control services. The increase of \$148,061 in public safety is primarily in law enforcement, where the monthly advances had increased by 11 percent. In addition, the Town received a refund of unused portion of \$56,223 in 2014-15 but not in 2015-16.
- Other changes include decrease of \$84,246 in **community development** as a result of personnel vacancies in the building department and a reduction in internal services department allocation. **Parks and recreation** increase of \$98,548 is driven by a \$52,000 increase in special events – 60th Gala and Vines & Wines events, a \$28,000 increase in field maintenance at Purissima Park for new turf, and a \$23,762 increase in contract services from additional riding programs. Lastly, **public works** decreased by \$27,627 primarily in permit review by Town engineers.

STREETS CAPITAL PROJECTS FUND EXPENDITURES

Street capital spending decreased by \$603,376 in 2015-16, compared to 2014-15. The decrease is largely attributed to the completion of El Monte Road Rehabilitation. Majority of this project was completed in 2014-15 and the final inspection was completed in 2015-16. Additionally, less was spent on the annual street rehabilitation program in 2015-16 than in 2014-15. The Town's annual street rehabilitation program involves a combination of micro-surfacing, 2-in overlay, 4-in full grind and digouts. The use of these methods depend on the condition of the road, which generates different project cost. The public works department performed more micro-surfacing in 2015-16 than 2014-15, resulting in the decrease in cost.

<u>Street Capital Expenditures</u>	<u>2016</u>	<u>2015</u>	<u>Increase (decrease)</u>	
			<u>\$</u>	<u>%</u>
Annual street rehabilitation	\$ 865,978	\$ 1,044,704	\$ (178,727)	-17%
El monte road rehabilitation	47,774	437,196	(389,422)	-89%
Other street capital projects	5,716	40,943	(35,227)	-86%
Total street capital expenditures	<u>\$ 919,467</u>	<u>\$ 1,522,843</u>	<u>\$ (603,376)</u>	<u>-40%</u>

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

NONMAJOR GOVERNMENTAL FUNDS EXPENDITURES

In aggregate, the 2015-16 nonmajor governmental fund totals \$1,249,673 - \$104,296 more than 2014-15. The main changes are in debt services and other capital projects.

Nonmajor Funds Expenditures	2016	restated 2015	Increase (decrease)	
			\$	%
Storm drain	\$ 186,281	\$ 225,251	\$ (38,970)	-17%
Pathway	307,237	326,942	(19,705)	-6%
Street operations	249,942	278,797	(28,855)	-10%
Citizens' option for public safety (COPS)	83,818	51,841	31,977	62%
Debt services	82,852	19,584	63,268	323%
Other capital projects	339,543	242,962	96,581	40%
Total nonmajor expenditures	\$ 1,249,673	\$ 1,145,377	\$ 104,296	9%

- **Debt services.** As mentioned in the Long-Term Debt section below, the Town paid off the remaining energy loan balances in 2015-16. Additional information on long-term debt can be found in Note 5 to the financial statements.
- **Other capital projects.** The 2015-16 other capital projects include Miranda Path design and construction, (\$170,291); monitoring of open space restoration (\$82,614); Westwind Barn upper arena footing and lower arena fence replacement (\$43,360); and pre-construction phases of drainage improvement (\$43,277). There is no grant revenues available for these projects.

Governmental Funds – Fund Balances

At June 30, 2016, the Town's Governmental Funds fund balance is \$12,514,543. The Town has classified the fund balance in accordance with GASB issued Statement No. 54 (refer to Note 1 - Summary of Significant Accounting Policies). The Government Funds reserves comprise of \$1,706,954 in restricted, \$2,851,413 in committed, \$350,000 in assigned and \$7,606,176 in unassigned reserves. The designation of the unassigned reserves into committed and assigned reserves are in accordance with City Council adopted reserve policy.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Reserve Summary: Governmental Funds	General Fund	Street Capital Project	Nonmajor Governmental Funds	Total
Restricted for:				
Street and road repairs	\$ -	\$ -	\$ 338,756	\$ 338,756
Public safety	-	-	172,398	172,398
Other special revenues	-	-	1,174,668	1,174,668
Special donation	-	-	21,132	21,132
Total restricted reserves	-	-	1,706,954	1,706,954
Committed for:				
Pension contributions	500,000	-	-	500,000
Technology equipment replacement	15,000	-	-	15,000
Disaster contingency	1,250,000	-	-	1,250,000
Other capital projects	-	-	1,020,731	1,020,731
Street capital	-	65,682	-	65,682
Total committed reserves	1,765,000	65,682	1,020,731	2,851,413
Assigned				
Operating contingency	350,000	-	-	350,000
Total assigned reserves	350,000	-	-	350,000
Unassigned				
	7,606,176	-	-	7,606,176
Total Reserves	9,721,176	65,682	2,727,685	12,514,543

Total Town's General Fund's fund balance at June 30, 2016 is \$9,721,176. This includes committing \$500,000 for pension liability. The City Council has adopted a pension contingency fund to partially provide for future charges from CalPERS to fund the pension's unfunded liability. According to the October 2015 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 \$2,133,424. Under the provision of GASB Statement Number 68, it is reported as a liability on the statements of net position as of June 30, 2016.

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, 2016, the unassigned fund balance and total fund balance represent 140 percent and 178 percent of restated General Fund expenditures, respectively. At June 30, 2015, the unassigned fund balance and total fund balance represented 141 percent and 194 percent of General Fund expenditures. This signifies that the Town's unassigned fund balance can support general fund operation for the entire year without additional revenue sources.

According to the 2015 OPEB actuarial valuation, the Town's estimated unfunded liability at June 30, 2016 is \$1,340,000. The Town set-aside additional \$615,183 resulting in a net OPEB Asset of \$615,183 recorded on the Government-wide Statement of Net Position on page 30. Net of this asset, the unfunded OPEB liability is \$871,000. Further details are provided in Note 11 of the Notes to the Financial Statement.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Enterprise Fund (Sewer): Statement of Revenues, Expenses, and Changes in Fund Net Position

The overall change in sewer net position at June 30, 2016 increased by \$31,214 or 0.4 percent. The Town's sole enterprise fund provides sanitary sewer services to roughly half of the parcels within the Town's jurisdiction. Service fees are primarily collected through the annual property tax roll. In May 2015, the City Council approved a 39 percent sewer rate increase, effective July 2015. The increase in revenue will help the Town make improvements and perform routine preventive measures on the Town's aging sewer infrastructure.

	Sewer		Increase (decrease)	
	2016	2015 (restated)	\$	%
PERATING REVENUES				
Charges for services	\$ 1,925,636	\$ 1,392,029	\$ 533,607	38%
Other income	2,829	-	2,829	0%
Total operating revenues	<u>1,928,465</u>	<u>1,392,029</u>	<u>536,436</u>	<u>39%</u>
PERATING EXPENSES				
Salaries and benefits	172,969	143,547	29,422	20%
Sewer treatment cost	1,028,818	797,927	230,891	29%
Contract maintenance cost	365,275	308,429	56,846	18%
Other contract and professional services	179,539	65,520	114,019	174%
Operating expenses	64,981	54,203	10,778	20%
Depreciation	185,817	175,257	10,560	6%
Total operating expenses	<u>1,997,399</u>	<u>1,544,883</u>	<u>452,516</u>	<u>29%</u>
Operating income (loss)	(68,934)	(152,854)	83,920	-55%
NONOPERATING REVENUES (EXPENSES)				
Investment income	32,557	19,533	13,024	67%
Income before contributions and transfers	(36,377)	(133,321)	96,944	-73%
Connection fees	221,010	234,339	(13,329)	-6%
Transfers in (out)	(153,419)	(46,860)	(106,559)	227%
Change in net position	<u>31,214</u>	<u>54,158</u>	<u>(22,944)</u>	<u>-42%</u>
Net position, beginning of year	7,796,169	7,850,349	(54,180)	-1%
Prior period adjustment		(108,338)	108,338	-100%
Net position, beginning of year, as restated	<u>7,796,169</u>	<u>7,742,011</u>	<u>54,158</u>	<u>1%</u>
Net position, end of year	<u>\$ 7,827,383</u>	<u>\$ 7,796,169</u>	<u>\$ 31,214</u>	<u>0.4%</u>

Total sewer expenses increased by \$452,516 to \$1,997,399. The increase in sewer spending is primarily in sewer treatment cost (\$230,891) and other contract and professional services (\$114,019). The increase in sewer treatment cost is a result of two factors – one-time flow meter refund from City of Los Altos and the availability of City of Palo Alto's annual sewer billing. In 2009, flow meters were installed to measure actual sewer flow from the Town to Los Altos sewer lines. The Town was responsible for \$134,000 of the installation and deposit cost. The flow meters did not function properly and in March 2015, Los Altos agreed to refund the Town for half of the cost of the installation and the entire \$20,000 deposit. The total refund was \$77,000 and was applied to 2014-15 sewer treatment cost payable to the City of Los Altos.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

The Town received the City of Palo Alto's annual sewer billing in January 2016 in 2014-15 and October 2016 for 2015-16. The Administrative Services Department estimated accrual for 2014-15 was \$67,000 less than the actual bill. Additionally, the City of Palo Alto sewer conveyance and treatment cost increased resulting in the aggregate increase of 20 percent in 2015-16.

For Other Contract and Professional Services, the \$114,019 increase is attributed to contracting with V.W. Housen to provide sewer support per the 2015 Sewer Technical memo and completing of the non-residential sewer rate study. In March 2015, the City Council directed staff to add one additional sewer engineer to manage the sewer program, as recommended in the 2015 Sewer Technical memo. Since the memo was completed by V.W. Housen, the Town contracted for her to fill this role, temporarily. The role included oversight of the sewer maintenance reporting and development of the 2016 Sewer Rehabilitation Program, resulting in an increase of \$74,700 in professional services expense category.

General Fund Budgetary Highlights

The Los Altos Hills' budget process began after the mid-year financial update presentation to the Finance and Investment Committee and the City Council. The Administrative Services Department facilitates the development and consolidates inputs from all Town departments. The consolidated budget inputs are reviewed by the City Manager and presented to the City Council and the Finance and Investment Committee in a joint budget study session. A balanced budget is adopted by June 30 of each year. After budget adoption, contracts for services exceeding \$15,000 are approved by City Council. Budgetary information is included as part of the department requests to the City Council for approval.

The Administrative Services Department monitors financial performance against the budget during the year and prepares a mid-year update to the Finance and Investment Committee and the City Council. The mid-year financial update process addresses any significant economic concerns or prior City Council appropriation actions necessitating revisions to the budget.

The budgetary comparison below, focus on General Fund only. Budget to Actual comparisons for other funds are available in the Required Supplementary Information and other supplemental information sections. Analysis of significance variance between Budget to Actual in other funds is available on the Town's website at www.losaltoshills.ca.gov.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Original budget compared to final budget. For 2015-16, the mid-year financial review was presented to the City Council on February 18, 2016. The City Council adopted General Fund budget adjustments for the Los Altos Hills 60th anniversary celebration and a Town-wide survey, totaling \$34,800. The other changes are related to redistribution of labor cost to reflect merit increases.

General Fund Change in Expenditure Budget	Original Budget	2015-16 Overhead Allocation	Original Budget (net of overhead allocation)	Mid-Year Adjustments	Final Budget (net of overhead allocation)
Administration	\$ 1,956,584	\$ -	\$ 1,956,584	\$ 54,578	\$ 2,011,162
Public safety	1,335,707	(165,590)	1,170,117	0	1,170,117
Community development	2,665,965	(780,326)	1,885,639	18,959	1,904,598
Public works	364,774	(93,038)	271,736	1,831	273,567
Parks and recreation	666,417	(169,858)	496,559	(2,570)	493,989
Total	<u>\$ 6,989,447</u>	<u>\$ (1,208,813)</u>	<u>\$ 5,780,634</u>	<u>\$ 72,799</u>	<u>\$ 5,853,433</u>

Final budget compared to actual results. A comparison of the final budget to actual revenues, expenditures, and fund balances for the all funds is presented here and in the Supplementary Information section of this report. The final General Fund expenditure budget for 2015-16 is \$5,853,433, excluding overhead. The Town spent \$5,446,269 leaving \$407,164 unspent as shown below.

General Fund Expenditure Budget to Actual	Final Budget	Actual	Over (Under) Budget
Administration	\$ 2,011,162	\$ 1,859,492	\$ (151,670)
Public safety	1,170,117	1,171,380	1,263
Community development	1,904,598	1,641,631	(262,967)
Public works	273,567	208,326	(65,241)
Parks and recreation	493,989	565,440	71,451
Total	<u>\$ 5,853,433</u>	<u>\$ 5,446,269</u>	<u>\$ (407,164)</u>

Majority of the available budget is in Community Development at \$262,967 below budget and Administration at \$151,670 below budget. The 2015-16 Budget for Community Development and Administration assumes that the Town will be fully staffed and Community Development will be hiring a consultant for planning coverage while one of its full-time employee goes on extended leave. In actuality, the Building Official position became vacant in January 2016 (\$106,300), the Finance Manager position was vacant for the first half of the fiscal year (\$64,200), and the consultant was not hired for planning coverage (\$108,900). These vacancies and unspent budget lowered the internal allocation for Community Development, resulting in an additional \$142,015 of unspent appropriation.

Parks and Recreation overspent by \$45,000 for the Vines & Wines and the Los Altos Hills' 60th Gala. Both events generated revenues to defray the event cost. The Town collected \$30,100 for the 60th Gala and \$3,900 for the Vines & Wines events. The Department also overspent to replace the turf at Purissima Park (\$19,100). Since the Town's budget is on the Fund level, there was sufficient savings overall and budget amendment was not necessary. Total overspending in Parks and Recreation is \$71,451.

TOWN OF LOS ALTOS HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$29,945,359 net of accumulated depreciation, a decrease of \$528,244 reflecting a slowdown in the Town's investment in capital improvements compared to prior year. Capital spending included \$1,259,009 in infrastructure, and \$408,308 in sewer collection system. Capital assets include land, buildings, equipment, vehicles and infrastructure. No changes were recorded in land for the fiscal year. The following table presents summarized information on capital assets net of depreciation for fiscal years 2015 and 2016. 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	
	2016	2015	2016	2015	2016	2015
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	3,642,173	3,772,811			3,642,173	3,772,811
Office equipment	9,784	19,149			9,784	19,149
Vehicles	109,909	126,987			109,909	126,987
Sewer collection system		-	5,244,525	5,022,034	5,244,525	5,022,034
Infrastructure	20,688,433	21,282,087			20,688,433	21,282,087
Total capital assets, net	<u>\$ 24,700,834</u>	<u>\$ 25,451,569</u>	<u>\$ 5,244,525</u>	<u>\$ 5,022,034</u>	<u>\$ 29,945,359</u>	<u>\$ 30,473,603</u>

Long-term Debt

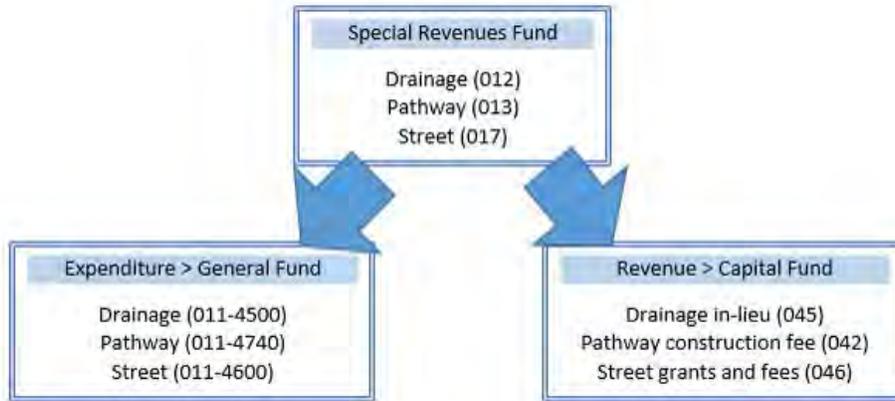
The Town received a loan from the California Energy Commission in the amount of \$160,000 to provide funding for energy conservation features at the Town Hall building in 2008 and a \$47,000 loan from the California Energy Commission for energy efficiency improvements at Westwind Community Barn in 2010-2011. In 2015-16, the Town paid off the remaining balance of \$81,360 for both loans. Additional information on long-term debt can be found in Note 5 to the financial statements.

Significant Future Events

The Town's 2016-17 budget includes the consolidation of Storm Drain Operations (Fund 012) and Pathways Operations (Fund 013) and incorporated the expenditures into the into General Fund (011). Traditionally, a portion of general funds is transferred to these Special Revenue Funds to support maintenance and operation cost at the end of each fiscal year. The revenues, previously, recorded in these funds are transferred to the corresponding Capital Fund – Storm Capital (Fund 045) and Pathway Capital (Fund 041). Streets Operations (Fund 017) and Capital (Fund 046) required General Fund support because Gas Tax is insufficient to fully support either function. To minimize the number of interfund transfers between General Fund and these Special and Capital Funds, the City Council authorized the Administrative Services Department to record the revenues for storm drain, pathways, and street grants into the corresponding capital funds and to merge the ongoing operating cost into the General Fund. This change will occur in 2016-17 and will impact the comparability to prior financial reports.

TOWN OF LOS ALTOS HILLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**



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
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 15,494,471	\$ 3,306,802	\$ 18,801,273
Accounts receivable	231,339	50,613	281,952
Total current assets	<u>15,725,810</u>	<u>3,357,415</u>	<u>19,083,225</u>
Non-current assets:			
Loans receivable	-	71,002	71,002
Net OPEB asset	615,183	-	615,183
Total non-current assets	<u>615,183</u>	<u>71,002</u>	<u>686,185</u>
Capital assets:			
Non-depreciable capital assets	250,535	-	250,535
Depreciable capital assets, net of depreciation	24,450,299	5,244,525	29,694,824
Total capital assets	<u>24,700,834</u>	<u>5,244,525</u>	<u>29,945,359</u>
Total Assets	<u>41,041,827</u>	<u>8,672,942</u>	<u>49,714,769</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	220,480	12,305	232,785
Total deferred outflows of resources	<u>220,480</u>	<u>12,305</u>	<u>232,785</u>
LIABILITIES			
Current liabilities:			
Accounts payable	156,187	654,225	810,412
Other liabilities	56,498	53,263	109,761
Refundable deposits	2,271,048	-	2,271,048
Compensated absences due within one year	15,757	3,487	19,244
Total current liabilities	<u>2,499,490</u>	<u>710,975</u>	<u>3,210,465</u>
Non-current liabilities:			
Compensated absences due in more than one year	100,159	3,607	103,766
Net pension liability	2,020,651	112,773	2,133,424
Total non-current liabilities	<u>2,120,810</u>	<u>116,380</u>	<u>2,237,190</u>
Total Liabilities	<u>4,620,300</u>	<u>827,355</u>	<u>5,447,655</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	546,667	30,509	577,176
Total deferred inflows of resources	<u>546,667</u>	<u>30,509</u>	<u>577,176</u>
NET POSITION			
Net investment in capital assets	24,700,834	5,244,525	29,945,359
Restricted for:			-
Highways and streets	191,253	-	191,253
Public safety	49,006	-	49,006
Other capital projects	872,029	-	872,029
Other purpose	16,132	-	16,132
Unrestricted	9,687,552	2,582,858	12,270,410
Total Net Position	<u>\$ 35,516,806</u>	<u>\$ 7,827,383</u>	<u>\$ 43,344,189</u>

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	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	\$ 2,339,474	\$ 72,566	\$ 26,631	\$ -	\$ (2,240,277)	\$ -	\$ (2,240,277)
Public safety	1,601,654	-	122,119	-	(1,479,535)	-	(1,479,535)
Community development	2,167,702	2,217,874	10,000	131,968	192,140	-	192,140
Parks and recreation	738,495	199,241	-	-	(539,254)	-	(539,254)
Public works	1,252,271	388,931	144,542	267,022	(451,776)	-	(451,776)
Interest on long-term debt	1,492	-	-	-	(1,492)	-	(1,492)
Total Governmental Activities	8,101,088	2,878,612	303,292	398,990	(4,520,194)	-	(4,520,194)
Business-type Activities:							
Sewer	1,997,399	1,925,636	-	221,010	-	149,247	149,247
Total Business-type Activities	1,997,399	1,925,636	-	221,010	-	149,247	149,247
Total Primary Government	10,098,487	4,804,248	303,292	620,000	(4,520,194)	149,247	(4,370,947)
General Revenues:							
Taxes:							
Property taxes					4,960,016	-	4,960,016
Motor vehicle license tax					53,964	-	53,964
Other taxes					511,091	-	511,091
Franchise taxes					474,732	-	474,732
Use of money and property					356,479	32,557	389,036
Other unrestricted revenue					4,538	2,829	7,367
Transfers					153,419	(153,419)	-
Total General Revenues,					6,514,239	(118,033)	6,396,206
Change in Net Position					1,994,045	31,214	2,025,259
Net Position, Beginning of Year					34,101,295	7,796,169	41,897,464
Net Position, End of Year					\$ 36,095,340	\$ 7,827,383	\$ 43,922,723

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General	Street Capital Projects	Nonmajor Governmental Funds	Total
ASSETS				
Cash and investments	\$ 11,909,841	\$ 65,682	\$ 2,711,803	\$ 14,687,326
Accounts receivable	200,977	-	25,253	226,230
Total Assets	12,110,818	65,682	2,737,056	14,913,556
LIABILITIES				
Accounts payable	93,594	-	2,297	95,891
Other liabilities	25,000	-	7,074	32,074
Refundable deposits	2,271,048	-	-	2,271,048
Total Liabilities	2,389,642	-	9,371	2,399,013
NET POSITION				
Restricted	-	-	1,706,954	1,706,954
Committed	1,765,000	65,682	1,020,731	2,851,413
Assigned	350,000	-	-	350,000
Unassigned	7,606,176	-	-	7,606,176
Total Fund Balances	9,721,176	65,682	2,727,685	12,514,543
Total Liabilities and Fund Balance	\$ 12,110,818	\$ 65,682	\$ 2,737,056	\$ 14,913,556

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016**

Fund Balances of Governmental Funds	\$ 12,514,543
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.	20,798,967
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.	5,238,504
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(109,836)
Net pension liability	(2,020,651)
Deferred outflows due to pension liabilities	220,480
Deferred inflows due to pension liabilities	(546,667)
Net Position of Governmental Activities	<u>\$ 36,095,340</u>

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	General	Street Capital Projects	Nonmajor Governmental Funds	Total
Revenues				
Property taxes	\$ 4,960,016	\$ -	\$ -	\$ 4,960,016
Taxes other than property	511,091	-	-	511,091
Franchise fees	474,732	-	-	474,732
Licenses and permits	1,281,266	-	53,687	1,334,953
Intergovernmental	59,300	279,447	413,970	752,717
Use of money and property	299,886	-	56,593	356,479
Charges for services	1,129,113	22,833	297,181	1,449,127
Miscellaneous	97,599	-	5,000	102,599
Total revenues	<u>8,813,003</u>	<u>302,280</u>	<u>826,431</u>	<u>9,941,714</u>
EXPENDITURES				
Current:				
Administration	1,859,492	-	-	1,859,492
Public safety	1,171,380	-	83,818	1,255,198
Community development	1,641,631	-	-	1,641,631
Parks and recreation	565,440	-	-	565,440
Public works	208,326	-	743,460	951,786
Debt service				
Principal	-	-	81,360	81,360
Interest	-	-	1,492	1,492
Capital outlay	-	919,467	339,543	1,259,010
Total expenditures	<u>5,446,269</u>	<u>919,467</u>	<u>1,249,673</u>	<u>7,615,409</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,366,734</u>	<u>(617,187)</u>	<u>(423,242)</u>	<u>2,326,305</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	434,037	617,188	1,248,549	2,299,774
Transfers out	(1,488,559)	-	(657,796)	(2,146,355)
Total Other Finance Sources (Uses)	<u>(1,054,522)</u>	<u>617,188</u>	<u>590,753</u>	<u>153,419</u>
Net Change in Fund Balance	2,312,212	1	167,511	2,479,724
Total Net Position, Beginning of Year	<u>7,408,964</u>	<u>65,681</u>	<u>2,560,174</u>	<u>10,034,819</u>
Total Net Position, End of Year	<u>\$ 9,721,176</u>	<u>\$ 65,682</u>	<u>\$ 2,727,685</u>	<u>\$ 12,514,543</u>

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$ 2,479,724
<p>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:</p>	
<p>Governmental funds report capital outlays as expenditure 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:</p>	
Cost of assets capitalized	1,259,010
Depreciation expense charged to governmental activities	(1,852,665)
Governmental funds report repayment of debt principal as expenditure, but the repayment reduces long-term liabilities in the Governmental-wide Statement of Net Position.	81,360
Change in compensated absences	(18,549)
Governmental funds do not report the change in net pension liability as it does not require the use of current financial resources	107,025
Internal Service Funds are used by management to charge the costs of certain activities, such as cost of Town Hall, office, and corporate yard services to individual funds. The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.	<u>(61,860)</u>
Changes in Net Position of Governmental Activities	<u>\$ 1,994,045</u>

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

**PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2016**

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
ASSETS		
Current Assets:		
Cash and investments	\$ 3,306,802	\$ 807,145
Accounts receivable	50,613	5,109
Total Current Assets	3,357,415	812,254
Noncurrent Assets:		
Notes receivable	71,002	-
Net OPEB Asset	-	615,183
Capital assets, net of accumulated depreciation	5,244,525	3,901,867
Total Noncurrent Assets	5,315,527	4,517,050
Total Assets	8,672,942	5,329,304
DEFERRED OUTFLOWS OF RESOURCES		
Related to pension	12,305	-
Total deferred outflows of resources	12,305	-
LIABILITIES		
Current Liabilities:		
Accounts payable	654,225	60,296
Other liabilities	53,263	24,424
Compensated absence payable, due within one year	3,487	2,015
Total Current Liabilities	710,975	86,735
Noncurrent liabilities:		
Compensated absence payable	3,607	4,065
Net pension liability	112,773	-
Total Noncurrent Liabilities	116,380	4,065
Total Liabilities	827,355	90,800
DEFERRED INFLOWS OF RESOURCES		
Related to pension	30,509	-
Total deferred outflows of resources	30,509	-
NET POSITION		
Invested in capital assets	5,244,525	3,901,867
Unrestricted	2,582,858	1,336,637
Total Net Position	\$ 7,827,383	\$ 5,238,504

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 1,925,636	\$ -
Other income	2,829	1,028
Town hall services	-	323,144
Corporate yard services	-	129,703
Vehicle services	-	73,608
Total Operating Revenues	<u>1,928,465</u>	<u>527,483</u>
OPERATING EXPENSES		
Salaries and benefits	172,969	27,926
Contract services	1,573,632	215,270
Operating expenses	64,981	189,066
Depreciation	185,817	157,081
Total Operating Expenses	<u>1,997,399</u>	<u>589,343</u>
Operating (Loss)	<u>(68,934)</u>	<u>(61,860)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	<u>32,557</u>	<u>-</u>
Loss Before Contributions and Transfers	(36,377)	(61,860)
OTHER FINANCING SOURCES AND (USES)		
Transfers out	<u>(153,419)</u>	<u>-</u>
Total Other Financing Sources and (Uses)	<u>(153,419)</u>	<u>-</u>
Connection Fees	<u>221,010</u>	<u>-</u>
Changes in Net Position	31,214	(61,860)
Total Net Position, Beginning of Year	<u>7,796,169</u>	<u>5,300,364</u>
Total Net Position, End of Year	<u>\$ 7,827,383</u>	<u>\$ 5,238,504</u>

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,900,356	\$ 522,374
Payments to suppliers	(1,896,760)	(398,283)
Payments to employees	(145,758)	(101,285)
Net Cash (Used) Provided by Operating Activities	<u>(142,162)</u>	<u>22,806</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(408,308)	-
Proceeds from connection fees	221,010	-
Net Cash (Used) by Capital and Related Financing Activities	<u>(187,298)</u>	<u>-</u>
CASH FLOW FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers out	(153,419)	-
Net Cash (Used) by Noncapital Financing Activities	<u>(153,419)</u>	<u>-</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest on investments	41,527	-
Net Increase (Decrease) in Cash and Investments	(441,352)	22,806
Cash and Cash Equivalents, Beginning of Year	<u>3,748,154</u>	<u>784,339</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,306,802</u>	<u>\$ 807,145</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (68,934)	\$ (61,860)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	185,817	157,081
(Increase) decrease in accounts receivable	(28,109)	(5,109)
(Increase) in OPEB assets	-	(95,219)
Increase (decrease) in accounts payable	(226,685)	6,053
Increase (decrease) in other liabilities	(31,462)	24,424
Increase (decrease) in compensated absences	4,043	(2,564)
Decrease in deferred pensions	23,168	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (142,162)</u>	<u>\$ 22,806</u>

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Agency Fund
West Loyola Special Assessment District #1	
ASSETS	
Restricted Cash and Investment	\$ 306,957
Total Assets	\$ 306,957
LIABILITIES	
Due to bondholders	\$ 306,957
Total Liabilities	\$ 306,957

See accompanying notes to financial statements

This Page Left Intentionally Blank

NOTES TO THE FINANCIAL STATEMENTS

This Page Left Intentionally Blank

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Los Altos Hills (the Town) was incorporated in 1956, under the provisions of the State of California. 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 Net Position reports all of the financial and capital resources of the government as a whole in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. 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, interfund transactions have been eliminated. However, the transactions between governmental and business-type activities, which are presented as transfers, have not been eliminated from the Statement of Activities.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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* accounts 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* accounts for the acquisition and construction of streets.

The Town reports the following major enterprise fund:

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

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town reports the following additional fund types:

- *Internal Service Fund* accounts for goods and services provided to city departments on a cost reimbursement basis. The goods and services provided include maintenance and replacement of vehicles and equipment, costs incurred for printing, copying, and mailing services; employee benefits; and expenses related to the maintenance of Town buildings. Internal service fund is included in the government activities at the government-wide level.
- The *Agency Fund* accounts 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* accounts for specific revenues that are legally restricted to expenditures for particular purposes.
- The *Debt Service Fund* accounts for principal and interest payments on long-term obligations.
- The *Capital Project Fund* accounts for financial resources that are necessary for the acquisition or construction of major capital facilities.

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 FOR THE YEAR ENDED JUNE 30, 2016

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. Basis of Accounting and Measurement Focus

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and 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. 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.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

F. Receivables

During the course of normal operations, the Town carried various receivable balances for taxes, franchise fees, interest, license fees, and sewer fees. Accounts receivable are shown at \$200,977 in the General Fund, \$25,253 in Non-major Governmental Funds, \$50,613 in the Sewer Fund and \$5,109 in the Internal Service 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 years 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
Structure and Improvements	10 - 30 Years
Vehicles	5 - 10 Years
Equipment	3 - 10 Years

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

H. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has pension-related deferred outflows of resources arising from certain changes in the collective net pension liability.

In addition to liabilities, the Statement of Net Position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has deferred inflows of resources arising from certain changes in the collective net pension liability. These amounts are deferred and amortized over a stated period.

I. Property Taxes

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

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

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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. Compensated absences as of June 30, 2016 are as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$99,931	\$3,051	\$102,982
Additions	35,927	4,043	39,970
Reductions	(19,942)		(19,942)
Ending Balance	<u>\$115,916</u>	<u>\$7,094</u>	<u>\$123,010</u>
Current Portion	<u>\$15,757</u>	<u>\$3,487</u>	<u>\$19,244</u>

K. 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.

L. Use of 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.

M. New GASB Pronouncements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2016.

GASB Statement No. 72 – *Fair Value Measurement and Application*. The intention of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also enhances fair value application guidance and related disclosures in Note 2. The pronouncement did not have a material effect on the financial statements, and only affected the footnotes.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The pronouncement became effective, but did not have a material effect on the financial statements.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. This statement requires enhanced disclosures in Note 2.

GASB Statement No. 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The intention of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The pronouncement is effective in fiscal year 2017, but management early-implemented the provisions of the statement in fiscal year 2016. The pronouncement did not have a material effect on the financial statements, and only affected the Pension-Related Required Supplementary Information.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS

The Town pools cash from all sources and all funds so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

Policies

The Town invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Town's name and places the Town ahead of general creditors of the institution.

The Town's investments are carried at fair value, as required by generally accepted accounting principles. The Town adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

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, 2016.

Classification

Cash and Investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Cash on hand	\$1,900
Deposits with financial institutions	3,654,660
Investments with fiscal agent	188,611
Investments	<u>15,263,059</u>
Total Cash and Investments	<u><u>\$19,108,230</u></u>

Cash and investment as of June 30, 2016, consist of the following:

Statement of Net Position:	
Cash and investments	\$18,801,273
Fiduciary funds:	
Cash and investments	<u>306,957</u>
Total Cash and Investments	<u><u>\$19,108,230</u></u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorizations

The table below identifies the investment types that are authorized for the Town 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 Maturity	Maximum Percentage/Dollar of Portfolio	Maximum Investment in One Issuer
Securities issued by the U.S. Treasury	5 years	No limit	No limit
U.S. Agency Securities	5 years	No limit	No limit
Municipal Securities	5 years	30%	5%
Bankers' Acceptances	180 days	40%	5%
Asset-Backed Securities	5 years	50%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Local Government Investment Pools (LAIF)	5 years	\$40.0 mil	No limit
Insured savings account and bank money market accounts	5 years	No limit	5%
Money market mutual funds registered with SEC	5 years	15%	5%
California Asset Management Program (CAMP)	5 years	20%	No limit
Medium-term corporate notes with A or better rating	5 years	30%	5%

Interest Rate Risk and Fair Value Hierarchy

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, 2016, the Town had the following investments.

	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Treasury Bonds/Notes	\$175,406	\$4,497,107	\$4,213,804	\$8,886,317
Federal Agency Collateralized Mortgage Obligation		50,405	455,344	505,749
U.S. Agency Notes		1,119,476	1,058,028	2,177,504
Corporate Notes	667,296	578,147	395,191	1,640,634
LAIF Investment Pool	2,028,845			2,028,845
CAMP Investment Pool	24,010			24,010
Money Market	188,611			188,611
Total Investments	\$3,084,168	\$6,245,135	\$6,122,367	\$15,451,670

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

<i>Investments by Fair Value Level:</i>	Level 1	Level 2	Total
U.S. Treasury Bonds/Notes	\$8,886,317	\$0	\$8,886,317
Federal Agency Collateralized			
Mortgage Obligation		505,749	505,749
U.S. Agency Notes		2,177,504	2,177,504
Corporate Notes		1,640,634	1,640,634
LAIF Investment Pool		2,028,845	2,028,845
CAMP Investment Pool		24,010	24,010
	\$8,886,317	\$6,376,742	15,263,059
<i>Total Investments</i>			
<i>Investments Measured at Amortized Cost:</i>			
Money Market			188,611
<i>Cash in banks and on hand</i>			3,656,560
Total Cash and investments			\$19,108,230

U.S. Treasury Notes classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. Federal Agency Collateralized Mortgage Obligations, U.S. Agency Notes and Corporate Notes, classified in Level 2 of the fair value hierarchy, are valued using pricing techniques of matrix pricing or market corroborated pricing, with inputs such as yield curves or indices. These prices are obtained from various pricing sources by our custodian bank.

The Town is a 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 Town reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2016 these investments matured in an average of 167 days. The Local Agency Investment Fund, classified in Level 2 of the fair value hierarchy, is valued based on the fair value factor provided by the Treasurer of the State of California, which is calculated as the fair value divided by the amortized cost of the investment pool.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The Town is a participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the “Act”) for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. CAMP’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The Town reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share in accordance with GASB 79 requirements. At June 30, 2016, the fair value approximated the Town’s cost. At June 30, 2016, these investments have an average maturity of 47 days. The California Asset Management Program, classified in Level 2 of the fair value hierarchy, is valued based on the several different underlying short term obligations, including corporates, government sponsored enterprises, U.S. Treasuries and municipal securities. The market value is derived from the value of these obligations, accrued income, anticipated cash flows (maturities), management fees and other fund expenses. Certain investments within the Program may be deemed unobservable and not considered to be in an active market.

The Town, as a CAMP shareholder, may withdraw all or any portion of the funds in its CAMP account at any time by redeeming shares. The CAMP Declaration of Trust permits the CAMP trustee to suspend the right of withdrawal from CAMP or to postpone the date of payment of redemption proceeds if the New York Stock Exchange is closed other than for customary weekend and holiday closings, if trading on the New York Stock Exchange is restricted, or if, in the opinion of the CAMP trustees, an emergency exists such that disposal of the CAMP pool securities or determination of its net asset value is not reasonably practicable. If the right of withdrawal is suspended, the Town may either withdraw its request for that withdrawal or receive payment based on the net asset value of the CAMP pool next determined after termination of the suspension of the right of withdrawal.

Mutual funds are available for withdrawal on demand and at June 30, 2016 matured in an average of 47 days.

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	AAAm	AA+	AA	A	AA-	Total
U.S. Treasury Notes	\$0	\$8,886,317	\$0	\$0	\$0	\$8,886,317
Federal Agency Collateralized						
Mortgage Obligation		505,749				505,749
U.S. Agency Notes		2,177,504				2,177,504
Corporate Notes		544,706	165,571	250,095	680,262	1,640,634
CAMP Investment Pool	24,010					24,010
Money Market	188,611					188,611
Totals	<u>\$212,621</u>	<u>\$12,114,276</u>	<u>\$165,571</u>	<u>\$250,095</u>	<u>\$680,262</u>	<u>13,422,825</u>
Not Rated:						
Local Agency Investment Fund (LAIF)						<u>2,028,845</u>
Total Investments						<u>\$15,451,670</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). The Town's cash in bank exceeded the insured limit by \$3,404,660 as of June 30, 2016. None of the Town's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts.

Concentration of Credit Risk

Investments in any one issuer, other than money market mutual funds, Local Agency Investment Fund and California Asset Management Program, that represent 5% or more of total investments at the Entity-wide level or in individual funds were as follows at June 30, 2016:

Entity-wide	Issuer	Investment Type	Amount
	Federal Home Loan Mortgage Corporation	U.S. Agency Note	\$1,359,152

NOTE 3 – INTERFUND TRANSACTIONS

The following schedule briefly summarizes the Town's transfer activity for the fiscal year ended June 30, 2016:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Non-Major Governmental Funds	\$280,618 (A)
	Sewer Enterprise Fund	153,419 (A)
Street Capital Projects Fund	General Fund	537,188 (B)
	Non-Major Governmental Funds	80,000 (B)
Non-Major Governmental Funds	General Fund	951,371 (C) & (D)
	Non-Major Governmental Funds	<u>297,178 (B)</u>
Total Interfund Transfers		<u><u>\$2,299,774</u></u>

- (A) To reimburse the General Fund for costs incurred.
- (B) To fund capital projects.
- (C) To fund debt service payments.
- (D) To fulfill council approved budgeted transfers.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Balance at June 30, 2016</u>
<i>Governmental activities</i>			
Capital assets not being depreciated:			
Land	\$250,535		\$250,535
Total capital assets not being depreciated	250,535		250,535
Capital assets being depreciated:			
Infrastructure	78,527,137	\$1,259,009	79,786,146
Buildings	5,152,825		5,152,825
Vehicles	523,882		523,882
Office Equipment	444,411		444,411
Total capital assets being depreciated	84,648,255	1,259,009	85,907,264
Less accumulated depreciation for:			
Infrastructure	(57,245,050)	(1,852,663)	(59,097,713)
Buildings	(1,380,014)	(130,638)	(1,510,652)
Vehicles	(396,895)	(17,078)	(413,973)
Office Equipment	(425,262)	(9,365)	(434,627)
Total accumulated depreciation	(59,447,221)	(2,009,744)	(61,456,965)
Net governmental-type activities			
Capital assets being depreciated	25,201,034	(750,735)	24,450,299
Governmental activity capital assets, net	<u>\$25,451,569</u>	<u>(\$750,735)</u>	<u>\$24,700,834</u>
	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Balance at June 30, 2016</u>
<i>Business-type activities:</i>			
Capital assets being depreciated:			
Sewer collection system	\$7,432,666	\$408,308	\$7,840,974
Office equipment	1,509		1,509
Total capital assets being depreciated	7,434,175	408,308	7,842,483
Less accumulated depreciation for:			
Sewer collection system	(2,410,632)	(185,817)	(2,596,449)
Office equipment	(1,509)		(1,509)
Total accumulated depreciation	(2,412,141)	(185,817)	(2,597,958)
Net capital assets being depreciated	5,022,034	222,491	5,244,525
Business-type activity capital assets, net	<u>\$5,022,034</u>	<u>\$222,491</u>	<u>\$5,244,525</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	Amount
Administration	\$456,014
Public safety	347,736
Community development	562,792
Parks and recreation	173,764
Public works	312,357
Internal service funds	<u>157,081</u>
Total	<u>\$2,009,744</u>
Business-Type Activities	Amount
Sewer	<u>\$185,817</u>
Total	<u>\$185,817</u>

NOTE 5 – LONG TERM DEBT

Long-term liabilities activity for the year ended June 30, 2016 is as follows:

	<u>Balance June 30, 2015</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>
California Energy			
Commission Loans	<u>\$81,360</u>	<u>(\$81,360)</u>	<u>\$0</u>
Total	<u>\$81,360</u>	<u>(\$81,360)</u>	<u>\$0</u>

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. During fiscal year 2016, the Town paid off the California Energy Commission Loan.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016, the balance of the assessment district's outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2016
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25% - 6.15%	\$35,000 - \$775,000	2010-2040	<u>\$1,795,000</u>

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.

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

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.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 7 – NET POSITION/FUND BALANCES (Continued)

At June 30, 2016, component of fund balance is as follows:

Fund Balance Classifications	General Fund	Street Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental
Restricted for:				
Street & Road Repairs	\$0	\$0	\$338,756	\$338,756
Public Safety			172,398	172,398
Capital Projects			1,174,668	1,174,668
Other Purposes			21,132	21,132
Total Restricted Fund Balances	<u>0</u>	<u>0</u>	<u>1,706,954</u>	<u>1,706,954</u>
Committed for:				
Disaster Contingency Reserve	1,250,000			1,250,000
Pension Contributions Reserve	500,000			500,000
IT Equipment Replacement Reserve	15,000			15,000
Other Capital Projects			1,020,731	1,020,731
Street & Road Repairs		65,682		65,682
Total Committed Fund Balances	<u>1,765,000</u>	<u>65,682</u>	<u>1,020,731</u>	<u>2,851,413</u>
Assigned for:				
Operating Contingency Reserve	350,000			350,000
Total Assigned Fund Balances	<u>350,000</u>	<u>0</u>	<u>0</u>	<u>350,000</u>
Unassigned:				
Total Unassigned Fund Balances	<u>7,606,176</u>	<u>0</u>	<u>0</u>	<u>7,606,176</u>
Total Fund Balances	<u>\$9,721,176</u>	<u>\$65,682</u>	<u>\$2,727,685</u>	<u>\$12,514,543</u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 8 – PENSION PLAN

The Town participates in the *Cost-Sharing Multiple-Employer Defined Benefit Pension Plan* (Cost Sharing) for its Miscellaneous employees. It is administered by the California Public Employees Retirement System (CalPERS). A cost-sharing multiple-employer defined benefit pension plan is a plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay benefits of the employees of any employer that provides pensions through the plan.

The Town's pension plan and its financial position is measured and reported on the same basis as the Plan's fiduciary net position reported by CalPERS. This includes the measurement of the Plan's fiduciary net position and additions to/deductions, as well as the Town's share of the Plan's net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Descriptions - All qualified permanent employees are eligible to participate in the Town's Miscellaneous cost-sharing Plans administered by CalPERS. The Town's Miscellaneous Plans are a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS since the plan has less than 100 active members, commonly referred to as risk pool. The Town has three retirement benefit tiers in the Miscellaneous Plans. Tier 1 is for employees hired prior to September 1, 2011. Tier 2 is for employees hired after September 1, 2011 and enrolled as a member of CalPERS prior to January 1, 2013. Tier 3 is for employees hired on or after January 1, 2013.

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment, age and the average of the final 3 years' compensation. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information can be found on the CalPERS website at:

<http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 8 – PENSION PLAN (CONTINUED)

The plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier I	Tier II	Tier III
Hire date	Prior to September 1, 2011	Starting September 1, 2011	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-63+	50 - 63+	52 - 67+
Monthly benefits, as a % of eligible compensation	1.426% - 2.418%	1.092%-2.418%	1.0%-2.5%
Required employee contribution rates	7.0%	7.0%	6.50%
Required employer contribution rates	8.844%	7.510%	6.73%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

For the year ended June 30, 2016, the contribution recognized as part of pension expense for the Plans were as follows:

	Miscellaneous Plans
Contributions - employer	\$221,507

Net Pension Liability

As of June 30, 2016, the Town's reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plans	\$2,133,424
Total Net Pension Liability	\$2,133,424

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 8 – PENSION PLAN (CONTINUED)

The Town’s net pension liability for each Miscellaneous Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions of all participating employers, actuarially determined. The Town’s proportionate share of the net pension liability for each Miscellaneous Plan as of June 30, 2014 and 2015 is as follows:

	<u>Miscellaneous Plans</u>
Proportion - June 30, 2014	0.03226%
Proportion - June 30, 2015	<u>0.07776%</u>
Change - Increase (Decrease)	<u><u>0.04550%</u></u>

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

For the year ended June 30, 2016, the Town’s recognized pension expense of \$137,649 for the Miscellaneous Plans. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for Miscellaneous Plans:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$221,507	\$0
Differences between actual and expected experience	11,278	
Changes in assumptions		106,701
Difference between proportional and actual contributions		167,557
Net differences between projected and actual earnings on plan investments		53,491
Adjustment due to differences in proportion		<u>249,427</u>
Total	<u><u>\$232,785</u></u>	<u><u>\$577,176</u></u>

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 8— PENSION PLAN (CONTINUED)

The \$221,507 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years Ending June 30,	
2017	(\$141,475)
2018	(141,475)
2019	(141,475)
2020	(141,473)
	<u>(\$565,898)</u>

Actuarial Assumptions – The total pension liabilities in June 30, 2015 actuarial valuations were determined using the following actuarial assumptions for Miscellaneous Plans:

	All CalPERS Plans
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% (1)
Mortality Rate Table	Derived using CalPERS Membership Data for all Funds (2)

(1) Net of pension plan investment expenses, including inflation

(2) The mortality table used was developed based on CalPERS’ specific data. The table includes 10 years of mortality improvements using Society of Actuaries Scale AA. For more details on this table, please refer to the CalPERS 2010 experience study report available on CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent for Miscellaneous Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB68 section.

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 8 – PENSION PLAN (CONTINUED)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class for Miscellaneous Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Assets	10%	4.50%	5.13%
Inflation Sensitive Assets	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% is used this period.
(b) An expected inflation of 3.0% is used this period.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 8 – PENSION PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability for Miscellaneous Plans to Changes in the Discount Rate --

The following presents the net pension liability of the Town’s proportionate share of the net pension liability for Miscellaneous Plans, calculated using the discount rate as well as what the Town’s net pension liability would be if it were calculated using a discount rate that is 1- percentage point lower or 1- percentage point higher than the current rate:

	<u>Miscellaneous Plans</u>
1% Decrease	6.65%
Net Pension Liability	\$3,787,934
Current Discount Rate	7.65%
Net Pension Liability	\$2,133,424
1% Increase	8.65%
Net Pension Liability	\$767,433

Changes in the Net Pension Liability

Detailed information about each pension plans’ fiduciary net position is available in the separately issued CalPERS financial reports.

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), a self-insurance pool. The ABAG PLAN provides certain levels of liability insurance coverage, claims management, risk management services and legal defense to each participant. 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, 2016, the Town contributed \$119,843 for current year coverage plus settlement payments. Part of the contribution is to maintain the Plan’s reserve at 60 percent confidence funding level, per the annual actuarial report, to meet future claim liabilities.

Settlement amounts did not exceed insurance coverage for the past three years. The Town also received \$10,453 in insurance recoveries during fiscal year 2016. The Town's insurance costs will increase/decrease based on its own adverse claims experience and the adverse claims experience of other agencies in the Town's risk pool.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 9 – RISK MANAGEMENT (CONTINUED)

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, 2016, the Town contributed \$77,363 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, 375 Beale Street, 7th Floor, San Francisco, California, 94105.
- For ABAG Plan and Shared Risk Pool, all participating members are responsible for their weighted share of claim liability and to replenish the Plan/Pool reserve fund as necessary.

NOTE 10 – CONTINGENT LIABILITIES

A. Commitments and Contingencies

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.

B. Service Concession Arrangements (SCA)

In February 2014, the Town and Victoria Dye Equestrian, LLC (VDE) entered into an agreement to operate the Westwind Community Barn (Westwind) which is owned by the Town. VDE provides horse boarding and equestrian classes to the community. The Town provides a monthly subsidy to VDE to defray costs related to hay, feed and grain. VDE remits 25% of all equestrian class revenues to the Town. Westwind activity is included in the Town's General Fund.

TOWN OF LOS ALTOS HILLS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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. Eligible employees are defined as individuals employed by the Town prior to October 11, 2007 and retirees from the Town. Medical benefits are limited to Town's medical contribution to active employees and dental and vision benefits are not available to retirees. Healthcare coverage is with PEMHCA (CalPERS medical program).

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.

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:

Net OPEB Asset at June 30, 2015	<u>\$519,964</u>
Annual required contribution (ARC)	132,000
Interest on Net OPEB Obligation	(31,198)
Adjustment to annual required contribution	<u>57,000</u>
Annual OPEB cost	<u>157,802</u>
City's contribution to CERBT Trust	(132,000)
City's portion of current year premiums paid	<u>(121,021)</u>
Change in Net OPEB Obligation	<u>95,219</u>
Net OPEB Asset at June 30, 2016	<u>\$615,183</u>

TOWN OF LOS ALTOS HILLS

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2015, the latest valuation date, the funded status of the Town, was as follows:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (A)	Actuarial Value of Assets (B)	Unfunded Actuarial Accrued Liability (UAAL) (C)	Covered Payroll (D)	Funded Ratio (B/A) (B/A)	UAAL as percentage of covered payroll (C/D) (C/D)
6/30/2015	\$2,559,000	\$1,663,000	\$896,000	\$1,622,000	65.0%	55.2%

The Town's annual OPEB cost (expense), the percentage of OPEB cost contributed to the plan, and the Net OPEB asset for 2016 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2014	\$100,877	\$214,000	212%	\$439,589
6/30/2015	136,625	217,000	159%	519,964
6/30/2016	157,802	253,021	160%	615,183

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 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

In the June 30, 2015 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 2015 and 2016, with a 7 percent increase for Non-Medicare eligible premiums and 7.2 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 fiscal year 2015-2016.

B. Deficit fund balances

No individual funds had a deficit fund balance at June 30, 2016.

This Page Left Intentionally Blank

REQUIRED SUPPLEMENTARY INFORMATION

This Page Left Intentionally Blank

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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$4,672,500	\$4,672,500	\$4,960,016	\$287,516
Taxes other than property	541,200	541,200	511,091	(30,109)
Franchise fees	484,300	484,300	474,732	(9,568)
Licenses and permits	1,032,950	1,032,950	1,281,266	248,316
Intergovernmental	31,200	31,200	59,300	28,100
Use of money and property	202,200	202,200	299,886	97,686
Charges for services	1,082,100	1,082,100	1,129,113	47,013
Miscellaneous	48,900	48,900	97,599	48,699
Total revenues	<u>8,095,350</u>	<u>\$8,095,350</u>	<u>8,813,003</u>	<u>\$717,653</u>
EXPENDITURES				
Current:				
Administration	1,956,584	2,011,162	1,859,492	151,670
Public safety	1,170,117	1,170,117	1,171,380	(1,263)
Community development	1,885,639	1,904,598	1,641,631	262,967
Public works	271,736	273,567	208,326	65,241
Parks and recreation	496,559	493,989	565,440	(71,451)
Total expenditures	<u>5,780,635</u>	<u>5,853,433</u>	<u>5,446,269</u>	<u>407,164</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,314,715</u>	<u>2,241,917</u>	<u>3,366,734</u>	<u>\$1,124,817</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	204,094	204,094	434,037	229,943
Transfers out	(2,391,324)	(2,391,324)	(1,488,559)	902,765
Total Other Financing Sources (Uses)	<u>(2,187,230)</u>	<u>(2,187,230)</u>	<u>(1,054,522)</u>	<u>1,132,708</u>
Net Change in Fund Balances	127,485	54,687	2,312,212	2,257,525
Fund Balances, Beginning of Year	<u>7,408,964</u>	<u>7,408,964</u>	<u>7,408,964</u>	<u>-</u>
Fund Balances, End of Year	<u>\$7,536,449</u>	<u>\$7,463,651</u>	<u>\$9,721,176</u>	<u>\$2,257,525</u>

See notes to required supplementary information

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
STREET CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$144,000	\$144,000	\$279,447	\$135,447
Charges for services	40,000	40,000	22,833	(17,167)
Total revenues	<u>184,000</u>	<u>184,000</u>	<u>302,280</u>	<u>118,280</u>
EXPENDITURES				
Current:				
Capital outlay	1,075,000	1,227,157	919,467	307,690
Total expenditures	<u>1,075,000</u>	<u>1,227,157</u>	<u>919,467</u>	<u>307,690</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(891,000)</u>	<u>(1,043,157)</u>	<u>(617,187)</u>	<u>425,970</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	891,000	1,043,157	617,188	(425,969)
Total Other Financing Sources (Uses)	<u>891,000</u>	<u>1,043,157</u>	<u>617,188</u>	<u>(425,969)</u>
Net Change in Fund Balances	0	0	1	1
Fund Balances, Beginning of Year	<u>65,681</u>	<u>65,681</u>	<u>65,681</u>	
Fund Balances, End of Year	<u><u>\$65,681</u></u>	<u><u>\$65,681</u></u>	<u><u>\$65,682</u></u>	<u><u>\$1</u></u>

See notes to required supplementary information

TOWN OF LOS ALTOS HILLS

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SEWER ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$1,961,600	\$1,961,600	\$1,925,636	(\$35,964)
Other income	0	0	2,829	2,829
Total Operating Revenues	<u>1,961,600</u>	<u>1,961,600</u>	<u>1,928,465</u>	<u>(33,135)</u>
OPERATING EXPENSES				
Salaries and benefits	306,260	310,373	172,969	137,404
Contract services	1,579,560	1,579,560	1,573,632	5,928
Operating expenses	86,138	120,138	64,981	55,157
Depreciation	170,200	170,200	185,817	(15,617)
Total Operating Expenditures	<u>2,142,158</u>	<u>2,180,271</u>	<u>1,997,399</u>	<u>182,872</u>
Operating (Loss)	<u>(180,558)</u>	<u>(218,671)</u>	<u>(68,934)</u>	<u>149,737</u>
NONOPERATING REVENUE (EXPENSES)				
Interest income	5,100	5,100	32,557	27,457
Loss Before Contributions and Transfers	<u>(175,458)</u>	<u>(213,571)</u>	<u>(36,377)</u>	<u>177,194</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(179,589)	(179,589)	(153,419)	26,170
Total Other Financing Sources (Uses)	<u>(179,589)</u>	<u>(179,589)</u>	<u>(153,419)</u>	<u>26,170</u>
Connection Fees	160,300	160,300	221,010	60,710
Changes in Net Position	(194,747)	(232,860)	31,214	264,074
Fund Balances, Beginning of Year	<u>7,796,169</u>	<u>7,796,169</u>	<u>7,796,169</u>	<u>0</u>
Fund Balances, End of Year	<u><u>\$7,601,422</u></u>	<u><u>\$7,563,309</u></u>	<u><u>\$7,827,383</u></u>	<u><u>\$264,074</u></u>

See notes to required supplementary information

TOWN OF LOS ALTOS HILLS

REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED
JUNE 30, 2016

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Miscellaneous Plan	
	2015	2016
Plan's Proportion of the Net Pension Liability (Asset)	0.03226%	0.07776%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$2,007,540	\$2,133,424
Plan's Covered-Employee Payroll	\$1,674,349	\$1,636,970
Plan's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	119.90%	130.33%
Plan's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Plan's Total Pension Liability	79.82%	17.56%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

TOWN OF LOS ALTOS HILLS

**REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED
JUNE 30, 2016**

**Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS**

	Miscellaneous Plan	
	6/30/2015	6/30/2016
Actuarially determined contribution	\$181,280	\$221,507
Contributions in relation to the actuarially determined contributions	(181,280)	(221,507)
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
Covered-employee payroll	\$1,674,349	\$1,636,970
Contributions as a percentage of covered-employee payroll	10.83%	13.53%

Notes to Schedule

Valuation date: 6/30/2013 6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal		
Amortization method	Level percentage of payroll, closed		
Remaining amortization period	30 years		
Asset valuation method	5-year smoothed market		
Inflation	2.75%		
Salary increases	Varies by Entry Age and Service		
Investment rate of return	7.5%, net of pension plan investment and administrative expenses, including inflation		
Retirement age	55 years Tier 1, 60 years Tier 2, 62 years Tier 3		
Mortality	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. </td> <td style="width: 50%; border: none;"> The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2010 CalPERS Experience Study. The table includes 5 years of mortality improvements using the Society of Actuaries Scale AA. </td> </tr> </table>	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB.	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2010 CalPERS Experience Study. The table includes 5 years of mortality improvements using the Society of Actuaries Scale AA.
The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB.	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2010 CalPERS Experience Study. The table includes 5 years of mortality improvements using the Society of Actuaries Scale AA.		

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

TOWN OF LOS ALTOS HILLS

**REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED
JUNE 30, 2016**

**Other Post-Employment Benefits
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (A)	Actuarial Value of Assets (B)	Unfunded Actuarial Accrued Liability (UAAL) (C)	Covered Payroll (D)	Funded Ratio (B/A)	UAAL as percentage of covered payroll (C/D)
6/30/2011	\$2,624,000	\$703,000	\$1,921,000	\$1,512,000	26.8%	127.1%
6/30/2013	2,229,000	1,213,000	1,016,000	1,640,000	54.4%	62.0%
6/30/2015	2,559,000	1,663,000	896,000	1,622,000	65.0%	55.2%

TOWN OF LOS ALTOS HILLS

REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED JUNE 30, 2016

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.

NOTE 3 - PENSION LIABILITY AND RELATED CONTRIBUTIONS

These schedules present information that shows the Town's proportionate share of the pension liability in the cost sharing pools, actuarial information, and contributions. The proportionate share information is useful in determining the Town's liability in relation to all other entities in the pool.

This Page Left Intentionally Blank

SUPPLEMENTARY INFORMATION

This Page Left Intentionally Blank

TOWN OF LOS ALTOS HILLS

NON MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2016

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

Special Donations Fund - This fund accounts for donations.

DEBT SERVICE FUND

Debt Service Fund - accounts for principal and interest payments on long-term obligations. All Town debts have been paid off in 2015-16.

CAPITAL PROJECTS FUND

Other Capital Projects Funds – These funds account for financial resources that are necessary for the acquisition or construction of major capital facilities.

TOWN OF LOS ALTOS HILLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016

	SPECIAL REVENUE FUNDS			
	Strom Drain	Pathway In-Lieu Fee	Parks and Recreation In-Lieu Fee	Street
ASSETS				
Cash and investments	\$426,316	\$639,133	\$109,529	\$339,949
Accounts Receivable				
Total Assets	426,316	639,133	109,529	339,949
LIABILITIES				
Accounts payable		310		1,193
Retention liability				
Total Liabilities	0	310	0	1,193
FUND BALANCES:				
Committed				
Restricted	426,316	638,823	109,529	338,756
Total Fund Balances (Deficit)	426,316	638,823	109,529	338,756
Total Liabilities and Fund Balances	\$426,316	\$639,133	\$109,529	\$339,949

<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT SERVICE FUND</u>	<u>CAPITAL PROJECT FUND</u>	Total Nonmajor Governmental Funds
<u>COPS</u>	<u>Special Donations</u>	<u>CA Energy Loans</u>	<u>Other Capital Project</u>	
\$147,483	\$21,132		\$1,028,261	\$2,711,803
25,253				25,253
<u>172,736</u>	<u>21,132</u>	<u>0</u>	<u>1,028,261</u>	<u>2,737,056</u>
338			456	2,297
			7,074	7,074
<u>338</u>	<u>0</u>	<u>0</u>	<u>7,530</u>	<u>9,371</u>
172,398	21,132		1,020,731	1,020,731
				1,706,954
<u>172,398</u>	<u>21,132</u>	<u>0</u>	<u>1,020,731</u>	<u>2,727,685</u>
<u>\$172,736</u>	<u>\$21,132</u>	<u>\$0</u>	<u>\$1,028,261</u>	<u>\$2,737,056</u>

TOWN OF LOS ALTOS HILLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS			
	Storm Drain	Pathway In-Lieu Fund	Parks and Recreation In-Lieu Fund	Street
REVENUES				
Licenses, permits, and fees	\$0	\$0	\$0	\$53,687
Intergovernmental				144,543
Use of money and property		5,458		2,962
Charges for services	136,654	160,527		
Miscellaneous				
Total Revenues	136,654	165,985	0	201,192
EXPENDITURES				
Current:				
Public safety				
Public works	186,281	307,237		249,942
Capital outlay				
Debt Service:				
Principal				
Interest				
Total Expenditures	186,281	307,237	0	249,942
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(49,627)	(141,252)	0	(48,750)
OTHER FINANCING SOURCES (USES)				
Transfers in	246,073	400,069		222,377
Transfers (out)	(196,446)	(258,817)		(173,628)
Total Other Financing Sources (Uses)	49,627	141,252	0	48,749
NET CHANGE IN FUND BALANCES	0	0	0	(1)
BEGINNING FUND BALANCES (DEFICIT)	426,316	638,823	109,529	338,757
ENDING FUND BALANCES (DEFICIT)	\$426,316	\$638,823	\$109,529	\$338,756

<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT SERVICE FUND</u>	<u>CAPITAL PROJECT FUND</u>	
<u>COPS</u>	<u>Special Donations</u>	<u>CA Energy Loans</u>	<u>Other Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$0	\$0	\$0	\$0	\$53,687
122,117			147,310	413,970
1,275			46,898	56,593
	5,000			297,181
				5,000
<u>123,392</u>	<u>5,000</u>	<u>0</u>	<u>194,208</u>	<u>826,431</u>
83,818				83,818
				743,460
			339,543	339,543
		81,360		81,360
		1,492		1,492
<u>83,818</u>	<u>0</u>	<u>82,852</u>	<u>339,543</u>	<u>1,249,673</u>
39,574	5,000	(82,852)	(145,335)	(423,242)
(20,563)	(8,342)	82,852	297,178	1,248,549
				(657,796)
<u>(20,563)</u>	<u>(8,342)</u>	<u>82,852</u>	<u>297,178</u>	<u>590,753</u>
19,011	(3,342)	0	151,843	167,511
153,387	24,474	0	868,888	2,560,174
<u>\$172,398</u>	<u>\$21,132</u>	<u>\$0</u>	<u>\$1,020,731</u>	<u>\$2,727,685</u>

TOWN OF LOS ALTOS HILLS
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2016

SPECIAL REVENUE FUNDS

	STORM DRAIN			PATHWAY IN-LIEU FEE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Charges for services	\$175,500	\$136,654	(\$38,846)	\$170,000	\$160,527	(\$9,473)
Intergovernmental						
Licenses, permits and fees						
Use of money and property				1,000	5,458	4,458
Other revenues						
Total Revenues	<u>175,500</u>	<u>136,654</u>	<u>(38,846)</u>	<u>171,000</u>	<u>165,985</u>	<u>(5,015)</u>
EXPENDITURES						
Current:						
Public safety						
Public works	249,221	186,281	62,940	353,162	307,237	45,925
Capital outlay						
Debt service:						
Principal						
Interest and fiscal charges						
Total Expenditures	<u>249,221</u>	<u>186,281</u>	<u>62,940</u>	<u>353,162</u>	<u>307,237</u>	<u>45,925</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(73,721)</u>	<u>(49,627)</u>	<u>24,094</u>	<u>(182,162)</u>	<u>(141,252)</u>	<u>40,910</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	249,221	246,073	(3,148)	352,162	400,069	47,907
Transfers out	<u>(175,500)</u>	<u>(196,446)</u>	<u>(20,946)</u>	<u>(170,000)</u>	<u>(258,817)</u>	<u>(88,817)</u>
Total Other Financing Sources (Uses)	<u>73,721</u>	<u>49,627</u>	<u>(24,094)</u>	<u>182,162</u>	<u>141,252</u>	<u>(40,910)</u>
NET CHANGES IN FUND BALANCES	<u>\$0</u>	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>426,316</u>			<u>638,823</u>	
ENDING FUND BALANCES (DEFICITS)		<u>\$426,316</u>			<u>\$638,823</u>	

SPECIAL REVENUE FUNDS

PARKS AND RECREATION IN-LIEU FEE			STREET			COPS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$42,000		(\$42,000)	\$0	\$0	\$0	\$0	\$0	\$0
			156,075	144,543	(11,532)	100,000	122,117	22,117
			64,100	53,687	(10,413)			
			1,000	2,962	1,962	100	1,275	1,175
			1,000		(1,000)			
<u>42,000</u>	<u>0</u>	<u>(42,000)</u>	<u>222,175</u>	<u>201,192</u>	<u>(20,983)</u>	<u>100,100</u>	<u>123,392</u>	<u>23,292</u>
						109,543	83,818	25,725
			362,468	249,942	112,526			
			<u>362,468</u>	<u>249,942</u>	<u>112,526</u>	<u>109,543</u>	<u>83,818</u>	<u>25,725</u>
42,000	0	(42,000)	(140,293)	(48,750)	91,543	(9,443)	39,574	49,017
(435)		435	140,293	222,377	82,084	(24,070)	(20,563)	3,507
			(80,000)	(173,628)	(93,628)			
(435)	0	435	60,293	48,749	(11,544)	(24,070)	(20,563)	3,507
<u>\$41,565</u>	<u>0</u>	<u>(\$41,565)</u>	<u>(\$80,000)</u>	<u>(1)</u>	<u>\$79,999</u>	<u>(\$33,513)</u>	<u>19,011</u>	<u>\$52,524</u>
	<u>\$109,529</u>			<u>338,757</u>			<u>153,387</u>	
	<u>\$109,529</u>			<u>\$338,756</u>			<u>\$172,398</u>	

(Continued)

TOWN OF LOS ALTOS HILLS
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>SPECIAL REVENUE FUNDS</u>			<u>DEBT SERVICE FUNDS</u>		
	<u>SPECIAL DONATIONS</u>			<u>CA ENERGY LOANS</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GOVERNMENTAL REVENUES						
Charges for services	\$0	\$0	\$0	\$0	\$0	\$0
Intergovernmental						
Licenses, permits and fees						
Use of money and property						
Other revenues		5,000	5,000			
Total Revenues	<u>0</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXPENDITURES						
Current:						
Public safety						
Public works						
Capital outlay						
Debt service:						
Principal				81,360	81,360	
Interest and fiscal charges				2,764	1,492	1,272
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>84,124</u>	<u>82,852</u>	<u>1,272</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>0</u>	<u>5,000</u>	<u>5,000</u>	<u>(84,124)</u>	<u>(82,852)</u>	<u>1,272</u>
OTHER FINANCING SOURCES (USES)						
Transfers in				84,124	82,852	(1,272)
Transfers out		(8,342)	(8,342)			
Total Other Financing Sources (Uses)	<u>0</u>	<u>(8,342)</u>	<u>(8,342)</u>	<u>84,124</u>	<u>82,852</u>	<u>(1,272)</u>
NET CHANGE IN FUND BALANCES	<u>\$0</u>	<u>(3,342)</u>	<u>(\$3,342)</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>24,474</u>			<u>0</u>	
ENDING FUND BALANCES (DEFICITS)		<u>\$21,132</u>			<u>\$0</u>	

CAPITAL PROJECT FUND

OTHER
CAPITAL PROJECTS

<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
\$0	\$0	\$0
10,000	147,310	137,310
44,500	46,898	2,398
<u>54,500</u>	<u>194,208</u>	<u>139,708</u>
1,354,508	339,543	1,014,965
<u>1,354,508</u>	<u>339,543</u>	<u>1,014,965</u>
<u>(1,300,008)</u>	<u>(145,335)</u>	<u>1,154,673</u>
1,275,508	297,178	(978,330)
<u>1,275,508</u>	<u>297,178</u>	<u>(978,330)</u>
<u>(\$24,500)</u>	151,843	<u>\$176,343</u>
	<u>868,888</u>	
	<u>\$1,020,731</u>	

TOWN OF LOS ALTOS HILLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>
WEST LOYOLA SEWER ASSESSMENT DISTRICT				
ASSETS				
Restricted cash and investments	\$308,880	\$150,477	(\$152,400)	\$306,957
Miscellaneous receivables	597		(597)	
Total Assets	<u>\$309,477</u>	<u>\$150,477</u>	<u>(\$152,997)</u>	<u>\$306,957</u>
LIABILITIES				
Due to bond holders	<u>\$309,477</u>		<u>(\$2,520)</u>	<u>\$306,957</u>
Total Liabilities	<u>\$309,477</u>	<u>\$0</u>	<u>(\$2,520)</u>	<u>\$306,957</u>

STATISTICAL SECTION

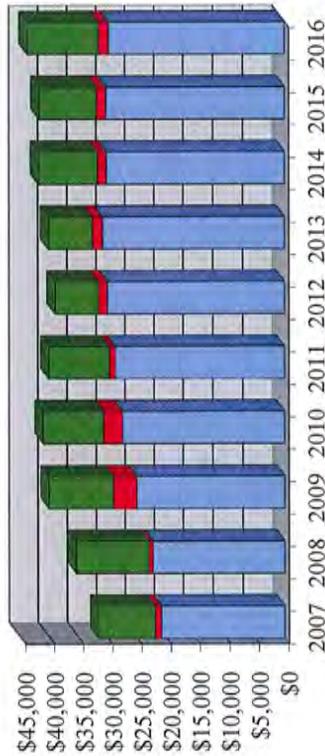
This Page Left Intentionally Blank

STATISTICAL SECTION (UNAUDITED)

This part of the Town of Los Altos Hills Comprehensive Annual Financial Report presents the detailed information as a context for understand what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health

Contents	Page
<u>Financial Trends</u> - These schedules contain trend information to help the reader understand how Town's financial performance and well-being have changed over time.	96
<u>Revenue Capacity</u> - These schedules contain information to help the reader assess one of the Town's most significant local revenue source, the property tax.	102
<u>Debt Capacity</u> - These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and its ability to issue additional debt in the future.	106
<u>Demographic and Economic Information</u> - These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.	109
<u>Operating Information</u> - These schedules contain service and infrastructure data to help the reader understand how the information in the Town's CAFR relates to the services the Town provides and activities it performs.	111

TOWN OF LOS ALTOS HILLS
 Net Position by Component
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$19,777,871	\$21,225,843	\$22,733,833	\$23,564,257	\$24,421,688	\$25,681,352	\$26,654,599	\$25,535,393	\$25,370,209	\$24,700,834
Restricted	1,102,922	651,518	936,212	1,447,591	960,737	1,507,673	1,787,750	1,520,545	1,666,812	1,706,954
Unrestricted	7,372,911	9,719,557	9,131,068	7,831,794	7,654,909	4,582,714	4,349,494	7,124,524	7,064,274	9,687,552
Total governmental activities net position	\$28,253,704	\$31,596,718	\$32,801,113	\$32,843,642	\$33,037,334	\$31,771,739	\$32,791,843	\$34,180,462	\$34,101,295	\$36,095,340
Business-type activities										
Net investment in capital assets	\$1,155,552	\$1,172,175	\$2,427,865	\$4,022,707	\$4,369,141	\$4,452,208	\$4,312,151	\$4,774,920	\$5,022,034	\$5,244,525
Restricted	2,301,817	2,745,457	2,999,604	1,727,745	2,856,291	2,915,748	3,227,161	3,075,429	2,774,135	2,582,858
Unrestricted	\$3,457,369	\$3,917,632	\$7,429,796	\$8,369,717	\$7,225,432	\$7,367,956	\$7,539,312	\$7,850,349	\$7,796,169	\$7,827,383
Total business-type activities net position	\$20,933,423	\$22,398,018	\$25,161,698	\$27,586,964	\$28,790,829	\$30,133,560	\$30,966,750	\$30,310,313	\$30,392,243	\$29,945,359
Primary government										
Net investment in capital assets	\$20,933,423	\$22,398,018	\$25,161,698	\$27,586,964	\$28,790,829	\$30,133,560	\$30,966,750	\$30,310,313	\$30,392,243	\$29,945,359
Restricted	1,102,922	651,518	3,935,816	3,175,336	960,737	1,507,673	1,787,750	1,520,545	1,666,812	1,706,954
Unrestricted	9,674,728	12,464,814	11,133,395	10,451,059	10,511,200	7,498,462	7,576,655	10,199,953	9,838,409	12,270,410
Total net position	\$31,711,073	\$35,514,350	\$40,230,909	\$41,213,359	\$40,262,766	\$39,139,695	\$40,331,155	\$42,030,811	\$41,897,464	\$43,922,723

Source: Audited Financial Statements

TOWN OF LOS ALTOS HILLS
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year Ended June 30,										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2015 (Note 1)	2016
Expenses											
Governmental Activities*:											
Administration	\$1,979,197	\$1,834,475	\$2,198,029	\$2,071,985	\$1,822,653	\$2,046,868	\$1,837,120	\$639,350	\$538,004	\$1,923,816	\$2,339,474
Public safety	1,333,011	1,381,626	1,469,522	1,491,760	1,384,604	1,345,461	1,440,002	1,555,955	1,567,747	1,379,621	1,601,654
Community development	2,377,965	2,522,067	2,422,892	2,660,434	2,111,541	2,437,335	2,448,821	3,224,490	3,324,935	2,289,743	2,167,702
Parks and recreation	703,112	802,066	1,240,406	1,279,596	1,310,566	1,300,211	1,314,872	1,479,822	1,358,479	621,974	738,495
Drainage and street operations	664,229	578,324	558,980	830,146	934,755	700,017	627,512	842,532	839,577		
Public works											
Interest on Long-Term Debt		88,539	82,603	75,962	71,553	44,305	4,526	3,955	3,304	1,413,588	1,252,271
Total Governmental Activities Expenses	7,057,514	7,207,097	7,972,432	8,409,883	7,635,672	7,874,197	7,672,853	7,746,104	7,632,046	7,632,046	8,101,088
Business-Type Activities:											
Sewer	1,005,104	1,080,206	1,097,072	947,450	1,022,325	1,328,856	1,242,885	1,271,651	1,591,743	1,544,883	1,997,399
Solid waste	1,440,098	1,512,251	387,335								
Total business-type activities expenses	2,445,202	2,592,457	1,484,407	947,450	1,022,325	1,328,856	1,242,885	1,271,651	1,591,743	1,544,883	1,997,399
Total primary government expenses	9,502,716	9,799,554	9,456,839	9,357,333	8,657,997	9,203,053	8,915,738	9,017,755	9,223,789	9,176,929	10,098,487
Program Revenues											
Governmental Activities:											
Charges for Services:											
Administration											
Public safety	14,651	13,217	1,938				3,200		1,302	29,038	72,566
Community development	1,095,175	1,255,246	1,278,407	1,218,744	1,362,932	1,843,682	1,768,740	1,871,118	2,623,027	2,433,038	2,217,874
Parks and recreation	279,008	234,258	566,446	541,337	532,623	476,599	433,785	281,886	316,391	269,295	199,241
Drainage and street operations	727,329	722,151	620,523	709,133	601,078	340,010	169,526	186,631	340,110		
Public works											
Operating contributions and grants	536,042	1,292,756	1,619,218	996,454	447,717	531,671	1,267,777	500,245	338,453	548,157	388,931
Capital contributions and grants								266,736	246,533	291,593	303,292
Total governmental activities program revenues	2,652,205	3,517,628	4,086,552	3,465,668	2,944,350	3,191,962	3,643,028	3,106,616	3,865,816	246,533	3,580,894
Business-Type Activities:											
Charges for Services:											
Sewer	1,136,302	1,511,372	1,335,790	1,643,706	1,406,130	1,355,667	1,359,338	1,382,472	1,392,029	1,392,029	1,925,636
Solid waste	1,399,347	1,472,296	361,763								
Operating contributions and grants	6,107	7,270									
Capital contributions and grants			3,208,687	272,405	(1,486,331)	170,955	125,183	175,497	234,339	234,339	221,010
Total business-type activities program revenues	2,541,756	2,990,938	4,906,240	1,916,111	(80,201)	1,526,622	1,484,521	1,557,969	1,626,368	1,626,368	2,146,646
Total primary government program revenues	5,193,961	6,508,566	8,992,792	5,381,779	2,864,149	4,718,584	5,127,549	4,664,585	5,492,184	5,445,324	5,727,540
Net revenues (expenses)											
Governmental Activities	(4,405,309)	(3,689,469)	(3,885,880)	(4,944,215)	(4,691,322)	(4,682,235)	(4,029,825)	(4,639,488)	(3,766,230)	(3,813,090)	(4,520,194)
Business-Type Activities	96,554	398,481	3,421,833	968,661	(1,102,526)	197,766	241,636	286,318	34,625	81,485	149,247
Total net revenues (expenses)	(\$4,308,755)	(\$3,290,988)	(\$464,047)	(\$3,975,554)	(\$5,793,848)	(\$4,484,469)	(\$3,788,189)	(\$4,353,170)	(\$3,731,605)	(\$3,731,605)	(\$4,370,947)

TOWN OF LOS ALTOS HILLS
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(continued)

	Fiscal Year Ended June 30,										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2015 (Note 1)	2016
General Revenues and Other Changes in Net Position											
Governmental revenues:											
Taxes:											
Property Taxes	\$2,998,724	\$3,216,837	\$3,410,921	\$3,444,173	\$3,393,604	\$3,543,231	\$3,785,652	\$4,153,331	\$4,606,184	\$4,606,184	\$4,960,016
Other taxes	536,746	477,705	404,678	366,442	544,092	427,826	594,656	626,479	649,542	649,542	565,055
Franchise Fees	371,717	389,224	431,574	387,803	428,332	430,149	421,634	463,598	513,997	513,997	474,732
Sales of Capital Assets-net		1,430,776	143,518	242	6,600						
Use of money and property	521,425	744,677	498,721	212,126	178,450	156,743	142,931	199,609	208,776	208,776	356,479
Other intergovernmental revenue	513,899	502,482	108,147	140,947	69,166	39,448	34,057	585,089	174,469	174,469	4,538
Other unrestricted revenue	113,700	154,061	69,520	303,395	193,425	(1,250,000)					
Special item **											
Transfers	394,955	116,721	23,196	131,616	71,345	69,243	71,000		46,860	46,860	153,419
Total Government Activities	5,451,166	7,032,483	5,090,275	4,986,744	4,885,014	3,416,640	5,049,930	6,028,106	6,152,968	6,199,828	6,514,239
Business-Type Activities:											
Use of money and property	130,778	178,503	113,527	102,876	29,585	14,001	720	24,719	19,533	19,533	32,557
Other unrestricted revenue											
Transfers	(394,955)	(116,721)	(23,196)	(131,616)	(71,345)	(69,243)	(71,000)		(46,860)	(46,860)	2,829
Total Business-Type Activities	(264,177)	61,782	90,331	(28,740)	(41,760)	(55,242)	(70,280)	24,719	19,533	(27,327)	(118,033)
Total Primary Government	5,186,989	7,094,265	5,180,606	4,958,004	4,843,254	3,361,398	4,979,650	6,052,825	6,172,501	6,172,501	6,396,206
Change in Net Position											
Governmental Activities	1,045,857	3,343,014	1,204,395	42,529	193,692	(1,265,595)	1,020,105	1,388,618	2,386,738	2,386,738	1,994,045
Business-Type Activities	(167,623)	460,263	3,512,164	938,921	(1,144,286)	142,524	171,356	311,037	54,158	54,158	31,214
Total Primary Government	\$878,234	\$3,803,277	\$4,716,559	\$982,450	\$930,594	(\$1,123,071)	\$1,191,461	\$1,699,655	\$2,440,896	\$2,440,896	\$2,025,259

* Governmental Activities affected by implementation of cost allocation plan in 2014.
 ** Special item is related to provision of one-time refund of Roadway Impact Fee.

Note 1: In fiscal year 2015-16, there are changes to the account groupings between programs. For comparison purpose, we added an additional column for fiscal year 2014-15, in which the 2014-15 audited numbers are regrouped to be consistent with the new grouping in 2015-16. One main difference in the 2014-15 numbers is in the treatment of overhead allocation paid by the sewer fund. The original 2014-15 audited charges for services included \$46,860 overhead allocation to sewer operations. The new grouping records this as "transfers".

Source: Audited Financial Statements

TOWN OF LOS ALTOS HILLS
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Committed	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$170,000	\$240,000	\$286,150	\$285,000	\$360,000	\$1,765,000
Assigned	4,188,511	2,964,602	3,623,779	3,810,511	5,607,885	3,063,979	2,990,283	5,420,162	7,048,964	350,000
Unassigned	\$5,788,511	\$4,564,602	\$5,223,779	\$5,410,511	\$5,777,885	\$3,303,979	\$3,276,433	\$5,705,162	\$7,408,964	\$9,721,176
Total General Fund										
All Other Governmental Funds										
Restricted	\$473,772	\$846,908	\$1,148,960	\$1,557,669	\$960,737	\$1,507,673	\$1,787,750	\$1,520,545	\$1,691,286	\$1,706,954
Committed	1,897,547	4,633,079	3,441,870	1,820,403	1,311,759	75,112	354,495	519,059	934,569	1,086,413
Assigned						(184,268)		(435)		
Unassigned										
Total all other governmental funds	\$2,371,319	\$5,479,987	\$4,590,830	\$3,378,072	\$2,272,496	\$1,398,517	\$2,142,245	\$2,039,169	\$2,625,855	\$2,793,367

Source: Audited Financial Statements

TOWN OF LOS ALTOS HILLS
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenues					
Property taxes	\$2,991,481	\$3,205,734	\$3,403,586	\$3,438,168	\$3,393,604
Taxes other than property	536,746	434,126	366,282	332,189	503,766
Franchise fees	371,717	389,224	431,574	387,803	428,332
Licenses and permits	519,492	693,964	612,092	732,233	820,694
Intergovernmental	1,049,941	1,838,817	889,209	656,480	428,833
Use of money and property	657,793	851,667	612,902	212,126	210,904
Charges for services	1,426,492	1,396,904	1,749,121	1,751,358	1,605,081
Miscellaneous	154,751	192,178	945,347	810,197	360,205
Total Revenues	7,708,413	9,002,614	9,010,113	8,320,554	7,751,419
Expenditures					
Current:					
Administration	1,589,309	1,345,356	1,481,883	1,651,144	1,453,778
Public safety	1,036,511	1,067,269	1,130,438	1,092,359	1,120,237
Community development	1,773,386	1,855,950	1,792,913	2,025,711	1,686,842
Parks and recreation	527,075	590,228	900,850	964,244	1,060,335
Drainage and street operation	474,274	425,579	413,625	625,610	756,279
Public works					
Debt service:					
Principal	116,092	121,470	127,128	133,693	142,285
Interest	95,224	89,846	84,199	77,623	73,264
Capital outlay	2,199,242	3,169,654	3,475,782	2,908,054	2,321,552
Total Expenditures	7,811,113	8,665,352	9,406,818	9,478,438	8,614,572
Excess (deficiency) of revenues over (under) expenditures	(102,700)	337,262	(396,705)	(1,157,884)	(863,153)
Other Financing Sources (Uses)					
Special item*					
Sale of assets		1,430,776	143,518	242	6,600
Transfers in	2,484,132	4,021,974	2,075,139	2,009,503	2,406,621
Transfers out	(2,089,178)	(3,905,254)	(2,051,943)	(1,877,887)	(2,335,276)
Proceeds from debt					47,000
Other financing sources (uses)	394,954	1,547,496	166,714	131,858	124,945
Net Change in fund balances	\$292,254	\$1,884,758	(\$229,991)	(\$1,026,026)	(\$738,208)
Debt service as a percentage of					
noncapital expenditures	3.8%	3.8%	3.6%	3.2%	3.4%

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

Note 1:

In fiscal year 2015-16, there are changes to the account groupings between programs. For comparison purpose, we added an additional column for fiscal year 2014-15, in which the 2014-15 audited expenditures were regrouped to be consistent with the new grouping in 2015-16.

One major difference in the 2014-15 numbers is the treatment of overhead allocation. The original 2014-15 audited expenditures for Administration was reduced due to overhead charges to other programs. Under the 2015-16 new groupings, overhead allocation was eliminated within General Fund and overhead charges to other governmental funds and sewer funds are reported as "transfers" rather than "expenditures" / "expenses".

Fiscal Year Ended June 30,

2012	2013	2014	2015	2015 (Note 1)	2016
\$3,543,251	\$3,785,652	\$4,153,332	\$4,606,184	\$4,606,184	\$4,960,016
423,353	545,228	524,763	645,836	645,836	511,091
430,149	421,634	463,598	513,997	513,997	474,732
651,476	754,460	1,006,907	1,485,394	1,485,394	1,334,953
457,952	1,264,716	610,850	397,470	397,470	752,717
196,891	200,937	281,583	295,447	295,447	356,479
1,836,621	1,407,987	1,411,082	1,858,220	1,811,360	1,449,127
249,686	241,344	599,992	175,380	175,380	102,599
<u>7,789,379</u>	<u>8,621,958</u>	<u>9,052,107</u>	<u>9,977,928</u>	<u>9,931,068</u>	<u>9,941,714</u>
1,580,902	1,363,140	276,162	447,843	1,557,773	1,859,492
1,057,330	1,131,772	1,209,028	1,205,913	1,075,160	1,255,198
1,992,581	1,918,408	2,581,031	2,557,545	1,725,877	1,641,631
1,049,563	1,033,239	1,178,463	1,044,944	466,881	565,440
549,782	492,889	678,195	645,804		
				1,066,943	951,786
1,377,532	15,048	15,618	16,212	16,212	81,360
62,725	4,536	3,966	3,372	3,372	1,492
<u>1,584,367</u>	<u>2,719,447</u>	<u>783,990</u>	<u>1,765,807</u>	<u>1,765,807</u>	<u>1,259,010</u>
<u>9,254,782</u>	<u>8,678,479</u>	<u>6,726,453</u>	<u>7,687,440</u>	<u>7,678,025</u>	<u>7,615,409</u>
<u>(1,465,403)</u>	<u>(56,521)</u>	<u>2,325,654</u>	<u>2,290,488</u>	<u>2,253,043</u>	<u>2,326,305</u>
(1,250,000)					
2,900,401	2,178,543	1,490,019	2,790,955	3,097,282	2,299,774
(2,831,158)	(2,107,543)	(1,490,019)	(2,790,955)	(3,059,837)	(2,146,355)
<u>(1,180,757)</u>	<u>71,000</u>			<u>37,445</u>	<u>153,419</u>
<u>(\$2,646,160)</u>	<u>\$14,479</u>	<u>\$2,325,654</u>	<u>\$2,290,488</u>	<u>\$2,290,488</u>	<u>\$2,479,724</u>
18.8%	0.3%	0.3%	0.3%	0.4%	1.3%

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

Fiscal year ended June 30	Secured roll	Unsecured roll	Less exemptions	Taxable assessed value	Total direct tax rate	% change in assessed value	Property tax revenue per fin stmt
2007	4,123,287,787	3,994,564	15,283,800	4,111,998,551	0.078%	8.62%	2,991,481
2008	4,387,840,511	12,144,678	15,300,600	4,384,684,589	0.077%	6.61%	3,205,734
2009	4,767,614,000	3,396,490	15,632,400	4,755,378,090	0.072%	8.43%	3,403,586
2010	4,904,290,340	3,417,417	15,596,000	4,892,111,757	0.069%	2.87%	3,438,168
2011	4,900,568,415	3,203,017	15,335,600	4,888,435,832	0.072%	-0.08%	3,393,604
2012	5,083,703,530	6,024,790	15,283,800	5,074,444,520	0.074%	3.79%	3,543,251
2013	5,329,042,601	5,859,024	15,300,600	5,319,601,025	0.078%	4.82%	3,785,652
2014	5,850,746,460	5,041,770	15,632,400	5,840,155,830	0.079%	9.76%	4,153,332
2015	6,220,950,601	3,384,189	14,732,200	6,209,602,590	0.074%	6.33%	4,606,184
2016	6,668,595,288	3,162,336	14,589,400	6,657,168,224	0.075%	7.21%	4,960,016

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.

Source: Santa Clara County Assessor 2015/16 Combined Tax Rolls

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

Fiscal Year	Basic county-wide levy	El Camino Hospital levy	School/College district levy	Santa Clara Valley Water District	County and library retirement	Mid-Peninsula Open Space	Per hundred \$ total
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
2015	1.0000	0.00910	0.1784	0.0065	0.0503		1.2481
2016	1.0000	0.01290	0.1704	0.0057	0.0500	0.0008	1.2398

Source: County of Santa Clara Assessor 2006/07-2015/16 Tax Rate Table

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

Taxpayer	Type of property	2016		2007	
		Assessed value	Percentage of net assessed valuation	Assessed value	Percentage of net assessed valuation
LaPaloma Property LLC	Single family residential	\$ 54,709,270	0.82%		
Douglas M Leone Trustee and Et Al	Single family residential	26,634,131	0.40%		
Homa Natoma LLC	Single family residential	25,563,005	0.38%		
Kumar Malavalli Trustee and Et Al	Single family residential	18,513,780	0.28%		
David Hitz Trustee	Single family residential	17,236,981	0.26%		
Charles F Perrell Trustee	Single family residential	16,580,140	0.25%		
Even Stride LLC	Single family residential	16,300,000	0.24%		
SSWD Trust	Single family residential	15,586,722	0.23%		
Book Shelf LLC	Single family residential	15,211,764	0.23%		
Old Trace LLC	Single family residential	14,600,701	0.22%		
Large House LLC	Single family residential			\$ 28,398,521	0.69%
Wilfred J Corrigan Trustee	Single family residential			20,540,272	0.50%
Northfork Vineyards LLC	Single family residential			19,585,044	0.48%
William M Carrico Trustee	Single family residential			17,686,800	0.43%
Sehat Sutardja and Dai Weili	Single family residential			15,059,671	0.37%
David Hitz Trustee	Single family residential			14,973,659	0.36%
Kumar Malavalli Trustee and Et Al	Single family residential			14,471,421	0.35%
Mark Jung Trustee and Et Al	Single family residential			12,000,000	0.29%
The Creative Center of Los Altos	Vacant Land			11,444,400	0.28%
Neary-Vidovich	Single family residential			11,346,482	0.28%
Totals		<u>\$ 220,936,494</u>	<u>3.32%</u>	<u>\$ 165,506,270</u>	<u>4.03%</u>

Note: There are no commercial or industrial facilities within Town limits; only two of the top ten principal taxpayers for fiscal year 2007 are included in the top ten taxpayer list for fiscal year 2016.

Source: Santa Clara County Assessor 2006/07 and 2015/16 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	Tax Levy	% of Chg	Collected within FY		Collections Subsequent Year (3)	Total Collections to Date		Value of property subject to local tax rate
			Amount	% of Levy		Amount	% of Levy	
2007	2,991,481	23%	2,991,481	100%		2,991,481	100%	4,111,998,551
2008	3,205,734	7%	3,205,734	100%		3,205,734	100%	4,384,684,589
2009	3,403,586	6%	3,403,586	100%		3,403,586	100%	4,755,378,090
2010	3,438,168	1%	3,438,168	100%		3,438,168	100%	4,892,111,757
2011	3,393,604	-1%	3,393,604	100%		3,393,604	100%	4,888,435,832
2012	3,543,251	4%	3,543,251	100%		3,543,251	100%	5,074,444,520
2013	3,785,652	7%	3,785,652	100%		3,785,652	100%	5,319,601,025
2014	4,153,332	10%	4,153,332	100%		4,153,332	100%	5,840,155,830
2015	4,606,184	11%	4,606,184	100%		4,606,184	100%	6,209,602,590
2016	4,960,016	8%	4,960,016	100%		4,960,016	100%	6,657,168,224

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 2015-2016 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 to personal income</u>	<u>Debt per capita</u>
2007	\$ 1,841,934	\$ 140,755	\$ 1,982,689	17%	\$ 234
2008	1,730,337	130,882	1,861,219	15%	218
2009	1,614,148	120,601	1,734,749	13%	197
2010	1,491,146	109,910	1,601,056	12%	180
2011	1,363,047	142,724	1,505,771	16%	167
2012	-	128,239	128,239	14%	16
2013	-	113,191	113,191	13%	14
2014	-	97,572	97,572	12%	12
2015	-	81,360	81,360	9%	10
2016	-	-	-	0%	-

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. During Fiscal Year 2015-16, the Town paid off the loan balance.

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, 2016**

TOWN OF LOS ALTOS HILLS

2015-16 Assessed Valuation: \$6,657,168,224

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/2016	% Applicable (1)	Town's Share of Debt 6/30/16
Santa Clara County	\$792,585,000	1.716%	\$13,600,759
Foothill-DeAnza Community College District	584,782,455	4.998	29,227,427
Palo Alto Unified School District	306,673,766	7.210	22,111,179
Mountain View-Los Altos Union High School District	59,156,005	10.644	6,296,565
Los Altos School District	73,555,000	21.983	16,169,596
El Camino Hospital District	136,280,000	8.889	12,113,929
Midpeninsula Regional Open Space District	45,000,000	2.952	1,328,400
Santa Clara Valley Water District Benefit Assessment District	99,060,000	1.716	1,699,870
Town of Los Altos Hills	0	100.	0
Town of Los Altos Hills 1915 Act Bonds	1,795,000	100.	1,795,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$104,342,725
 <u>OVERLAPPING GENERAL FUND DEBT:</u>			
Santa Clara County General Fund Obligations	\$677,526,121	1.716%	\$11,626,348
Santa Clara County Pension Obligation Bonds	367,118,349	1.716	6,299,751
Santa Clara County Board of Education Certificates of Participation	6,380,000	1.716	109,481
Foothill-DeAnza Community College District Certificates of Participation	9,723,341	4.998	485,973
Mountain View-Los Altos Union High School District Certificates of Participation	2,415,000	10.644	257,053
Santa Clara County Vector Control District Certificates of Participation	2,890,000	1.716	49,592
Midpeninsula Regional Park District General Fund Obligations	122,305,886	2.952	3,610,470
TOTAL OVERLAPPING GENERAL FUND DEBT			\$22,438,668
 TOTAL DIRECT DEBT			 \$0
TOTAL OVERLAPPING DEBT			\$126,781,393
 COMBINED TOTAL DEBT			 \$126,781,393 (2)

(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 Town 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 2015-16 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.57%
Combined Total Debt	1.90%

Source: California Municipal Statistics

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

<u>Fiscal years 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>
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
2015	6,209,602,590	931,440,389	-	931,440,389
2016	6,657,168,224	998,575,234	-	998,575,234

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 2015-16 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	Bachelor's Degree
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	97.9%	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%
2014	8,330	930,261	111,676	3.4%	49.3	97.9%	84.7%
2015	8,658	1,015,063	117,239	2.7%	50.3	98.1%	82.8%

Note: 2006 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. Unemployment Data: California Employment Development Department
 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	2015	
	Number of Employees	Percent of Total Employment
Foothill Community College	352	59.86%
Pinewood School	64	10.88%
Saint Nicholas School	32	5.44%
Fremont Hills Country Club	32	5.44%
Congregation Beth Am	53 ^	9.01%
Town of Los Altos Hills	19	3.23%
Los Altos School District	27	4.59%
Purissima Hills Water	9	1.53%
Totals	<u>588</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 2006 is not available.

Source: Information available from employers and websites.

^ Congregation Beth Am has 30 part-time teachers who work a couple hours a week

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	3.30	3.30	3.30	3.30	3.30	3.30	3.42	3.42	5.92	6.12
Public safety	1.00	1.00	1.00	1.00	1.00	1.00	0.60	-	-	-
Community development	9.28	9.28	8.90	8.90	8.90	8.90	9.36	9.16	7.66	7.61
Town center and corpyard oper	1.12	1.12	1.12	1.12	1.12	1.12	1.50	2.09	1.00	0.85
Parks and recreation	1.00	1.00	1.00	2.00	2.00	2.00	2.54	0.75	0.60	0.60
Pathways	1.85	1.85	1.69	1.69	1.69	1.69	1.25	1.25	1.39	1.39
Drainage and street operations	2.62	2.62	2.46	2.46	2.46	2.46	1.92	2.02	1.70	1.70
Sewer	0.83	0.83	0.53	0.53	0.53	0.53	0.41	0.51	0.93	1.93
Solid waste	0.10	0.10	-	-	-	-	-	-	-	-
	<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>	<u>19.20</u>	<u>20.20</u>

Source: Town of Los Altos Hills Personnel Records

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Building permits issued:										
New homes	21	23	15	17	18	16	20	21	37	39
Valuation	\$ 13,570,895	\$ 19,575,954	\$ 15,674,840	\$ 13,277,815	\$ 22,801,520	\$ 14,446,905	\$ 20,970,084	\$ 25,266,696	\$ 32,021,811	\$ 27,158,677
Additions and remodels	60	107	70	88	103	92	88	116	132	109
Valuation	8,021,100	11,604,584	7,704,603	11,734,420	11,739,278	9,004,645	10,623,625	13,485,643	13,479,448	10,014,195
Planning permits issued	261	305	162	107	132	152	76	162	193	159
Streets resurfaced/rehabilitated	2.50	3.44	4.37	2.87	2.61	1.48	4.13	7.00	8.12	8.50
Recreation classes and activities offered*	18	22	164	195	147	177	131	72	92	100

*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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</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	67	71	75	80	82	85	85	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	58	55	58	58	58	60	60	60
Storm drains - miles	20	20	20	20	20	20	20	20	20	20
Sewer Operations										
Sanitary sewers - miles	52	52	53	52	53	54	55	56	56	56

Source: Town of Los Altos Hills

End of CAFR