



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017

Los Altos Hills, California



Cover Pictures:

Town Picnic	Town Hall	
Pavement Project		
Los Altos Hills Entrance Sign		
CERT Training	Town Landscape	Council Chamber & Town Logo

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2017



Town of Los Altos Hills, California

PREPARED BY
Finance and Administrative Services Department

This page intentionally left blank

Table of Contents

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Position	20
Statement of Activities	21

Fund Financial Statements:

Balance Sheet – Governmental Funds	24
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position.....	25
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	26
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	27
Statement of Fund Net Position – Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	31
Statement of Cash Flows – Proprietary Funds.....	32
Statement of Fiduciary Net Position – Fiduciary Funds.....	34
Notes to Basic Financial Statements.....	35

FINANCIAL SECTION (Continued)

Required Supplemental Information

Budgetary Comparison Schedules - General Fund	64
Schedule of Proportionate Share of the Net Pension Liability	65
Schedule of Contributions	66
Schedule of Funding Progress	67
Notes to the Required Supplementary Information	68

Supplemental Information

Budgetary Comparison Schedules – Street Capital Project Fund	70
Nonmajor Governmental Funds:	
Combining Balance Sheets	72
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	74
Budgetary Comparison Schedules	76
Agency Funds:	
Statement of Changes in Assets and Liabilities	79

STATISTICAL SECTION

Net Position by Component	84
Changes in Net Position	86
Fund Balances of Governmental Funds	90
Changes in Fund Balance of Governmental Funds	92
Assessed and Estimated Actual Value of Taxable Property	94
Property Tax Rates – Direct and Overlapping Governments	95
Principal Taxpayers	96
Property Tax Levies and Collections	97
Ratios of Outstanding Debt by Type.....	98
Direct and Overlapping Debt	99
Legal Debt Margin Information	100
Demographics and Economic Statistics.....	101
Principal Employers.....	102
Full-Time Equivalent City Government Employees by Function	103
Operating Indicators by Function	104
Capital Asset Statistics by Function	106

INTRODUCTORY SECTION

This page intentionally left blank



Letter of Transmittal

December 4, 2017

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Los Altos Hills, California (Town), for the fiscal year ended June 30, 2017. This report was prepared in accordance with accounting principles generally accepted in the United States of America and contains information to help readers gain a reasonable understanding of the Town's financial activities.

The responsibility for the accuracy of the information and the completeness and fairness of the presentation, including all disclosures, rests on the Town's management. To the best of our knowledge, 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 reasonable basis for making these representations, management has established a thorough 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.

The CAFR is presented in three major sections that provide introductory, financial as of June 30, 2017, and statistical information about the Town. The introductory section includes this transmittal letter, the Town's organizational chart and a list of the Town's principal officials. The financial section includes the independent auditor's report, basic financial statements, notes to basic financial statements, required supplementary information and supplementary information on nonmajor funds. The statistical section, which is unaudited, includes selected financial and demographic information.

Maze & Associates, a firm of licensed certified public accountants, has issued an unqualified ("clean") opinion on the Town's financial statements for the fiscal year ended June 30, 2017. The independent auditor's report is presented as the first component of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A 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 complements the MD&A and should be read in conjunction with it.

Town Profile

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."

The Town operates under a Council-Manager form of government. Policy-making and legislative authority are vested in the governing City Council, which consists of five Councilmembers. City Council members are elected in overlapping four-year terms and, from amongst themselves, appoint 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, overseeing the day-to-day operations of the Town, and 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 22.2 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 process. 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 reviews these requests and develops 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 69. 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 65 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 72.

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 20, the Town is financially healthy. As of June 30, 2017, the Town has no outstanding debt, the unfunded pension liability per CalPERS Actuary is estimated at \$2.8 million, and the total unrestricted fund balance is \$13.4 million, of which \$10.3 is unassigned and available to meet current and future liabilities. The combination of strong local economy, increase in assessed property value, increase in planning and building activities, and hold-the-line spending philosophy are the reasons for the current year increase in the unrestricted and unassigned fund balance.

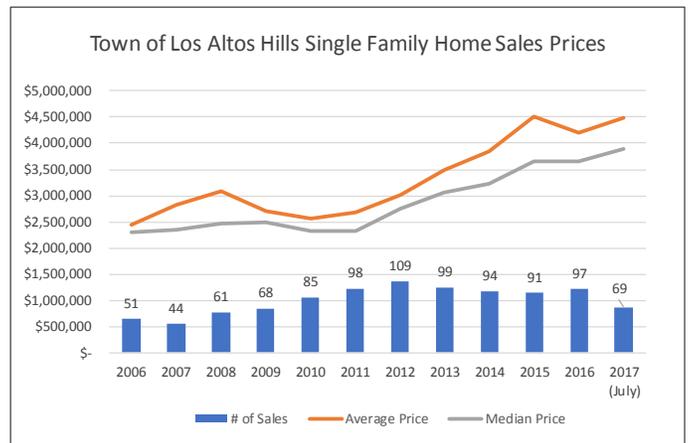
While the Town’s finances are in good shape, there are also challenges ahead of us. One of these challenges is the increasing pension cost. In December 2016, CalPERS announced a reduction of discount rate from 7.5% to 7.0% over three years. As a result, the Town’s unfunded pension liability is projected to reach \$5± million by fiscal year 2021-22 and its annual pension contribution will go up to approximately \$500,000 in 2021-22 (from currently \$250,000). The Town is evaluating setting up an IRC Section 115 Trust for pension funding and/or considering prepaying CalPERS, and has engaged an actuary firm to perform a pension study in order to understand the full financial impact of the discount rate reduction and these alternatives. During the 2017-18 budget process, the City Council approved an additional \$930,000 General Fund reserve for pension funding, bringing the total commitment to \$1.5 million. Prepaying CalPERS, and/or establishing and funding a separate pension trust, helps reduce pension liability and future pension contributions.

The Economy and Its Impact

Los Altos Hills has twelve non-residential properties and 3,000 single-family residential properties. The twelve non-residential properties are Fremont Country Club, Purissima Hills Water District, El Monte Fire Station, Town Hall, Foothill College, four

religious institutions, and three schools. With no commercial base, Los Altos Hills’ primary revenue sources are property tax and permit revenues from private development.

Based on the most recent Property Tax Analysis performed by HdL, the local real estate market continues to improve. While home sales volume stays flat, home price continues to rise year over year. During the first seven months of 2017, the Town’s median sale price of single-family residential homes increased 6.6 percent to \$3,900,000 (from \$3,660,000 for calendar year 2016). This is a 58 percent increase over the median price reported in the peak of the real estate bubble in 2008 (\$2,460,000).



(Source: Home sale prices, data from HdL Property Tax Division, July 2017)

Results Region-wide were similar. In June 2017, the median price of home sales in Santa Clara County was \$965,000, up 12.2 percent year-over-year; Bay Area median home price was \$735,000, up 7.5 percent year-to-year (Source: CoreLogic).

Property tax revenues are generally one year behind the housing market. The property valuation used to calculate tax revenues is based on price of homes sold in the previous year. The Town’s 2017-2018 net taxable assessed value is projected to be \$7.5 billion (up 6.4%) based on Santa Clara County’s data. As a result, the Town’s property tax revenue is expected to increase 6 percent to \$5.6 million in 2017-18. This is the seventh consecutive year that

the Town has seen property tax revenue growth over 6%. Staff closely monitors the County Controller-Treasury Office's property tax revenue projection to ensure the Town's revenue projection incorporates the most recent data.

In addition, California SB 107 passed in September 2015 shifts 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 commenced in fiscal year 2015-16.

Long-Term Financial Planning and Financial Policies

Town management develops a five-year financial projection for all city funds, covering all foreseeable elements of revenues and expenditures. This practice allows the Town to identify potential fiscal challenges early on and gives it time to plan strategically to weather economic cycles and provide stable and consistent services to its residents.

For capital projects, the Town maintains a five-year capital improvement plan which is updated annually. This plan provides a long-term forecast of identified capital improvement projects, and serves as a tool for the town management and City Council to plan, prioritize and monitor the Town's capital projects.

The Town has established a reserve policy to set aside unrestricted general fund balance for pension, operating contingency, disaster contingency and technology / equipment replacement reserves. The Town plans to expand and refine the reserve policy in the coming years.

Award and Acknowledgement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Los

Altos Hills for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2016-17. To qualify for the Distinguished Budget Presentation Award, the Town's budget document was judged to be proficient as a policy document, a financial plan, an operations guide, and a communications device.

Preparation of this CAFR is not possible without the hard work of the entire Finance and Administrative Services Department. Of particular note, we would like to recognize Administrative Services Director Pak Lin, Finance Project Manager Tony Sandhu, Finance Manager Karen Huang, Management Analyst Frances Reed, and Accounting Assistant Silba George for their continued support to the Department and efforts in the preparation and production of this report.

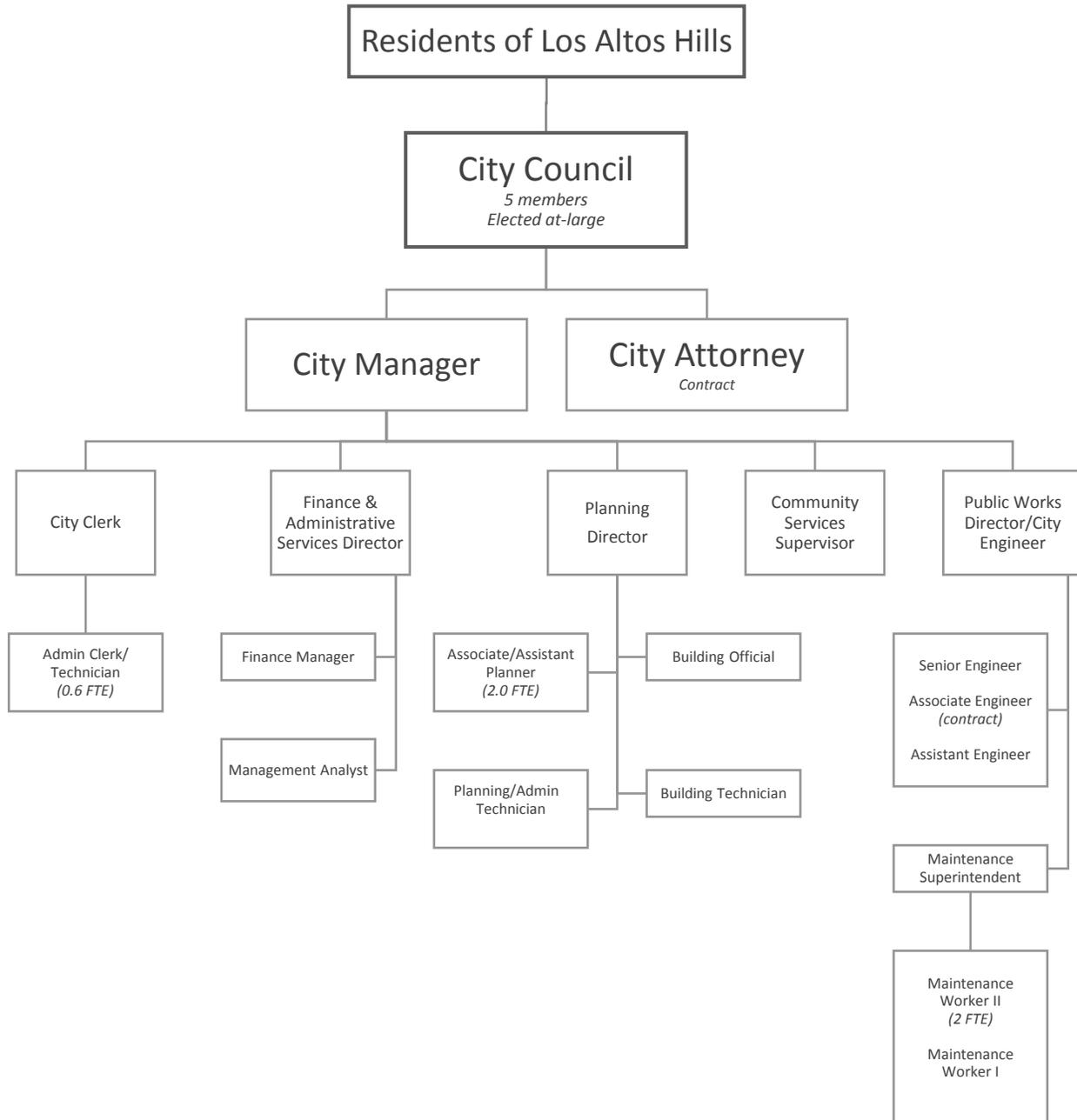
In closing, we would also like to thank the City Council and the Finance and Investment Committee for their continued interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,



Carl Cahill
City Manager

Town Organizational Chart



Town Officers

City Council	Term Expires
Gary Waldeck, Mayor	2018
John Radford, Vice Mayor	2018
Courtenay Corrigan	2020
Roger Spreen	2020
Michelle Wu	2020

City Council Appointed

Carl Cahill, City Manager

Steve Mattas, City Attorney (contract)

City Manager Appointed

Suzanne Avila, Planning Director

Pak Lin, Administrative Services Director

Allen Chen, 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, 2016

Executive Director/CEO

This page intentionally left blank

FINANCIAL SECTION

This page intentionally left blank



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Altos Hills, California, as of and for the year ended June 30, 2017, 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, 2017, 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.

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.

Maze + Associates

Pleasant Hill, California
December 4, 2017

Management's Discussion and Analysis

For the Year Ended June 30, 2017

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, 2017. 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-iv of this report.

FINANCIAL HIGHLIGHTS

Town-Wide Financial Highlights:

- *Net Position* – The Town's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2017 by \$46.7 million (net position). Of this amount, \$16.0 million was reported as unrestricted net position, which may be used to meet ongoing obligations to citizens and creditors.
- *Changes in Net Position* – The Town's total net position increased by \$2.7 million. Net position of governmental activities increased by \$2.1 million, primarily due to increases in cash and investments and deferred outflows. Net position of business-type activities increased by \$0.6 million, reflecting this year's net income from the Sewer operations resulting from the 39% increase in the sewer fee required to support increased capital and operating expenses.
- *Cash and investments* at June 30, 2017 totaled \$21.5 million, of which \$18.1 million was classified as government activities and \$3.5 million was under the business-type activities category (Sewer). The Town's cash and investments increased \$2.7 million, or 14.4 percent as compared to the prior year, primarily due to this year's total revenues exceeded total spending.
- *Accounts payable and other current liabilities* at June 30, 2017 was \$3.9 million. Of this amount, \$0.8 million was reported in the Sewer Fund. There is no long-term bonded debt outstanding at the close of the fiscal year.

Fund Highlights:

- *Governmental Funds – Fund Balances* – At the close of fiscal year, the Town's governmental funds reported a combined fund balance of \$14.6 million, an increase of \$2.1 million or 16.9% from the prior year. Of the total, \$10.3 million, or 70.2% of the fund balance is available for spending at the government's discretion (unassigned fund balance).
- *General Fund* unassigned fund balance at June 30, 2017 was \$10.2 million, an increase of \$2.7 million, or 34.2 percent over the previous year. The increase is mainly due to revenues exceeding expenditures; and \$1 million was transferred into General Fund from the Storm & Pathway Operations Funds as a result of fund consolidation during 2016-17.
- *Sewer Fund* unrestricted net position at June 30, 2017 was \$2.6 million, slightly increased by \$24,981 (or 1%) from the prior year. Charges for services increased by \$0.8 million, or 43.2% over the previous year primarily due to the 39% increase in the sewer fee. This increase in revenue was partially offset by higher spending on sewer treatment, sewer consultant activities, and capital improvement projects.

Other Highlights

- Fund consolidation – Effective 2016-17, the Town consolidated three special revenue funds, Street, Storm Drain and Pathway Operations Funds, into the General Fund. In the past, the Town's street, storm drain and pathway maintenance and operation expenditures were reported under special revenue funds; however, the operations were largely funded by transfers from the General Fund. Special revenues, such as gas tax, storm drain in-lieu fees, and pathway construction fees, were recorded in these special revenue funds but these revenues were transferred to capital project funds at the end of the year. To minimize the number of inter-fund transfers between the General Fund and these special revenue funds and Capital Project Funds, the City Council authorized the Administrative Services Department to record the revenues for storm drains, pathways, and streets directly into the corresponding capital project funds and to merge the ongoing operating cost into the General Fund.
- Pension – In December 2016, CalPERS' Board of Directors voted to lower the discount rate from 7.5% to 7.0% over the next three fiscal years. For accounting and financial reporting purpose, the reduction in discount rate will result in higher net pension liability starting fiscal year 2017-18. For funding purpose, the change will affect the contribution rates beginning in fiscal year 2018-19 and result in increases to the normal costs and payments for unfunded actuarial liabilities. In addition, for the fiscal years ended June 30, 2015 and 2016, CalPERS investment returns have not met the projected discount rate. As a result, unfunded pension liabilities have increased. At the close of this fiscal year, the Town's net pension liability increased \$0.7 million to \$2.9 million, a 35% increase and is expected to increase again in fiscal year 2017-18.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash outflows in future fiscal periods, for example, earned but unused vacation leave. These government-wide financial statements begin on page 20 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The Town maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Street Capital Projects Fund, which are considered to be major funds. Data from the other eight governmental 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 and individual fund statements and schedules section of this report.

The Town adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund can be found on page 65.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

Proprietary Funds. The Town maintains two different types of proprietary funds – enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for the sewer 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 town 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 sewer operations.

The basic proprietary fund financial statements can be found on pages 30 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Town maintains one type of fiduciary funds, the agency fund, which is used to report resources held by the Town in a custodial capacity for the West Loyola Special Assessment District. The fiduciary fund financial statements can be found on pages 34 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-62 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 pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 65-68 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 72-80 and the Statistical Section follows on page 83.

GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

Net Position

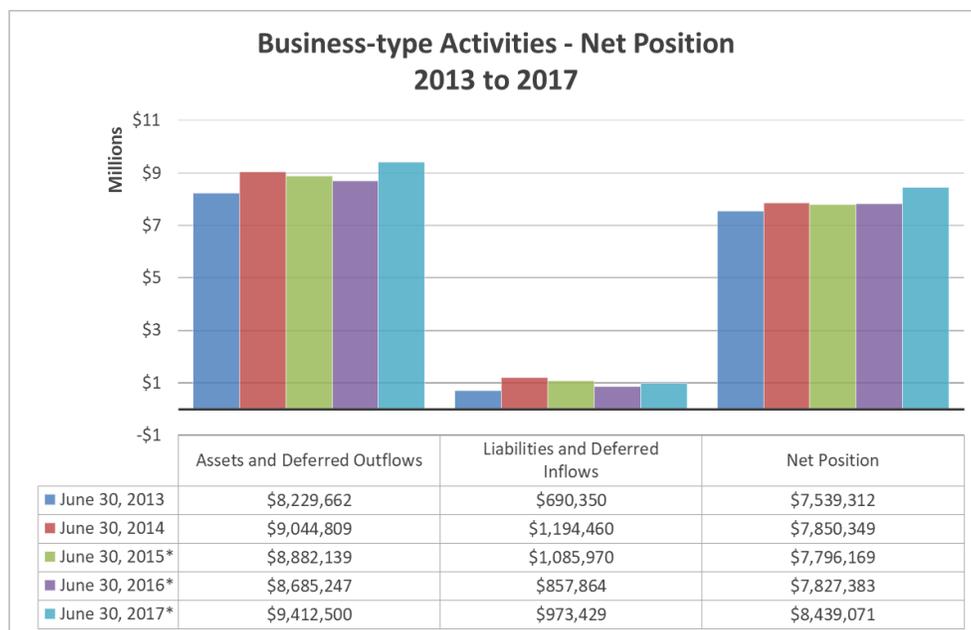
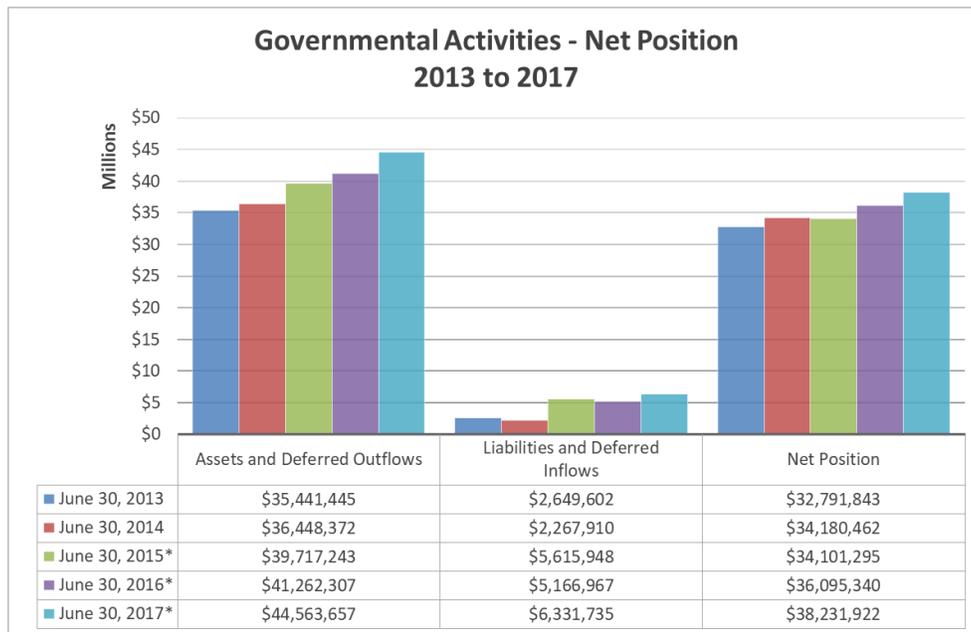
As noted above, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Los Altos Hills, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$46.7 million at the close of the fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current and other assets	\$ 18,406,655	\$ 16,340,993	\$ 3,480,821	\$ 3,428,417	\$ 21,887,476	\$ 19,769,410
Non-current assets	25,454,787	24,700,834	5,893,083	5,244,525	31,347,870	29,945,359
Total assets	43,861,442	41,041,827	9,373,904	8,672,942	53,235,346	49,714,769
DEFERRED OUTFLOWS OF RESOURCES						
Related to pension	702,215	220,480	38,596	12,305	740,811	232,785
LIABILITIES						
Current liabilities	3,073,876	2,499,490	797,299	710,975	3,871,175	3,210,465
Non-current liabilities	107,834	100,159	2,997	3,607	110,831	103,766
Net pension liability	2,730,908	2,020,651	150,097	112,773	2,881,005	2,133,424
Total liabilities	5,912,618	4,620,300	950,393	827,355	6,863,011	5,447,655
DEFERRED INFLOWS OF RESOURCES						
Related to pension	419,117	546,667	23,036	30,509	442,153	577,176
NET POSITION						
Net investment in capital assets	24,739,048	24,700,834	5,831,322	5,244,525	30,570,370	29,945,359
Restricted	115,275	1,706,954	-	-	115,275	1,706,954
Unrestricted	13,377,599	9,687,552	2,607,749	2,582,858	15,985,348	12,270,410
Total net position	\$ 38,231,922	\$ 36,095,340	\$ 8,439,071	\$ 7,827,383	\$ 46,670,993	\$ 43,922,723

The largest portion of the Town's net position, 66 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.

An additional portion of the Town’s net position represents \$115,275 of restricted resources that are subject to external restrictions as to how they may be used. These includes in-lieu fees collected on parks, grants and restricted donations. The remaining balance of \$15,985,348 is unrestricted and may only be used to meet the government's ongoing services to citizens and operational needs. Of this amount, \$2,607,749 may only be used to meet sewer related obligations.

At June 30, 2017, 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.



* Starting from fiscal year 2014-15, net pension liability and related deferred inflows and outflows of resources are included in the Net Position.

Changes in Net Position

The following schedule reflects the net changes in net position for the fiscal years 2017 and 2016. The Town's overall net position increased by \$2,748,270 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**Town of Los Altos Hills
Statement of Activities and Changes in Net Position**

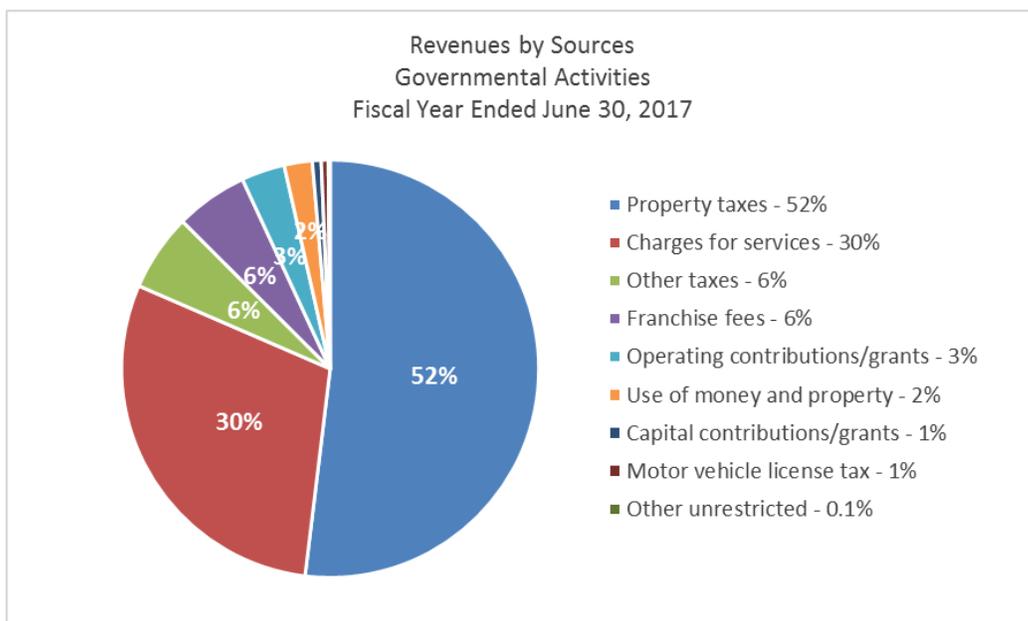
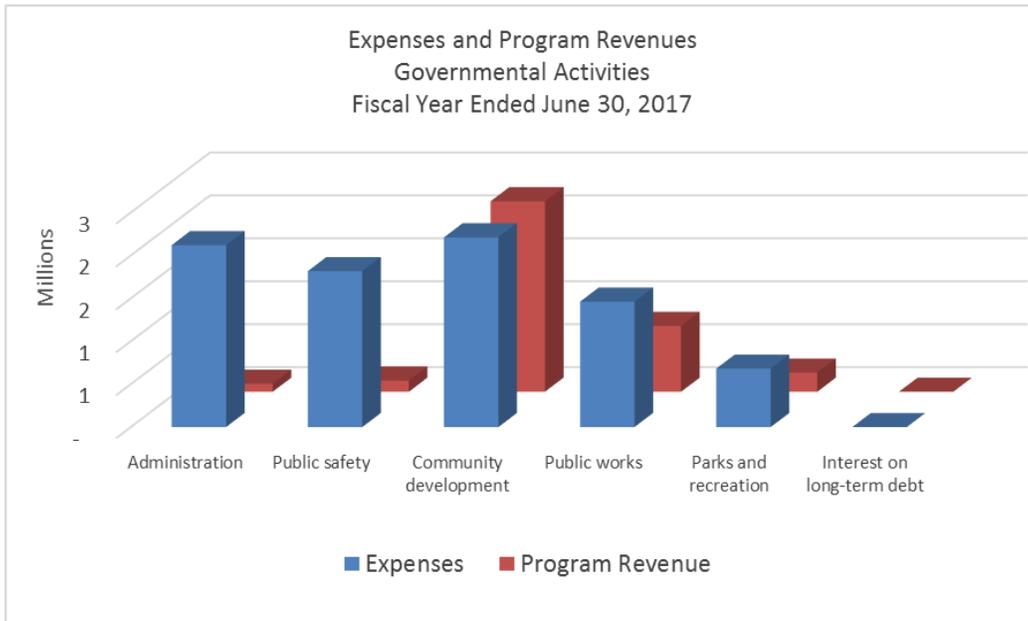
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program revenues						
Charges for services	\$ 3,019,947	\$ 2,878,612	\$ 2,759,287	\$ 1,925,636	\$ 5,779,234	\$ 4,804,248
Operating contributions/grants	343,107	303,292	-	-	343,107	303,292
Capital contributions/grants	69,635	398,990	185,369	221,010	255,004	620,000
General revenues						
Property taxes	5,302,028	4,960,016	-	-	5,302,028	4,960,016
Motor vehicle license tax	56,294	53,964	-	-	56,294	53,964
Other taxes	610,337	511,091	-	-	610,337	511,091
Franchise fees	573,336	474,732	-	-	573,336	474,732
Use of money and property	222,688	356,479	4,134	32,557	226,822	389,036
Other unrestricted	13,747	4,538	2,470	2,829	16,217	7,367
Total revenues	<u>10,211,119</u>	<u>9,941,714</u>	<u>2,951,260</u>	<u>2,182,032</u>	<u>13,162,379</u>	<u>12,123,746</u>
EXPENSES						
Administration	2,119,990	2,339,474	-	-	2,119,990	2,339,474
Public safety	1,817,299	1,601,654	-	-	1,817,299	1,601,654
Community development	2,210,748	2,167,702	-	-	2,210,748	2,167,702
Public works	1,461,155	1,252,271	2,129,895	1,997,399	3,591,050	3,249,670
Parks and recreation	680,522	738,495	-	-	680,522	738,495
Interest on long-term debt	-	1,492	-	-	-	1,492
Total expenses	<u>8,289,714</u>	<u>8,101,088</u>	<u>2,129,895</u>	<u>1,997,399</u>	<u>10,419,609</u>	<u>10,098,487</u>
Increase (decrease) in net position before transfers and special item	1,921,405	1,840,626	821,365	184,633	2,742,770	2,025,259
Gain from disposal of assets	5,500	-	-	-	5,500	-
Transfers in (out)	209,677	153,419	(209,677)	(153,419)	-	-
Change in net position	<u>2,136,582</u>	<u>1,994,045</u>	<u>611,688</u>	<u>31,214</u>	<u>2,748,270</u>	<u>2,025,259</u>
Net position, beginning 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>
Net position, end of year	<u>\$ 38,231,922</u>	<u>\$ 36,095,340</u>	<u>\$ 8,439,071</u>	<u>\$ 7,827,383</u>	<u>\$ 46,670,993</u>	<u>\$ 43,922,723</u>

Governmental Activities. During the current fiscal year, net position in governmental activities increased by \$2,136,582 from the prior fiscal year for an ending balance of \$38,231,922. The increase in net position is because total revenues exceeded expenditures in 2016-17.

Major changes in revenues and expenses of governmental activities:

- Property tax and charges for services revenues are the main revenue sources for the Town, accounting for 52% and 30%, respectively, of the total governmental activities' revenues.
- Property tax totaled \$5.3 million, an increase of \$342,012, or 6.9%. The increase of property tax revenue is due to strong real estate market and increases in assessed property values.
- Charges for services revenues of \$3.0 million increased by \$141,335, 4.9% predominantly due to increases in permit and license revenues relating to residential development activities.

- Other taxes increased by \$99,246, or 19% as the Town has seen increases in business license tax, real property transfer tax and sales/use tax revenues.
- Franchise fees totaled \$573,336, an increase of \$98,604, or 21%, mainly due to recovery of unpaid water franchise fees from prior years.
- Capital grants and contribution revenue decreased \$329,355 primarily due to two prior year grants. Last year the Town received \$131,968 from Santa Clara Valley Water District for O’Keefe Preserve/Purissima Creek and Adobe Creek/Edith Park restoration projects; and \$186,000 from Federal VTA Grant for the El Monte Road rehabilitation project. No grants were received in the current fiscal year.
- Total expenses of all governmental activities were \$8.3 million for fiscal year 2016-17, an increase of \$188,626, or 2.3% from the prior year, reflecting increased costs to meet increasing operating service demands in public safety and public works.



Business-type Activities. The Town's sole business-type activity is the sewer operations. Overall net position increased to \$8,439,071, an increase of \$611,688, or 7.8% from the prior fiscal year. The growth, in large part, is attributable to a 39% sewer rate increase effective in 2016-17. As a result, revenues from sewer service charges increased \$833,651 over the previous year’s amount. Further details can be found in the subsequent section on Fund Financial Analysis.

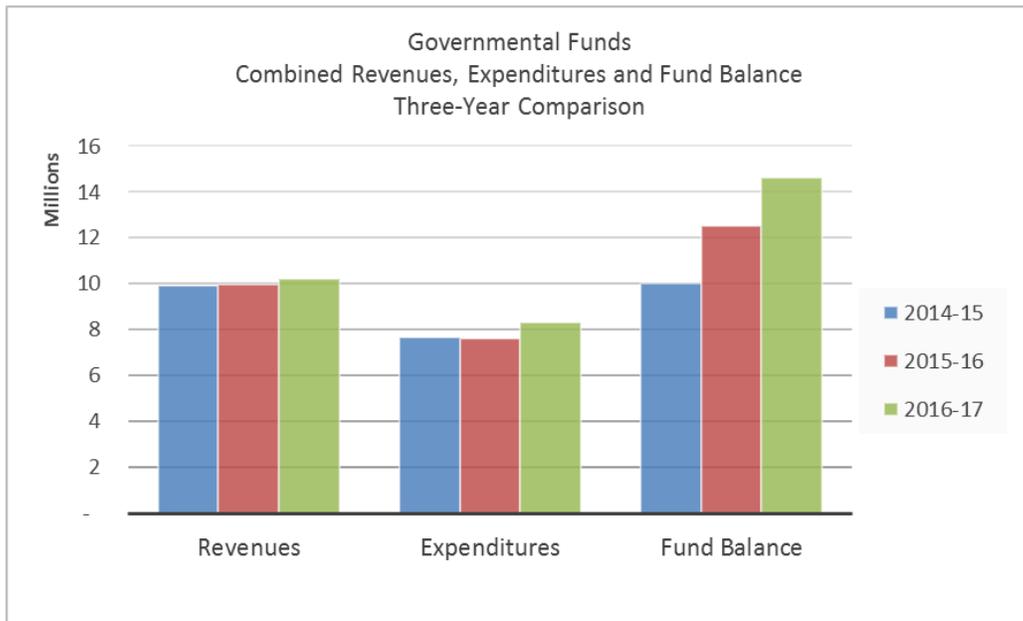
FUND FINANCIAL ANALYSIS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the Town’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the government itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town’s Council.

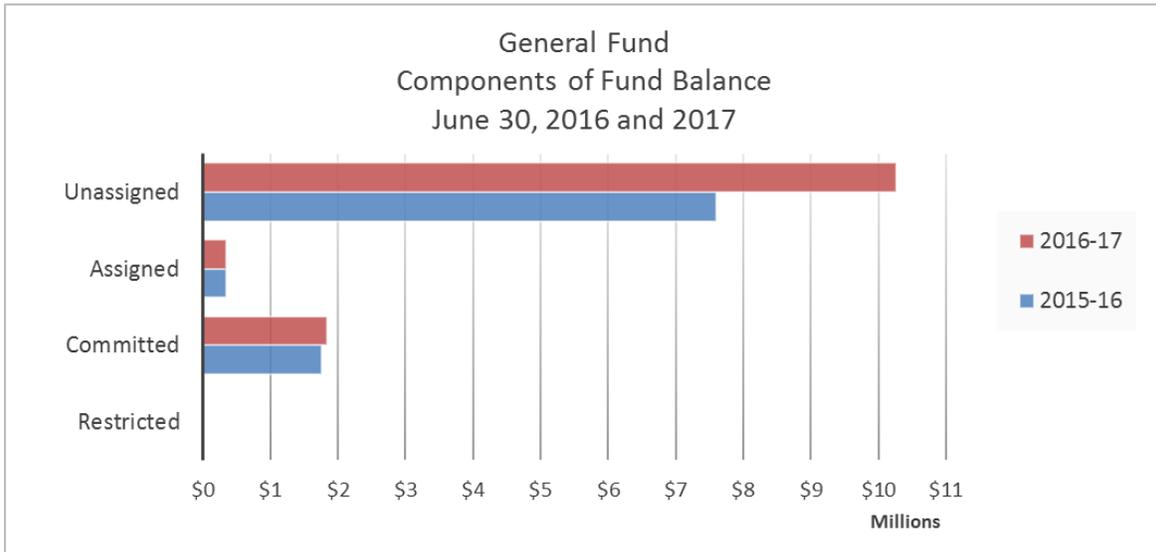
As shown on the chart below, the governmental funds’ combined revenues were around \$10 million in each of the past three years. Revenues exceeded expenditures by approximately \$2 million each year.



As of June 30, 2017, the Town’s governmental funds reported a combined ending fund balance of \$14,623,694, an increase of \$2,109,151, or 16.9% in comparison with 2015-16. Approximately \$10.3 million, or 70.2% of this amount constitutes unassigned fund balance, which is available for spending at the government’s discretion. The remainder of the fund balance is either restricted (\$115,275), committed (\$3,890,545) or assigned (\$350,000) for particular purposes.

Governmental funds revenues, expenditures, and change in fund balances for the last ten fiscal year can be found under the Statistical Section on pages 94-95 of this report.

The **General Fund** is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$10,267,874, while total fund balance increased to \$12,457,874. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 155 percent of total General Fund expenditures of \$6.6 million, while total fund balance represents approximately 188 percent of the same amount. The ratios indicate that the Town’s unassigned fund balance can support General Fund operations for the entire year without additional revenue sources.



The fund balance of the Town’s General Fund increased by \$2.7 million during the current fiscal year. As discussed earlier in connection with governmental activities, the increase was primarily due to revenues exceeded spending in 2016-17, and the \$1 million transferred from the Storm Drain and Pathway Funds as part of the merge of funds.

General Fund Revenues for the year ended June 30, 2017 totaled \$9,353,072, increased by \$540,069, or 6.1%. The following chart summarizes revenues in major categories with two-year comparison:

General Fund Revenues	2017	2016	Increase (decrease)	
			\$	%
Property taxes	\$ 5,302,028	\$ 4,960,016	\$ 342,012	7%
Taxes other than property	610,337	511,091	99,246	19%
Franchise fees	573,336	474,732	98,604	21%
Licenses and permits	1,544,996	1,281,266	263,730	21%
Intergovernmental	60,357	59,300	1,057	2%
Use of money and property	171,227	299,886	(128,659)	-43%
Charges for services	1,069,543	1,129,113	(59,570)	-5%
Miscellaneous	21,248	97,599	(76,351)	-78%
Total General Fund revenues	\$ 9,353,072	\$ 8,813,003	\$ 540,069	6.1%

Certain revenues in the General Fund increased from 2016 to 2017, including:

- Property tax increased to \$5.3 million, up 7 percent, during fiscal year 2016-17. This increase was driven by increase in single family home assessed value through property transfers, reversal of

Proposition 8 valuation adjustment, and the shift of property tax from County of Santa Clara to the Town per the Tax Equality Allocation (SB 107).

- Taxes other than property totaled \$610,337, increased by \$99,247 or 19 percent, as compared to the prior year. All revenues recorded under this category have experienced various increases: 1) Business tax and real property transfer tax have experienced growth over 10% due to strong real estate market; and 2) Sales and use tax increased \$42,804, or 85% as a result of higher sales tax allocation from the county pool and 2016-17 is the first full year the Town was back to the normal sales & use tax distribution schedule. The 2015-16 sales & use tax was lower than normal because the Board of Equalization overpaid the the Town in 2014-15 by mistake, and made correction in 2015-16.

Taxes other than property	2017	2016	Increase (decrease)	
			\$	%
Business tax	\$ 214,904	\$ 192,395	\$ 22,509	12%
Real property transfer tax	249,942	217,676	32,266	15%
Sales & use tax	93,277	50,473	42,804	85%
Public safety sales tax	52,214	50,547	1,667	3%
Total General Fund revenues	\$ 610,337	\$ 511,090	\$ 99,247	19%

- Franchise fees increased by \$98,604 or 21% during the current fiscal year. The increase is mainly due to the Town receiving approximately \$75,800 from Cal Water to correct for its underpayment of franchise fees for years 2013 through 2016.
- Licenses and permits totaled \$1,544,996, an increase of \$263,730, or 21% from the prior year. Licenses and permits are assessed on building permits and as shown on page 106 of the Statistical Section, total valuation for new homes, additions and remodels increased by 21 percent. Total number of permits issued was similar to last year, however, increased fees were a result of higher valuation of the building permits.

Certain revenues in the General Fund decreased from 2016 to 2017, including:

- Use of money and property totaled \$171,227, a decrease of \$128,659, or-43%. This was primarily due to the mark-to-market loss of (\$130,198) when bond interest rates rose during the year.
- Charges for services include planning permit revenues, recreation program and event revenues. Overall, charges for services decreased by 5 percent, from \$1,129,113 in 2015-16 to \$1,069,543 in 2016-17. Majority of the changes is in planning permit charges for services. As shown below, total planning permit revenues decreased by \$105,612. This decrease is a result of the reduction in planning permit issuance. Parks and recreation, rental-playing fields revenue of \$52,912 and event revenues of \$19,378 were grouped under “charges for services” to be consistent with current budget practice. These revenues were previously reported under “use of money/property” and “misc. revenue”, respectively, in prior years.

Charges for services	2017	2016	Increase (decrease)	
			\$	%
Administration	\$ 73,250	\$ 108,014	\$ (34,764)	-32%
Planning permits	773,459	879,071	(105,612)	-12%
Parks and recreation	222,834	142,028	80,806	57%
Total General Fund revenues	\$ 1,069,543	\$ 1,129,113	\$ (59,570)	-5%

General Fund Expenditures increased \$1,176,825 (22%) to \$6.6 million in 2016-17. The primary drivers of the expenditure increases were 1) the merge of street, storm drain, and pathway operations into the General Fund, and 2) increases in contract consultant services.

General Fund Expenditures by Department	2017	2016	Increase (decrease)	
			\$	%
Administration	\$ 1,813,551	\$ 1,859,492	\$ (45,941)	-2%
Public safety	1,213,343	1,171,380	41,963	4%
Community development	1,833,654	1,641,631	192,023	12%
Public works	1,214,072	208,326	1,005,746	483%
Parks and recreation	548,474	565,440	(16,966)	-3%
Total General Fund Expenditures	\$ 6,623,094	\$ 5,446,269	\$ 1,176,825	22%

As discussed earlier in the financial highlight section, effective 2016-17, the Town’s street, storm drain, and pathway maintenance operations were merged into the General Fund from special revenue funds. This increased the General Fund expenditures by \$890,000. For comparative purpose, the schedule below shows the results as if there were no merge:

General Fund Expenditures by Department	2017	2016	Increase (decrease)	
			\$	%
Administration	\$ 1,813,551	\$ 1,859,492	\$ (45,941)	-2%
Public safety	1,213,343	1,171,380	41,963	4%
Community development	1,833,654	1,641,631	192,023	12%
Public works (as if no merge)	323,339	208,326	115,013	55%
Parks and recreation	548,474	565,440	(16,966)	-3%
Total General Fund Expenditures	\$ 5,732,361	\$ 5,446,269	\$ 286,092	5%

Without the merge, the General Fund’s expenditures only increased by \$286,092, or 5% as compared to the prior year, mainly due to increases in contract services. For public works, the increase was primarily due to increase in contract engineering services, part of which is billable and is recovered as charges for service revenues. Community development’s expenditures increased by \$192,000 mainly due to increases in contract services for building official, building inspection, and code enforcement.

The net between revenues and expenditures was \$2.7 million, and \$1.3 million transfer-in from other funds, which consist of approximately \$1.06 million transfers from Pathway and Storm Drain Operation Funds due to fund consolidation, and \$0.24 million from other funds for overhead charges. These resources were reduced by transfer-out to other funds of \$1.3 million, mostly to support capital improvement needs (\$1.2 million) and supplemental law enforcement (approximately \$89,000).

The **Street Capital Project Fund**, a major fund, had an increase of \$315,069 in fund balance during the current fiscal year which put the ending fund balance to \$380,751 at the end of the fiscal year.

Street Capital Project Fund	2017	2016	Increase (decrease)	
			\$	%
Revenues	\$ 269,700	\$ 302,280	\$ (32,580)	-11%
Expenditures - capital outlay	(905,829)	(919,467)	13,638	-1%
Net transfer in	951,198	617,188	334,010	54%
Net change in fund balance	\$ 315,069	\$ 1	\$ 315,068	31506800.0%

Revenue sources for the street capital improvement program are limited. Current year revenues totaled \$269,700, decreased by \$32,580, or 10.8% mainly due to the following reasons: 1) the prior year intergovernmental revenues included a one-time federal grant of \$186,000 for the El Monte Road rehabilitation project; 2) the Town received \$75,524 from state traffic congestion relief and SB 83 vehicle registration fee revenues during current fiscal year, a decrease of \$18,000 from the prior year; 3) the above reduction is partially offset by the increase in revenues due to the fund merge. Starting 2016-17, gas tax revenue (approximately \$150,000) was recorded under the Street Capital Project Fund, rather than the Street Operation Fund.

Total spending was \$905,829, mainly for the annual street rehabilitation project. While capital outlay is a drawdown to the fund balance, the street capital project fund closed the year with a \$315,069 increase to its fund balance. This is mainly due to transfers from other funds, 1) as discussed earlier, the Town consolidated the Street Operations Fund during the current fiscal year. Its fund balance, totaling \$338,757, was transferred into the Street Capital Project Fund for future street capital improvement projects; and 2) in addition, the General Fund also transferred \$612,442 enacted for the fiscal year 2016-17 capital budget.

Proprietary Funds

The Town proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary funds currently include an enterprise fund (Sewer Fund) and an internal service fund.

The Town's Sewer Fund provides sanitary sewer services to roughly half of the parcels within the jurisdiction. Service fees are collected annually on the property tax roll. In May 2015, the City Council approved a sewer rate increase, 39% increase for 2015-16; 39% increase for 2016-17; then 3% increase each year for 2017-18, 2018-19, and 2019-20. The increase in revenues will help the Town make improvements and perform routine preventive measures on the Town's aging sewer infrastructure.

Unrestricted net position for the sewer operation at the end of the year was \$2,607,749. Total growth in net position for Sewer Fund was \$611,688, or 7.8%. As noted earlier in the discussion of business-type activities, the increase for the sewer operation result from a 39 percent sewer rate increase in the current year. In addition, the sewer revenue went up because the Town received approximately \$62,000 of unpaid sewer service charges due from prior years. Overall, total sewer operating revenues increased by \$833,292, or 43% to a total of \$2.76 million for the fiscal year 2016-17.

Town of Los Altos Hills
Enterprise Fund (Sewer)
Statement of Revenues, Expenses, and Changes in Fund Net Position

	Sewer		Increase (decrease)	
	2017	2016	\$	%
OPERATING REVENUES				
Charges for services	\$ 2,759,287	\$ 1,925,636	\$ 833,651	43%
Other income	2,470	2,829	(359)	-13%
Total operating revenues	<u>2,761,757</u>	<u>1,928,465</u>	<u>833,292</u>	<u>43%</u>
OPERATING EXPENSES				
Salaries and benefits	168,700	172,969	(4,269)	-2%
Sewer treatment cost	1,024,901	1,028,818	(3,917)	0%
Contract maintenance cost	417,474	365,275	52,199	14%
Other contract and professional services	287,733	179,539	108,194	60%
Operating expenses	80,659	64,981	15,678	24%
Depreciation	150,428	185,817	(35,389)	-19%
Total operating expenses	<u>2,129,895</u>	<u>1,997,399</u>	<u>132,496</u>	<u>7%</u>
Operating income (loss)	631,862	(68,934)	700,796	1017%
NONOPERATING REVENUES (EXPENSES)				
Investment income	4,134	32,557	(28,423)	-87%
Income before contributions and transfers	635,996	(36,377)	672,373	-1848%
Connection fees	185,369	221,010	(35,641)	-16%
Transfers in (out)	(209,677)	(153,419)	(56,258)	37%
Change in net position	<u>611,688</u>	<u>31,214</u>	<u>580,474</u>	<u>1860%</u>
Net position, beginning of year	<u>7,827,383</u>	<u>7,796,169</u>	<u>31,214</u>	<u>0%</u>
Net position, end of year	<u>\$ 8,439,071</u>	<u>\$ 7,827,383</u>	<u>\$ 611,688</u>	<u>8%</u>

Total sewer expenses increased by \$132,496, or 7% to \$2,129,895. The increase is primarily in two areas: 1) contract maintenance cost, increased \$52,199 or 14%, mainly due to root foaming control (approximately \$43,000) and a manhole survey (approximately \$27,000) performed in 2016-17; and 2) other contract and professional services, increased \$108,194 or 60%, attributable to the use of additional contract engineering services provided by CSG Consultant (approximately \$130,000). Services include reviewing sewer CCTV videos, supporting the Sewer Sanitary Master Plan Project, performing capital improvement project management, and reviewing sewer plans for residential construction projects.

The Internal Service Fund's net position of \$5,250,674, increased \$12,170 from the prior year. The unrestricted net position at the end of the year was \$1.44 million, or 27% of total net position. Operating expenses increased 7 percent to \$0.63 million. Costs were recovered from other funds (operating revenues) totaled \$0.64 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town’s 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 consolidate 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. During the year, the departments will present to the City Council for contract awards for all services exceeding \$15,000. Availability of budget for this award is part of the requests presented by the departments to the City Council. Additionally, the Administrative Services Department monitors the budget during the year and prepares a mid-year financial update to the Finance and Investment Committee and the City Council. As part of this mid-year financial update, budget amendments are proposed to address any significant economic concerns and to incorporate prior City Council actions that had changed appropriation or for reallocation of budget items.

Original budget compared to final budget. For 2016-17, the mid-year financial review was presented to the City Council on March 8, 2017. The City Council adopted budget adjustments for moving \$250,000 of supplemental law enforcement budget from General Fund to COPS Fund, adding \$55,000 for code enforcement services, \$43,900 for a one-time organization assessment project, and \$6,000 addition for the Town picnic. The other changes are related to redistribution of merit increases which are budgeted under administration to their respective departments.

General Fund Change in Expenditure Budget	Original Budget	2016-17 Overhead Allocation	Original Budget (net of overhead allocation)	Mid-Year Adjustments	Final Budget (net of overhead allocation)
Administration	\$ 2,120,960	\$ -	\$ 2,120,960	\$ 11,207	\$ 2,132,167
Public safety	1,687,100	(213,600)	1,473,500	(250,000)	1,223,500
Community development	2,625,730	(716,900)	1,908,830	65,426	1,974,256
Public works	1,655,514	(358,400)	1,297,114	12,770	1,309,884
Parks and recreation	783,078	(168,700)	614,378	8,572	622,950
Total	<u>\$ 8,872,382</u>	<u>\$ (1,457,600)</u>	<u>\$ 7,414,782</u>	<u>\$ (152,025)</u>	<u>\$ 7,262,757</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 in sections and Supplementary Information of this report. The final General Fund budget, net of overhead allocations, for 2016-17 is \$7,262,757. The Town spent \$6,623,094, leaving \$639,663 or 8.8% of unspent budget.

General Fund Expenditure Budget to Actual	Final Budget	Actual	Favorable (Unfavorable) Variance from Final Budget
Administration	\$ 2,132,167	\$ 1,813,551	\$ 318,616
Public safety	1,223,500	1,213,343	10,157
Community development	1,974,256	1,833,654	140,602
Public works	1,309,884	1,214,072	95,812
Parks and recreation	622,950	548,474	74,476
Total	<u>\$ 7,262,757</u>	<u>\$ 6,623,094</u>	<u>\$ 639,663</u>

The favorable budget variance for General Fund expenditures is primarily due to: (1) several special projects, such as aircraft noise (\$25,000), cost allocation study (\$25,000), pension study (\$15,000) and subdivision ordinance update (\$80,000), were budgeted in 2016-17 but are either in progress, rescheduled, or completed in 2017-18; (2) the 2016-17 General Fund budget also included operating contingency of \$506,000 for unexpected work. Often these budget contingencies are left unused. For 2016-17, contingencies included \$61,000 in City Manager contingency for special projects and feasibility studies; \$70,000 for special non-billable legal projects; \$25,000 for general liability claims deductible; \$250,000 billable geotechnical and other special consultant services for development permits; \$25,000 engineering consultant for street and roadway studies and including street sign removal; and \$75,000 for maintenance supplies, materials, and emergency services. At the close of this fiscal year, the unspent operating contingency was approximately \$200,000.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$30,570,370 (net of accumulated depreciation), an increase of \$625,011 (2.1%). The investment in capital assets include land, buildings, equipment, vehicles and infrastructure. Current year capital spending included \$1,314,478 in infrastructure, \$75,626 in vehicle and \$737,225 in sewer collection system. 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 2016 and 2017. Additional information on the Town's capital assets can be found in Note 4 to the financial statements.

**Town of Los Altos Hills
Capital Assets (Net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 250,535	\$ 250,535	\$ -	\$ -	\$ 250,535	\$ 250,535
Buildings	3,511,535	3,642,173			3,511,535	3,642,173
Office equipment	-	9,784			-	9,784
Vehicles	161,379	109,909			161,379	109,909
Sewer collection system			5,831,322	5,244,525	5,831,322	5,244,525
Infrastructure	20,815,599	20,688,433			20,815,599	20,688,433
Total capital assets, net	\$ 24,739,048	\$ 24,700,834	\$ 5,831,322	\$ 5,244,525	\$ 30,570,370	\$ 29,945,359

Long-Term Debt

The Town has no long-term bonded debt as of and for the year ended June 30, 2017. The remainder of the Town’s long-term obligations comprises pension and OPEB related liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town of Los Altos Hills is a residential community. Its primary revenue sources are property tax and permit revenues from private development. The outlook for the housing market remains positive. While home sales volume stays flat, home price continues to rise year over year. The Town's assessed value grew at least 6% each year for the past seven years. Property tax revenue is projected to approximate \$5.6 million in 2017-18, and permit and license revenues are estimated to remain similar to 2016-17.

Overall, the adopted 2017-18 General Fund budget reflects revenue over expenditures in the amount of \$709,000. Total revenues and transfers in are budgeted at \$10 million, while total expenditures and transfers out are budgeted at \$9.3 million, with an estimated total ending fund balance of \$13.2 million. As stated previously, unfunded pension liability and payments are expected to rise substantially due to CalPERS' plan to reduce the discount rate and certain year's lower market returns. Recognizing this in the 2017-18 budget process, the City Council committed additional unassigned general fund for pension, increasing the total pension commitment to \$1.5 million. The Town plans to explore using some of its excess general funds to prepay obligations to CalPERS or establish a trust that may be used to fund future pension obligations where fund may be invested in instruments that historically have produced higher returns.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Los Altos Hills' finances for all those with an interest in the government's 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 Statement

Government Wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

Statement of Net Position

June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 18,057,026	\$ 3,454,512	\$ 21,511,538
Accounts receivable	349,629	26,309	375,938
Total current assets	<u>18,406,655</u>	<u>3,480,821</u>	<u>21,887,476</u>
Noncurrent assets:			
Loans receivable	-	61,761	61,761
Net OPEB asset	715,739	-	715,739
Capital assets:			
Non-depreciable capital assets	250,535	-	250,535
Depreciable capital assets, net of depreciation	24,488,513	5,831,322	30,319,835
Total capital asset	<u>24,739,048</u>	<u>5,831,322</u>	<u>30,570,370</u>
Total noncurrent assets	<u>25,454,787</u>	<u>5,893,083</u>	<u>31,347,870</u>
Total assets	<u>43,861,442</u>	<u>9,373,904</u>	<u>53,235,346</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	702,215	38,596	740,811
Total deferred outflows of resources	<u>702,215</u>	<u>38,596</u>	<u>740,811</u>
LIABILITIES			
Current liabilities:			
Accounts payable	329,820	763,004	1,092,824
Other liabilities	100,628	30,442	131,070
Refundable deposits	2,624,981	-	2,624,981
Compensated absences - due within one year	18,447	3,853	22,300
Total current liabilities	<u>3,073,876</u>	<u>797,299</u>	<u>3,871,175</u>
Noncurrent liabilities:			
Compensated leave payable - due in more than one year	107,834	2,997	110,831
Net pension liabilities	2,730,908	150,097	2,881,005
Total noncurrent liabilities	<u>2,838,742</u>	<u>153,094</u>	<u>2,991,836</u>
Total liabilities	<u>5,912,618</u>	<u>950,393</u>	<u>6,863,011</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	419,117	23,036	442,153
Total deferred inflows of resources	<u>419,117</u>	<u>23,036</u>	<u>442,153</u>
NET POSITION			
Net investment in capital assets	<u>24,739,048</u>	<u>5,831,322</u>	<u>30,570,370</u>
Restricted for:			
Public safety	11,074	-	11,074
Capital projects	69,389	-	69,389
Other purpose	34,812	-	34,812
Total restricted	<u>115,275</u>	<u>-</u>	<u>115,275</u>
Unrestricted	<u>13,377,599</u>	<u>2,607,749</u>	<u>15,985,348</u>
Total net position	<u>\$ 38,231,922</u>	<u>\$ 8,439,071</u>	<u>\$ 46,670,993</u>

See accompanying Notes to Basic Financial Statements.

Statement of Activities

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Administration	\$ 2,119,990	\$ 27,615	\$ 66,133	\$ -	\$ (2,026,242)	\$ -	\$ (2,026,242)
Public safety	1,817,299	-	129,324	-	(1,687,975)	-	(1,687,975)
Community development	2,210,748	2,219,769	-	-	9,021	-	9,021
Public works	1,461,155	549,729	147,650	69,635	(694,141)	-	(694,141)
Parks and recreation	680,522	222,834	-	-	(457,688)	-	(457,688)
Total governmental activities	8,289,714	3,019,947	343,107	69,635	(4,857,025)	-	(4,857,025)
Business-type activities:							
Sewer	2,129,895	2,759,287	-	185,369	-	814,761	814,761
Total business-type activities	2,129,895	2,759,287	-	185,369	-	814,761	814,761
Total primary government	\$ 10,419,609	\$ 5,779,234	\$ 343,107	\$ 255,004	(4,857,025)	814,761	(4,042,264)
General Revenues:							
Taxes:							
					5,302,028	-	5,302,028
					56,294	-	56,294
					610,337	-	610,337
					573,336	-	573,336
					222,688	4,134	226,822
					5,500		5,500
					13,747	2,470	16,217
					209,677	(209,677)	-
					6,993,607	(203,073)	6,790,534
					2,136,582	611,688	2,748,270
					36,095,340	7,827,383	43,922,723
					\$ 38,231,922	\$ 8,439,071	\$ 46,670,993

See accompanying Notes to Basic Financial Statements.

This page intentionally left blank

Governmental Fund Financial Statements

General Fund accounts for financial resources traditionally associated with governmental which are not required legally or by sound financial management to be accounted for in another fund.

Street Capital Projects Fund accounts for financial resources that are necessary for the acquisition or construction of streets.

Non-Major Governmental Funds are the aggregate of all the non-major governmental funds.

Balance Sheet

Governmental Funds

June 30, 2017

	Major Funds			Total Governmental Funds
	General	Street Capital Projects	Non-Major Governmental Funds	
ASSETS				
Cash and investments	\$ 15,009,757	\$ 381,235	\$ 1,790,855	\$ 17,181,847
Accounts receivable	332,441	-	15,919	348,360
Total assets	\$ 15,342,198	\$ 381,235	\$ 1,806,774	\$ 17,530,207
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 259,343	\$ 484	\$ 21,705	\$ 281,532
Refundable deposits	2,624,981	-	-	2,624,981
Total liabilities	2,884,324	484	21,705	2,906,513
Fund Balances:				
Restricted	-	-	115,275	115,275
Committed	1,840,000	380,751	1,669,794	3,890,545
Assigned	350,000	-	-	350,000
Unassigned	10,267,874	-	-	10,267,874
Total fund balances	12,457,874	380,751	1,785,069	14,623,694
Total liabilities and fund balances	\$ 15,342,198	\$ 381,235	\$ 1,806,774	\$ 17,530,207

See accompanying Notes to Basic Financial Statements.

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position

June 30, 2017

Total Fund Balances - Total Governmental Funds \$ 14,623,694

Amounts reported for governmental activities in the Statement of Net Position were different because:

Capital assets used in governmental activities were not current financial resources and, therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the Internal Service Fund reported below, the capital assets were adjusted as follows:

	Government-Wide Statement of Net Position	Internal Service Fund	Total
Capital assets - non-depreciable	\$ 250,535	\$ (140,000)	110,535
Capital assets - depreciable, net of depreciation	24,488,513	(3,672,914)	20,815,599
Total capital assets	<u>\$ 24,739,048</u>	<u>\$ (3,812,914)</u>	<u>20,926,134</u>

The Internal Service Fund is used by management to charge the costs of certain activities, such as Town Hall, corporate yard, equipment and vehicles services, to individual funds. The assets and liabilities of the Internal Service Fund were included in governmental activities in the Government-Wide Statement of Net Position.

5,250,674

The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:

Compensated absences (120,770)
Net pension liability (2,730,908)

Deferred outflows due to pension liabilities 702,215

Deferred inflows due to pension liabilities (419,117)

Net Position of Governmental Activities \$ 38,231,922

See accompanying Notes to Basic Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

	Major Funds			Total Governmental Funds
	General	Street Capital Projects	Non-Major Governmental Funds	
REVENUES:				
Property taxes	\$ 5,302,028	\$ -	\$ -	\$ 5,302,028
Taxes other than property	610,337	-	-	610,337
Franchise fees	573,336	-	-	573,336
Licenses and permits	1,544,996	-	-	1,544,996
Intergovernmental	60,357	223,174	129,324	412,855
Use of money or property	171,227	-	51,461	222,688
Charges for services	1,069,543	46,526	366,761	1,482,830
Miscellaneous	21,248	-	40,800	62,048
Total revenues	9,353,072	269,700	588,346	10,211,118
EXPENDITURES:				
Current:				
Administration	1,813,551	-	-	1,813,551
Public safety	1,213,343	-	346,952	1,560,295
Community development	1,833,654	-	-	1,833,654
Public works	1,214,072	-	-	1,214,072
Parks and recreation	548,474	-	27,120	575,594
Capital outlay	-	905,829	408,649	1,314,478
Total expenditures	6,623,094	905,829	782,721	8,311,644
REVENUES OVER (UNDER) EXPENDITURES	2,729,978	(636,129)	(194,375)	1,899,474
OTHER FINANCING SOURCES (USES):				
Transfers in	1,307,549	951,198	729,326	2,988,073
Transfers out	(1,300,829)	-	(1,477,567)	(2,778,396)
Total other financing sources (uses)	6,720	951,198	(748,241)	209,677
Net change in fund balances	2,736,698	315,069	(942,616)	2,109,151
FUND BALANCES:				
Beginning of year	9,721,176	65,682	2,727,685	12,514,543
End of year	\$ 12,457,874	\$ 380,751	\$ 1,785,069	\$ 14,623,694

See accompanying Notes to Basic Financial Statements.

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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 2,109,151

Amounts reported for governmental activities in the Statement of Activities were different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period: 1,314,479

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds, net of Internal Service Funds of \$164,578. (1,187,312)

Changes in compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds, net of Internal Service Funds of \$569. (10,934)

GASB 68 pension expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (100,972)

The Internal Service Fund is used by management to charge the costs of certain activities, such as Town Hall, corporate yard, equipment and vehicles services, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities. 12,170

Change in Net Position of Governmental Activities \$ 2,136,582

See accompanying Notes to Basic Financial Statements.

This page intentionally left blank

Proprietary Fund Financial Statements

Sewer Fund accounts for the activities of the wastewater collection and treatment system, which provides service to the residents of the City and some neighboring cities.

Internal Service Fund is used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

Statement of Net Position

Proprietary Funds

June 30, 2017

	Enterprise Fund	Governmental Activities
	Sewer Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and investments	\$ 3,454,512	\$ 875,179
Accounts receivable	26,309	1,269
Total current assets	<u>3,480,821</u>	<u>876,448</u>
Noncurrent assets:		
Loans receivable	61,761	-
Net OPEB asset	-	715,739
Capital assets:		
Non-depreciable capital assets	-	140,000
Depreciable capital assets, net of depreciation	5,831,322	3,672,914
Total capital assets	<u>5,831,322</u>	<u>3,812,914</u>
Total noncurrent assets	<u>5,893,083</u>	<u>4,528,653</u>
Total assets	<u>9,373,904</u>	<u>5,405,101</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to pension	38,596	-
Total deferred outflows of resources	<u>38,596</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	763,004	48,288
Other liabilities	30,442	100,628
Compensated leave payable - due within one year	3,853	385
Total current liabilities	<u>797,299</u>	<u>149,301</u>
Noncurrent liabilities:		
Compensated leave payable - due in more than one year	2,997	5,126
Net pension liability	150,097	-
Total noncurrent liabilities	<u>153,094</u>	<u>5,126</u>
Total liabilities	<u>950,393</u>	<u>154,427</u>
DEFERRED INFLOWS OF RESOURCES		
Related to pension	23,036	-
Total deferred inflows of resources	<u>23,036</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	5,831,322	3,812,914
Unrestricted	2,607,749	1,437,760
Total net position	<u>\$ 8,439,071</u>	<u>\$ 5,250,674</u>

See accompanying Notes to Basic Financial Statements.

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2017

	Enterprise Fund	Governmental Activities
	Sewer Fund	Internal Service Fund
OPERATING REVENUES:		
Charges for services	\$ 2,759,287	\$ -
Other income	2,470	256
Town hall services	-	371,879
Corporate yard services	-	130,793
Vehicle services	-	132,990
Total operating revenues	2,761,757	635,918
OPERATING EXPENSES:		
Salaries and benefits	168,700	19,299
Contract services	1,730,108	235,877
Operating expenses	80,659	209,494
Depreciation	150,428	164,578
Total operating expenses	2,129,895	629,248
OPERATING INCOME (LOSS)	631,862	6,670
NONOPERATING REVENUES (EXPENSES):		
Gain on disposal of capital assets	-	5,500
Interest income	4,134	-
Total nonoperating revenues (expenses)	4,134	5,500
INCOME (LOSS) BEFORE CONTRIBUTION AND TRANSFERS	635,996	12,170
Transfers out	(209,677)	-
Total transfers	(209,677)	-
Connection fees	185,369	-
Change in Net Position	611,688	12,170
Net Position, beginning of year	7,827,383	5,238,504
Net Position, end of year	\$ 8,439,071	\$ 5,250,674

See accompanying Notes to Basic Financial Statements.

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2017

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,786,061	\$ 639,758
Cash payments to suppliers for goods and services	(1,724,809)	(457,378)
Cash paid to employees	(165,384)	(44,220)
Net cash provided by operating activities	895,868	138,160
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers out	(209,677)	-
Net cash (used) by noncapital financing activities	(209,677)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from connection fees	185,369	-
Proceeds from disposal of capital assets	-	5,500
Acquisition of capital assets	(737,225)	(75,626)
Net cash (used) by capital and related financing activities	(551,856)	(70,126)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal received from loans	9,241	-
Investment income received	4,134	-
Net cash provided by investing activities	13,375	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	147,710	68,034
CASH AND CASH EQUIVALENTS - Beginning of year	3,306,802	807,145
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 3,454,512</u>	<u>\$ 875,179</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 631,862	\$ 6,670
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	150,428	164,578
Decrease in accounts receivable	24,304	3,840
(Increase) in OPEB assets	-	(100,556)
Increase (decrease) in accounts payable	108,779	(12,007)
(Decrease) increase in other liabilities	(22,821)	76,204
(Decrease) in compensated absences	(244)	(569)
Decrease in deferred pensions	3,560	-
Net cash provided by operating activities	\$ 895,868	\$ 138,160

See accompanying Notes to Basic Financial Statements.

Fiduciary Fund Financial Statement

AGENCY FUND

West Loyola Special Assessment District Agency Fund accounts for assets that the Town is holding for the West Loyola Special Assessment District No. 01 for which the Town is acting as an agent.

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2017

	West Loyola Special Assessment District # 1 Agency Fund	
ASSETS		
Restricted cash and investments	\$	302,630
Miscellaneous receivables		826
Total assets	\$	303,456
LIABILITIES		
Due to bondholders	\$	303,456
Total liabilities	\$	303,456

See accompanying Notes to Basic Financial Statements.

Notes to Basic Financial Statements - Index

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	37
A. Reporting Entity.....	37
B. Basis of Presentation.....	37
C. Basis of Accounting and Measurement Focus.....	40
D. Cash and Cash Equivalents.....	40
E. Fair Value Measurements.....	40
F. Receivables.....	41
G. Capital Assets.....	41
H. Deferred Inflows and Deferred Outflows of Resources.....	41
I. Property Taxes.....	42
J. Accumulated Compensated Absences.....	42
K. Interfund Transactions.....	42
L. Use of Estimates.....	42
M. New GASB Pronouncements.....	43
NOTE 2 – DEPOSITS AND INVESTMENTS.....	45
A. Policies.....	45
B. Classification.....	45
C. Authorized Investments.....	46
D. Interest Rate Risk and Fair Value Hierarchy.....	46
E. Credit Risk.....	49
F. Concentration of Credit Risk.....	49
NOTE 3 – INTERFUND TRANSACTIONS.....	49
NOTE 4 – CAPITAL ASSETS.....	50
NOTE 5 – LONG TERM DEBT.....	51
NOTE 6 – SPECIAL ASSESSMENT DEBT WITHOUT TOWN COMMITMENT.....	51
NOTE 7 – NET POSITION/FUND BALANCES.....	52
A. Net Position.....	52
B. Fund Balances - Components.....	52

NOTE 8 – PENSION PLAN.....	53
A. General Information about the Pension Plan.....	53
B. Net Pension Liability	54
C. Changes in the Net Pension Liability	56
D. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension.....	57
E. Payable to Pension Plan	58
NOTE 9 – RISK MANAGEMENT	58
NOTE 10 – CONTINGENT LIABILITIES	59
A. Commitments and Contingencies	59
B. Service Concession Arrangements (SCA).....	59
NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)	60
A. Plan Description.....	60
B. Funding Policy.....	60
C. Annual Postemployment Benefit Cost and Net Postemployment Benefit Obligation.....	60
D. Plan Funded Status and Funding Progress	61
E. Actuarial Methods and Assumptions	62
NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	62
A. Excess of expenditures over appropriations	62
B. Deficit fund balances	62

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (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 resources traditionally associated with governmental activities that are not required legally or by sound financial management to be accounted for in another fund.
- 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**B. Basis of Presentation (Continued)**

Effective 2016-17, the Town consolidated three special revenue funds, Street, Storm Drain and Pathway Funds, into the General Fund. In the past, the Town's street, storm drain and pathway maintenance and operation expenditures were reported under special revenue funds; however, the operations were largely funded by transfers from the General Fund. Special revenues, such as gas tax, storm drain in-lieu fees, and pathway construction fees, were recorded in these special revenue funds but these revenues were transferred to capital project funds at the end of the year. To minimize the number of inter-fund transfers between the General Fund and these special revenue funds and Capital Project Funds, the City Council authorized the Administrative Services Department to record the revenues for storm drains, pathways, and streets directly into the corresponding capital project funds and to merge the ongoing operating cost into the General Fund.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables

During the course of normal operations, the Town carried various receivable balances for taxes, franchise fees, interest, license fees, and sewer fees. As of June 30, 2017, accounts receivable are shown at \$332,441 in the General Fund, \$15,919 in Non-major Governmental Funds, \$26,309 in the Sewer Fund and \$1,269 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 acquisition 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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2017 are as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 115,916	\$ 7,094	\$ 123,010
Additions	30,520	3,243	33,763
Reductions	<u>(20,155)</u>	<u>(3,487)</u>	<u>(23,642)</u>
Ending Balance	<u>\$ 126,281</u>	<u>\$ 6,850</u>	<u>\$ 133,131</u>
Current Portion	<u>\$ 18,447</u>	<u>\$ 3,853</u>	<u>\$ 22,300</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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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, 2017.

GASB Statement 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. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

GASB Statement No. 77 – Tax Abatement Disclosures. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. New GASB Pronouncements (Continued)

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The pronouncement became effective, but did not have a material effect on the financial statements.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The pronouncement became effective, but did not have a material effect on the financial statements.

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.

A. 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, 2017.

B. Classification

As of June 30, 2017, cash and investments are classified in the accompanying financial statements as follows:

Cash on hand	\$ 1,900
Deposits with financial institutions	4,376,211
Investments with fiscal agent	188,693
Investments	<u>17,247,364</u>
Total Cash and Investments	<u>\$ 21,814,168</u>

As of June 30, 2017, cash and investments consist of the following:

<i>Statement of Net Positions:</i>	
Cash and investments	\$ 21,511,538
<i>Fiduciary funds:</i>	
Cash and investments	<u>302,630</u>
Total Cash and Investments	<u>\$ 21,814,168</u>

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Authorized Investments

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%

D. 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, 2017, the Town had the following investments.

	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U. S. Treasury Bonds/Notes	\$ -	\$ 4,116,229	\$ 3,393,181	\$ 7,509,410
Federal Agency Collateralized				-
Mortgage Obligation	46,442	183,783	310,205	540,430
U. S. Agency Notes	522,806	3,142,424	1,723,016	5,388,246
Municipal Bonds/Notes	-	74,849	74,859	149,708
Corporate Notes	424,541	570,491	599,274	1,594,306
LAIF Investment Pool	2,039,283	-	-	2,039,283
CAMP Investment Pool	25,981	-	-	25,981
Money Market	188,693	-	-	188,693
Total Investments	\$ 3,247,746	\$ 8,087,776	\$ 6,100,535	\$ 17,436,057

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.

Investments by Fair Value Level:	Level 1	Level 2	Total
U. S. Treasury Bonds/Notes	\$ 7,509,410	\$ -	\$ 7,509,410
Federal Agency Collateralized Mortgage Obligation	-	540,430	540,430
U. S. Agency Notes	-	5,388,246	5,388,246
Municipal Bonds/Notes	-	149,708	149,708
Corporate Notes	-	1,594,306	1,594,306
	<u>\$ 7,509,410</u>	<u>\$ 7,672,690</u>	15,182,100
Total Investments			
			<u>15,182,100</u>
Investments Measured at Amortized Cost:			
Money Market			188,693
LAIF Investment Pool			2,039,283
CAMP Investment Pool			25,981
			<u>2,253,957</u>
Cash in banks and on hand			<u>4,378,111</u>
			<u>4,378,111</u>
Total Cash and Investments			<u>\$21,814,168</u>

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, 2017, these investments matured in an average of 194 days. The California Local Agency Investment Fund is classified as exempt in the fair value hierarchy, as it is valued at amortized cost, which is exempt from being classified under GASB 72.

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, 2017, the fair value approximated the Town’s cost.

At June 30, 2017, these investments have an average maturity of 693 days. The California Asset Management Program is exempt from the fair value hierarchy. .

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, 2017 matured in an average of 49 days.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

E. 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.

	AAAm	AAA	AA+	AA	AA-	A+	A	Total
U. S. Treasury Bonds/Notes	\$ -	\$ -	\$ 7,509,410	\$ -	\$ -	\$ -	\$ -	\$ 7,509,410
Federal Agency Collateralized								
Mortgage Obligation	-	-	540,430	-	-	-	-	540,430
U. S. Agency Notes	-	-	5,388,246	-	-	-	-	5,388,246
Municipal Bond / Note	-	-	-	149,708	-	-	-	149,708
Corporate Notes	-	98,815	335,236	170,126	614,601	224,663	150,865	1,594,306
CAMP Investment Pool	25,981	-	-	-	-	-	-	25,981
Money Market	188,693	-	-	-	-	-	-	188,693
Totals	<u>\$ 214,674</u>	<u>\$ 98,815</u>	<u>\$ 13,773,322</u>	<u>\$ 319,834</u>	<u>\$ 614,601</u>	<u>\$ 224,663</u>	<u>\$ 150,865</u>	15,396,774
Not Rated:								
Local Agency Investment Fund (LAIF)								<u>2,039,283</u>
Total Investments								<u>\$ 17,436,057</u>

Bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). As of June 30, 2017, the Town's cash in bank exceeded the insured limit by \$4,957,101. None of the Town's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts.

F. Concentration of Credit Risk

The investment policy of the Town contains limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. As of June 30, 2017, there is no investment in any one issuer, other than U.S. Treasury securities, US Agency securities, and authorized pools such as Local Agency Investment Fund (LAIF) and California Asset Management Program (CAMP), that represent five percent or more of total investments at the Entity-wide level or in individual funds.

NOTE 3 – INTERFUND TRANSACTIONS

The following schedule briefly summarizes the Town's transfer activity for the fiscal year ended June 30, 2017:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Non-Major Governmental Funds	\$ 1,097,872	(A) & (C)
	Sewer Enterprise Fund	209,677	(A)
Street Capital Projects Fund	General Fund	612,442	(B)
	Non-Major Governmental Funds	338,756	(C)
Non-Major Governmental Funds	General Fund	688,387	(B) & (D)
	Non-Major Governmental Funds	40,939	(B)
Total Interfund Transfers		<u>\$ 2,988,073</u>	

- (A) To reimburse the General Fund for costs incurred
 (B) To fund capital projects
 (C) To transfer remaining fund balance after fund merge
 (D) To fulfill council approved budgeted transfers

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance at June 30, 2016	Additions	Deletion	Balance at June 30, 2017
<u>Governmental Activities</u>				
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	79,786,146	1,314,478	-	81,100,624
Buildings	5,152,825	-	-	5,152,825
Vehicles	523,882	75,626	(70,730)	528,778
Office equipment	444,411	-	-	444,411
Total capital assets being depreciated	85,907,264	1,390,104	(70,730)	87,226,638
Less accumulated depreciation for:				
Infrastructure	(59,097,713)	(1,187,312)	-	(60,285,025)
Buildings	(1,510,652)	(130,638)	-	(1,641,290)
Vehicles	(413,973)	(24,156)	70,730	(367,399)
Office equipment	(434,627)	(9,784)	-	(444,411)
Total accumulated depreciation	(61,456,965)	(1,351,890)	70,730	(62,738,125)
Net capital assets being depreciated	24,450,299	38,214	-	24,488,513
Governmental activity capital assets, net	<u>\$ 24,700,834</u>	<u>\$ 38,214</u>	<u>\$ -</u>	<u>\$ 24,739,048</u>
<u>Business-Type Activities</u>				
Capital assets being depreciated:				
Sewer collection system	\$ 7,840,974	\$ 737,225	\$ -	\$ 8,578,199
Office equipment	1,509	-	-	1,509
Total capital assets being depreciated	7,842,483	737,225	-	8,579,708
Less accumulated depreciation for:				
Sewer collection system	(2,596,449)	(150,428)	-	(2,746,877)
Office equipment	(1,509)	-	-	(1,509)
Total accumulated depreciation	(2,597,958)	(150,428)	-	(2,748,386)
Net capital assets being depreciated	5,244,525	586,797	-	5,831,322
Business-type activity capital assets, net	<u>\$ 5,244,525</u>	<u>\$ 586,797</u>	<u>\$ -</u>	<u>\$ 5,831,322</u>

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	Amount
Administration	\$ 261,455
Public safety	255,709
Community development	351,772
Parks and recreation	99,643
Public works	218,733
Internal service funds	<u>164,578</u>
Total	<u>\$ 1,351,890</u>
Business-Type Activities	Amount
Sewer	<u>\$ 150,428</u>
Total	<u>\$ 150,428</u>

NOTE 5 – LONG TERM DEBT

The Town has no long-term debt as of and for the year ended June 30, 2017.

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, 2017, the balance of the assessment district's outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding Balance June 30, 2017
			Annual Amount	Fiscal Years Ended	
West Loyola Sewer Assessment District No. 1	2009	2.25% - 6.15%	\$35,000 - 775,000	2010-2040	<u>\$ 1,755,000</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. At June 30, 2017, component of fund balance is as follows:

Fund Balance Classifications	General Fund	Street Capital Project Fund	Nonmajor Governmental Funds	Total Governmental
Restricted for:				
Public safety	\$ -	\$ -	\$ 11,074	\$ 11,074
Capital projects	-	-	69,389	69,389
Other purposes	-	-	34,812	34,812
Total Restricted Fund Balances	-	-	115,275	115,275
Committed for:				
Disaster contingency reserve	1,250,000	-	-	1,250,000
Pension contributions reserve	570,000	-	-	570,000
IT equipment replacement reserve	20,000	-	-	20,000
Other capital projects	-	-	1,669,794	1,669,794
Street and road repairs	-	380,751	-	380,751
Total Committed Fund Balances	1,840,000	380,751	1,669,794	3,890,545
Assigned for:				
Operating Contingency Reserve *	350,000	-	-	350,000
Total Assigned Fund Balances	350,000	-	-	350,000
Unassigned:	10,267,874	-	-	10,267,874
Total Unassigned Fund Balances	10,267,874	-	-	10,267,874
Total Fund Balances	\$ 12,457,874	\$ 380,751	\$ 1,785,069	\$ 14,623,694

NOTE 8 – PENSION PLAN

A. General Information about the 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>.

NOTE 8 – PENSION PLAN (CONTINUED)

A. General Information about the Pension Plan (Continued)

The plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Tier I	Tier II	Tier III
	Prior to September 1, 2011	Starting September 1, 2011	On or after January 1, 2013
Hire date			
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%*	7.0%	6.5%
Required employer contribution rates	9.055%	7.809%	6.930%

* EPMC stands for "Employer Paid Member Contribution". It is an employment benefit provided by the employer in which the employer pays part of the required employee contribution to the CalPERS system. As of June 30, 2017, EPMC for Tier I employees is 3% and is scheduled to be sunset. EPMC will be reduced to 2% for 2017-18, 1% for 2018-19, and zero percent thereafter. There is no EPMC for Tier II and III employees.

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, 2017, the contribution recognized as part of pension expense for the Plans were as follows:

	<u>Miscellaneous Plans</u>
Contributions - employer	<u>\$ 250,340</u>

B. Net Pension Liability

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, 2016, using an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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.

NOTE 8 – PENSION PLAN (CONTINUED)

B. Net Pension Liability (Continued)

Actuarial Methods and Assumptions – The total pension liabilities in June 30, 2016 actuarial valuations were determined using the following actuarial assumptions for Miscellaneous Plan:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
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's specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table,

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 the 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 deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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.

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

In December 2016, CalPERS' Board of Directors voted to lower the discount rate from 7.5% to 7.0% over the next three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates beginning in fiscal year 2019 and result in increases to the normal costs and unfunded actuarial liabilities.

NOTE 8– PENSION PLAN (CONTINUED)

B. Net Pension Liability (Continued)

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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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. The target allocation shown was adopted by the Board effective on July 1, 2015.

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	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	100%		

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

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

C. Changes in the Net Pension Liability

As of June 30, 2017, the Town’s reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous Plans	\$ <u>2,881,005</u>
Total Net Pension Liability	\$ <u><u>2,881,005</u></u>

NOTE 8— PENSION PLAN (CONTINUED)

C. Changes in the Net Pension Liability (Continued)

The Town's proportionate share of the net pension liability for each Miscellaneous Plan as of June 30, 2015 and 2016 is as follows:

	<u>Miscellaneous Plans</u>
Proportion - June 30, 2015	0.0778%
Proportion - June 30, 2016	<u>0.0829%</u>
Change - Increase (Decrease)	<u><u>0.0051%</u></u>

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	\$ 4,575,689
Current Discount Rate	7.65%
Net Pension Liability	\$ 2,881,005
1% Increase	8.65%
Net Pension Liability	\$ 1,480,433

Pension Plan Fiduciary Net Position - Detailed information about each pension plans' fiduciary net position is available in the separately issued CalPERS financial reports.

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

For the year ended June 30, 2017, the Town's recognized pension expense of \$354,872 for the Miscellaneous Plans. At June 30, 2017, 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 contribution subsequent to measurement date	\$ 250,340	\$ -
Differences between actual and expected experience	7,915	1,814
Change in assumptions	-	74,886
Differences between proportional and actual contributions	-	200,748
Net differences between projected and actual earnings on plan investments	389,758	-
Adjustment due to differences in proportion	<u>92,798</u>	<u>164,705</u>
Total	<u><u>\$ 740,811</u></u>	<u><u>\$ 442,153</u></u>

NOTE 8– PENSION PLAN (CONTINUED)

D. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

The \$250,340 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Years Ending June 30,</u>	
2018	\$ (138,182)
2019	(86,380)
2020	171,928
2021	<u>100,952</u>
	<u>\$ 48,318</u>

E. Payable to Pension Plan

As of June 30, 2017, the Town reported a payable of \$11,105 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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, 2017, the Town contributed \$103,623 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 \$6,670 in insurance recoveries during fiscal year 2017. 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.

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, 2017, the Town contributed \$60,140 for current year coverage.

NOTE 9 – RISK MANAGEMENT (CONTINUED)**A. Risk Pool (Continued)**

- 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 managing barn operations and shares in certain utility costs. VDE remits 25% of all equestrian class revenues to the Town and the Town keeps 25% of revenues it collects for equestrian camps the Town offers operated by VDE. Westwind activity is included in the Town's General Fund.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The Town's multiple-employer defined benefit postemployment healthcare plan (the Plan) provides postemployment healthcare benefits to eligible employees who retire directly from the Town under CalPERS at the minimum age of 50 with at least 5 years of CalPERS service or disability. Retirees must make a retirement election with CalPERS within 120 days following the date of separation from the Town. Benefit provision are established and may be amended by the City Council.

The Town participates in the CalPERS healthcare program (PEMHCA) and allow retirees to continue participation in the medical insurance program after retirement. Under the Plan, the Town reimburses a portion of the premium for retiree medical coverage as follows:

- **Retirees from the Town and employees receiving Town medical benefits as of October 11, 2007** are eligible for a Town contribution up to an amount that is equal to what active employees receive in the cafeteria plan. As stated above, an individual must also qualify as a CalPERS annuitant in order to receive this benefit.
- **Employees hired or first receiving Town medical benefits after October 11, 2007** are only eligible to receive a Town contribution equal to the PEMHCA minimum upon retirement from the Town. As stated above, retirees must qualify as a CalPERS annuitant and meet all statutory and legal requirements necessary to receive this benefit.

B. Funding Policy

The contribution requirements are established and may be amended by the City Council. In the fiscal year 2007-2008, the Town elected to prefund its OPEB liabilities through an irrevocable trust administered by CalPERS, the California Employers' Retiree Benefit Trust (CERBT). The Town has continuously contributed at least the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45.

For the fiscal year ended June 30, 2017, the Town contributed \$258,645, including \$122,645 in benefit payments and a \$136,000 deposit to CERBT. As of June 30, 2017, the total market value of the funds set aside in the irrevocable plan trust was \$2,195,160.

CERBT is a tax qualified irrevocable trust, organized under Internal Revenue Code (IRC) Section 115, established to pre-fund OPEB as described in GASB Statement No. 45. CERBT issues a publicly available financial report that included financial statements and required supplemental information for the Town, no individualizing, but in aggregate with other CERBT participants. That report is may be obtained by contacting CalPERS' executive office at 400 P Street, Sacramento, California, 95814.

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.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

C. Annual Postemployment Benefit Cost and Net Postemployment Benefit Obligation (Continued)

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 Assets at June 30, 2016	\$ 615,183
Annual required contribution (ARC)	136,000
Interest on Net OPEB Obligation	(36,911)
Amortization for Net OPEB Obligation	59,000
Annual OPEB Cost	158,089
City's contribution to CERBT Trust	136,000
City's portion of current year premiums paid	122,645
Change in Net OPEB Obligation	100,556
Net OPEB Assets at June 30, 2017	\$ 715,739

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)	UAAL as Percentage of Covered Payroll (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 the fiscal year ended June 30, 2017 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Contributed	Net OPEB Asset
6/30/2015	\$ 136,625	\$ 217,000	159%	\$ 519,964
6/30/2016	157,802	253,021	160%	615,183
6/30/2017	158,089	258,645	164%	715,739

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.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

E. Actuarial Methods and Assumptions

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

In the June 30, 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 2016-17.

B. Deficit fund balances

No individual funds had a deficit fund balance at June 30, 2017.

Required Supplemental Information

This page intentionally left blank

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 5,045,260	\$ 5,045,260	\$ 5,302,028	\$ 256,768
Taxes other than property	530,000	530,000	610,337	80,337
Franchise fees	498,900	498,900	573,336	74,436
Licenses and permits	1,521,200	1,521,200	1,544,996	23,796
Intergovernmental	45,500	45,500	60,357	14,857
Use of money or property	158,300	158,300	171,227	12,927
Charges for services	1,143,700	1,143,700	1,069,543	(74,157)
Miscellaneous	29,400	29,400	21,248	(8,152)
Total revenues	8,972,260	8,972,260	9,353,072	380,812
EXPENDITURES:				
Administration	2,120,960	2,132,167	1,813,551	318,616
Public safety	1,473,500	1,223,500	1,213,343	10,157
Community development	1,908,830	1,974,256	1,833,654	140,602
Public works	1,297,114	1,309,884	1,214,072	95,812
Parks and recreation	614,378	622,950	548,474	74,476
Total expenditures	7,414,782	7,262,757	6,623,094	639,663
REVENUES OVER (UNDER) EXPENDITURES	1,557,478	1,709,503	2,729,978	1,020,475
OTHER FINANCING SOURCES (USES):				
Transfers in	1,353,798	1,353,798	1,307,549	(46,249)
Transfers out	(949,410)	(1,513,910)	(1,300,829)	213,081
Total other financing sources (uses)	404,388	(160,112)	6,720	166,832
Net change in fund balance	1,961,866	1,549,391	2,736,698	1,187,307
FUND BALANCE:				
Beginning of year	9,721,176	9,721,176	9,721,176	-
End of year	<u>\$ 11,683,042</u>	<u>\$ 11,270,567</u>	<u>\$ 12,457,874</u>	<u>\$ 1,187,307</u>

Schedule of Proportionate Share of the Net Pension Liability

Last Ten Years*

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Measurement Date

Measurement Date	Miscellaneous Plan		
	6/30/2014	6/30/2015	6/30/2016
Plan's Proportion of the Net Pension Liability	0.03226%	0.07776%	0.08293%
Plan's Proportionate Share of the Net Pension Liability	\$ 2,007,540	\$ 2,133,424	\$ 2,881,005
Plan's Covered Payroll	\$ 1,607,594	\$ 1,624,334	\$ 1,641,880
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	124.88%	131.34%	175.47%
Plan's Proportionate Share of the Net Pension Liability as a Percentage of the Plan's Total Pension Liability	16.971%	17.561%	22.888%

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

Schedule of Contributions

Last Ten Years*

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Fiscal Years Ended	Miscellaneous Plan		
	6/30/2015	6/30/2016	6/30/2017
Actuarially determined contribution	\$ 181,280	\$ 221,507	\$ 250,340
Contributions in relation to the actuarially determined contributions	(181,280)	(221,507)	(250,340)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 1,624,334	\$ 1,641,880	\$ 1,786,436
Contributions as a percentage of covered payroll	11.16%	13.49%	14.01%
Notes to Schedule:			
Valuation date	6/30/2013	6/30/2014	6/30/2015
Methods and assumptions used to determine contribution rate:			
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 Services		
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	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.

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

Schedule of Funding Progress

Other Post-Employment Benefits

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%

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 intentionally left blank

Supplemental Information

Budgetary Comparison Schedule

Street Capital Project Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 226,700	\$ 226,700	\$ 223,174	\$ (3,526)
Use of money or property	1,100	1,100	-	(1,100)
Charges for services	40,000	40,000	46,526	6,526
Total revenues	267,800	267,800	269,700	1,900
EXPENDITURES:				
Capital outlay	1,100,000	1,100,000	905,829	194,171
Total expenditures	1,100,000	1,100,000	905,829	194,171
REVENUES OVER (UNDER) EXPENDITURES	(832,200)	(832,200)	(636,129)	196,071
OTHER FINANCING SOURCES (USES):				
Transfers in	924,318	1,076,475	951,198	(125,277)
Total other financing sources (uses)	924,318	1,076,475	951,198	(125,277)
Net change in fund balance	92,118	244,275	315,069	70,794
FUND BALANCE:				
Beginning of year	65,682	65,682	65,682	-
End of year	<u>\$ 157,800</u>	<u>\$ 309,957</u>	<u>\$ 380,751</u>	<u>\$ 70,794</u>

Non-Major Governmental Funds

SPECIAL REVENUE FUNDS

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

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

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

Special Donations Fund accounts for donations.

Storm Drain Fund* accounts for revenues from drainage fees which are designated for storm drain maintenance, improvement, and construction.

Pathway Fund* accounts for revenues from pathway in-lieu fees which are designated for pathway maintenance, improvement, and construction.

Street Fund* accounts for gas tax revenues and fees for street excavation, which are designated for street maintenance, improvement, and construction.

CAPITAL PROJECTS FUND

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

* **Fund Consolidation** – Effective 2016-17, the Town consolidated three special revenue funds, Street, Storm Drain and Pathway Funds, into the General Fund. In the past, the Town's street, storm drain and pathway maintenance and operation expenditures were reported under special revenue funds; however, the operations were largely funded by transfers from the General Fund. Special revenues, such as gas tax, storm drain in-lieu fees, and pathway construction fees, were recorded in these special revenue funds but these revenues were transferred to capital project funds at the end of the year. To minimize the number of inter-fund transfers between the General Fund and these special revenue funds and Capital Project Funds, the City Council authorized the Administrative Services Department to record the revenues for storm drains, pathways, and streets directly into the corresponding capital project funds and to merge the ongoing operating cost into the General Fund.

Combining Balance Sheets

Non-Major Governmental Funds

June 30, 2017

	Special Revenue Funds			
	Parks and Recreation In-Lieu Fee	COPS	Special Donations	Storm Drain
ASSETS				
Cash and investments	\$ 69,389	\$ -	\$ 34,812	\$ -
Accounts receivable	-	15,919	-	-
Total assets	\$ 69,389	\$ 15,919	\$ 34,812	\$ -
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 4,845	\$ -	\$ -
Total liabilities	-	4,845	-	-
Fund Balances:				
Restricted	69,389	11,074	34,812	-
Committed	-	-	-	-
Total fund balances	69,389	11,074	34,812	-
Total liabilities and fund balances	\$ 69,389	\$ 15,919	\$ 34,812	\$ -

Special Revenue Funds		Capital Projects Fund	Total Non-Major Governmental Funds
Pathway	Street	Other Capital Projects	
\$ -	\$ -	\$ 1,686,654	\$ 1,790,855
-	-	-	15,919
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,686,654</u>	<u>\$ 1,806,774</u>
\$ -	\$ -	\$ 16,860	\$ 21,705
-	-	16,860	21,705
-	-	-	115,275
-	-	1,669,794	1,669,794
-	-	1,669,794	1,785,069
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,686,654</u>	<u>\$ 1,806,774</u>

Combining Statements of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the Year Ended June 30, 2017

	Special Revenue Funds			
	Parks and Recreation In-Lieu Fee	COPS	Special Donations	Storm Drain
REVENUES:				
Intergovernmental	\$ -	\$ 129,324	\$ -	\$ -
Use of money and property	799	-	-	-
Charges for services	-	-	-	-
Miscellaneous revenues	-	-	40,800	-
Total revenues	799	129,324	40,800	-
EXPENDITURES:				
Current:				
Public Safety	-	346,952	-	-
Parks and Recreation	-	-	27,120	-
Capital outlay	-	-	-	-
Total expenditures	-	346,952	27,120	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	799	(217,628)	13,680	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	89,037	-	-
Transfers out	(40,939)	(32,733)	-	(426,316)
Total other financing sources (uses)	(40,939)	56,304	-	(426,316)
Net change in fund balances	(40,140)	(161,324)	13,680	(426,316)
Fund Balance, beginning of year	109,529	172,398	21,132	426,316
Fund Balance, end of year	\$ 69,389	\$ 11,074	\$ 34,812	\$ -

Special Revenue Funds		Capital Projects Fund	Total Non-Major Governmental Funds
Pathway	Street	Other Capital Projects	
\$ -	\$ -	\$ -	\$ 129,324
-	-	50,662	51,461
-	-	366,761	366,761
-	-	-	40,800
-	-	417,423	588,346
-	-	-	346,952
-	-	-	27,120
-	-	408,649	408,649
-	-	408,649	782,721
-	-	8,774	(194,375)
-	-	640,289	729,326
(638,823)	(338,756)	-	(1,477,567)
(638,823)	(338,756)	640,289	(748,241)
(638,823)	(338,756)	649,063	(942,616)
638,823	338,756	1,020,731	2,727,685
\$ -	\$ -	\$ 1,669,794	\$ 1,785,069

Budgetary Comparison Schedules

Non-Major Governmental Funds

For the Year Ended June 30, 2017

	Special Revenue Funds					
	Parks and Recreation In-Lieu Fee			COPS		
	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:						
Intergovernmental	\$ -	\$ -	\$ -	\$ 100,000	\$ 129,324	\$ 29,324
Use of money and property	-	799	799	400	-	(400)
Charges for services	-	-	-	-	-	-
Miscellaneous revenues	42,000	-	(42,000)	-	-	-
Total revenues	42,000	799	(41,201)	100,400	129,324	28,924
EXPENDITURES:						
Current:						
Public Safety	-	-	-	360,354	346,952	13,402
Parks and Recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	-	-	-	360,354	346,952	13,402
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	42,000	799	(41,201)	(259,954)	(217,628)	42,326
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	250,000	89,037	(160,963)
Transfers out	(40,939)	(40,939)	-	(38,700)	(32,733)	5,967
Total other financing sources (uses)	(40,939)	(40,939)	-	211,300	56,304	(154,996)
Net change in fund balances	<u>\$ 1,061</u>	<u>(40,140)</u>	<u>\$ (41,201)</u>	<u>\$ (48,654)</u>	<u>(161,324)</u>	<u>\$ (112,670)</u>
Fund Balance, beginning of year		<u>109,529</u>			<u>172,398</u>	
Fund Balance, end of year		<u>\$ 69,389</u>			<u>\$ 11,074</u>	

Special Revenue Funds								
Special Donations			Storm Drain			Pathway In-Lieu Fee		
Final Budget	Actual	Variance with Final Budget Positive (Negative)	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
40,000	40,800	800	-	-	-	-	-	-
40,000	40,800	800	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
30,000	27,120	2,880	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
30,000	27,120	2,880	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
10,000	13,680	3,680	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	(426,316)	(426,316)	-	(640,882)	(638,823)	2,059
-	-	-	(426,316)	(426,316)	-	(640,882)	(638,823)	2,059
<u>\$ 10,000</u>	13,680	<u>\$ 3,680</u>	<u>\$ (426,316)</u>	(426,316)	<u>\$ -</u>	<u>\$ (640,882)</u>	(638,823)	<u>\$ 2,059</u>
	21,132			426,316			638,823	
	<u>\$ 34,812</u>			<u>\$ -</u>			<u>\$ -</u>	

(Continued)

Budgetary Comparison Schedules (continued)

Non-Major Governmental Funds

For the Year Ended June 30, 2017

	Special Revenue Funds			Capital Projects Fund		
	Street		Variance with Final Budget Positive (Negative)	Other Capital Projects		Variance with Final Budget Positive (Negative)
	Final Budget	Actual		Final Budget	Other Capital Projects	
REVENUES:						
Intergovernmental	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ (10,000)
Use of money and property	-	-	-	48,200	50,662	2,462
Charges for services	-	-	-	320,000	366,761	46,761
Miscellaneous revenues	-	-	-	-	-	-
Total revenues	-	-	-	378,200	417,423	39,223
EXPENDITURES:						
Current:						
Public Safety	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	-
Capital outlay	-	-	-	1,588,947	408,649	1,180,298
Total expenditures	-	-	-	1,588,947	408,649	1,180,298
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	(1,210,747)	8,774	1,219,521
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	640,289	640,289	-
Transfers out	(259,758)	(338,756)	(78,998)	-	-	-
Total other financing sources (uses)	(259,758)	(338,756)	(78,998)	640,289	640,289	-
Net change in fund balances	<u>\$ (259,758)</u>	<u>(338,756)</u>	<u>\$ (78,998)</u>	<u>\$ (570,458)</u>	649,063	<u>\$ 1,219,521</u>
Fund Balance, beginning of year		<u>338,756</u>			<u>1,020,731</u>	
Fund Balance, end of year		<u>\$ -</u>			<u>\$ 1,669,794</u>	

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
WEST LOYOLA SEWER ASSESSMENT DISTRICT				
ASSETS				
Ristricted cash and investments	\$ 306,957	\$ 146,999	\$ (151,326)	\$ 302,630
Miscellaneous receivables	-	826	-	826
Total Assets	\$ 306,957	\$ 147,825	\$ (151,326)	\$ 303,456
LIABILITIES				
Due to bondholders	\$ 306,957	-	\$ (3,501)	\$ 303,456
Total liabilities	\$ 306,957	\$ -	\$ (3,501)	\$ 303,456

This page intentionally left blank

STATISTICAL SECTION

This page intentionally left blank

Statistical Section

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.

<i>Contents</i>	<i>Page</i>
Financial Trends - These schedules contain trend information to help the reader understand how Town’s financial performance and well-being have changed over time.	84
Revenue Capacity - These schedules contain information to help the reader assess one of the Town’s most significant local revenue source, the property tax.	94
Debt Capacity - 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.	98
Demographic and Economic Information - These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place.	101
Operating Information - 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.	103

Net Position by Component

Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2008	2009	2010	2011
Governmental activities:				
Invested in capital assets, net	\$ 21,225,843	\$ 22,733,833	\$ 23,564,257	\$ 24,421,688
Restricted	651,518	936,212	1,447,591	960,737
Unrestricted	<u>9,719,357</u>	<u>9,131,068</u>	<u>7,831,794</u>	<u>7,654,909</u>
Total governmental activities net position	<u>\$ 31,596,718</u>	<u>\$ 32,801,113</u>	<u>\$ 32,843,642</u>	<u>\$ 33,037,334</u>
Business-type activities:				
Invested in capital assets, net	\$ 1,172,175	\$ 2,427,865	\$ 4,022,707	\$ 4,369,141
Restricted	-	2,999,604	1,727,745	-
Unrestricted	<u>2,745,457</u>	<u>2,002,327</u>	<u>2,619,265</u>	<u>2,856,291</u>
Total business-type activities net position	<u>\$ 3,917,632</u>	<u>\$ 7,429,796</u>	<u>\$ 8,369,717</u>	<u>\$ 7,225,432</u>
Primary government:				
Invested in capital assets, net	\$ 22,398,018	\$ 25,161,698	\$ 27,586,964	\$ 28,790,829
Restricted	651,518	3,935,816	3,175,336	960,737
Unrestricted	<u>12,464,814</u>	<u>11,133,395</u>	<u>10,451,059</u>	<u>10,511,200</u>
Total net position	<u>\$ 35,514,350</u>	<u>\$ 40,230,909</u>	<u>\$ 41,213,359</u>	<u>\$ 40,262,766</u>

Source: Audited Financial Statements

2012	2013	2014	2015	2016	2017
\$ 25,681,352	\$ 26,654,599	\$ 25,535,393	\$ 25,370,209	\$ 24,700,834	\$ 24,739,048
1,507,673	1,787,750	1,520,545	1,666,812	1,706,954	115,275
4,582,714	4,349,494	7,124,524	7,064,274	9,687,552	13,377,599
<u>\$ 31,771,739</u>	<u>\$ 32,791,843</u>	<u>\$ 34,180,462</u>	<u>\$ 34,101,295</u>	<u>\$ 36,095,340</u>	<u>\$ 38,231,922</u>
\$ 4,452,208	\$ 4,312,151	\$ 4,774,920	\$ 5,022,034	\$ 5,244,525	\$ 5,831,322
-	-	-	-	-	-
2,915,748	3,227,161	3,075,429	2,774,135	2,582,858	2,607,749
<u>\$ 7,367,956</u>	<u>\$ 7,539,312</u>	<u>\$ 7,850,349</u>	<u>\$ 7,796,169</u>	<u>\$ 7,827,383</u>	<u>\$ 8,439,071</u>
\$ 30,133,560	\$ 30,966,750	\$ 30,310,313	\$ 30,392,243	\$ 29,945,359	\$ 30,570,370
1,507,673	1,787,750	1,520,545	1,666,812	1,706,954	115,275
7,498,462	7,576,655	10,199,953	9,838,409	12,270,410	15,985,348
<u>\$ 39,139,695</u>	<u>\$ 40,331,155</u>	<u>\$ 42,030,811</u>	<u>\$ 41,897,464</u>	<u>\$ 43,922,723</u>	<u>\$ 46,670,993</u>

Changes in Net Position

Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2008	2009	2010	2011
Governmental activities*:				
Expenses:				
Administration	\$ 1,834,475	\$ 2,198,029	\$ 2,071,985	\$ 1,822,653
Public safety	1,381,626	1,469,522	1,491,760	1,384,604
Community development	2,522,067	2,422,892	2,660,434	2,111,541
Parks and recreation	802,066	1,240,406	1,279,596	1,310,566
Drainage and street operations	578,324	558,980	830,146	934,755
Public works				
Interest on long-term debt	88,539	82,603	75,962	71,553
Total governmental activities expenses	<u>7,207,097</u>	<u>7,972,432</u>	<u>8,409,883</u>	<u>7,635,672</u>
Program revenues:				
Charges for services:				
Administration	-	-	-	-
Public safety	13,217	1,958	-	-
Community development	1,255,246	1,278,407	1,218,744	1,362,932
Parks and recreation	234,258	566,446	541,337	532,623
Drainage and street operations	722,151	620,523	709,133	601,078
Public works				
Operating contributions and grants	1,292,756	1,619,218	996,454	447,717
Capital contributions and grants	-	-	-	-
Total governmental activities program revenues	<u>3,517,628</u>	<u>4,086,552</u>	<u>3,465,668</u>	<u>2,944,350</u>
Total governmental activities net program expenses	<u>(3,689,469)</u>	<u>(3,885,880)</u>	<u>(4,944,215)</u>	<u>(4,691,322)</u>
General revenues and other changes in net position:				
Governmental revenues:				
Taxes				
Property taxes	3,216,837	3,410,921	3,444,173	3,393,604
Other taxes	477,705	404,678	366,442	544,092
Franchise taxes	389,224	431,574	387,803	428,332
Use of money and property	744,677	498,721	212,126	178,450
Other unrestricted revenue	154,061	69,520	303,395	193,425
Sale of Capital Assets-net	1,430,776	143,518	242	6,600
Other intergovernmental revenue	502,482	108,147	140,947	69,166
Special Item**	-	-	-	-
Transfers	116,721	23,196	131,616	71,345
Total governmental activities general revenues and other changes in net position	<u>7,032,483</u>	<u>5,090,275</u>	<u>4,986,744</u>	<u>4,885,014</u>
Total governmental activities changes in net position	<u>3,343,014</u>	<u>1,204,395</u>	<u>42,529</u>	<u>193,692</u>

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

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

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

	2012	2013	2014	2015	2015 (Note 1)	2016	2017
\$	2,046,868	\$ 1,837,120	\$ 639,350	\$ 538,004	\$ 1,923,816	\$ 2,339,474	\$ 2,119,990
	1,345,461	1,440,002	1,555,955	1,567,747	1,379,621	1,601,654	1,817,299
	2,437,335	2,448,821	3,224,490	3,324,935	2,289,743	2,167,702	2,210,748
	1,300,211	1,314,872	1,479,822	1,358,479	621,974	738,495	680,522
	700,017	627,512	842,532	839,577	-	-	-
					1,413,588	1,252,271	1,461,155
	44,305	4,526	3,955	3,304	3,304	1,492	-
	<u>7,874,197</u>	<u>7,672,853</u>	<u>7,746,104</u>	<u>7,632,046</u>	<u>7,632,046</u>	<u>8,101,088</u>	<u>8,289,714</u>
	-	-	-	-	29,038	72,566	27,615
	-	3,200	-	1,302	1,302	-	-
	1,843,682	1,768,740	1,871,118	2,623,027	2,433,038	2,217,874	2,219,769
	476,599	433,785	281,886	316,391	269,295	199,241	222,834
	340,010	169,526	186,631	340,110	-	-	-
					548,157	388,931	549,729
	531,671	1,267,777	500,245	338,453	291,593	303,292	343,107
	-	-	266,736	246,533	246,533	398,990	69,635
	<u>3,191,962</u>	<u>3,643,028</u>	<u>3,106,616</u>	<u>3,865,816</u>	<u>3,818,956</u>	<u>3,580,894</u>	<u>3,432,689</u>
	<u>(4,682,235)</u>	<u>(4,029,825)</u>	<u>(4,639,488)</u>	<u>(3,766,230)</u>	<u>(3,813,090)</u>	<u>(4,520,194)</u>	<u>(4,857,025)</u>
	3,543,231	3,785,652	4,153,331	4,606,184	4,606,184	4,960,016	5,302,028
	427,826	594,656	626,479	649,542	649,542	565,055	666,631
	430,149	421,634	463,598	513,997	513,997	474,732	573,336
	156,743	142,931	199,609	208,776	208,776	356,479	222,688
	39,448	34,057	585,089	174,469	174,469	4,538	13,747
	-	-	-	-	-	-	5,500
	-	-	-	-	-	-	-
	(1,250,000)	-	-	-	-	-	-
	69,243	71,000	-	-	46,860	153,419	209,677
	<u>3,416,640</u>	<u>5,049,930</u>	<u>6,028,106</u>	<u>6,152,968</u>	<u>6,199,828</u>	<u>6,514,239</u>	<u>6,993,607</u>
	<u>(1,265,595)</u>	<u>1,020,105</u>	<u>1,388,618</u>	<u>2,386,738</u>	<u>2,386,738</u>	<u>1,994,045</u>	<u>2,136,582</u>

Changes in Net Position (continued)

Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2008	2009	2010	2011
Business-type activities:				
Expenses:				
Sewer	1,080,206	1,097,072	947,450	1,022,325
Solid waste	1,512,251	387,335	-	-
Total business-type activities expenses	<u>2,592,457</u>	<u>1,484,407</u>	<u>947,450</u>	<u>1,022,325</u>
Program revenues:				
Charges for services:				
Sewer	1,511,372	1,335,790	1,643,706	1,406,130
Solid waste	1,472,296	361,763	-	-
Operating contributions and grants	7,270	-	-	-
Capital contributions and grants	-	3,208,687	272,405	(1,486,331)
Total business-type activities program revenues	<u>2,990,938</u>	<u>4,906,240</u>	<u>1,916,111</u>	<u>(80,201)</u>
Total business-type activities net program revenue (expenses)	<u>398,481</u>	<u>3,421,833</u>	<u>968,661</u>	<u>(1,102,526)</u>
General revenues and other changes in net position:				
Use of money and property	178,503	113,527	102,876	29,585
Other unrestricted revenue				
Transfers	(116,721)	(23,196)	(131,616)	(71,345)
Total business-type activities general revenues and other changes in net position	<u>61,782</u>	<u>90,331</u>	<u>(28,740)</u>	<u>(41,760)</u>
Total business-type activities changes in net position	<u>460,263</u>	<u>3,512,164</u>	<u>939,921</u>	<u>(1,144,286)</u>
Total primary government change in net position	<u>\$ 3,803,277</u>	<u>\$ 4,716,559</u>	<u>\$ 982,450</u>	<u>\$ (950,594)</u>

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

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

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

2012	2013	2014	2015	2015 (Note 1)	2016	2017
1,328,856	1,242,885	1,271,651	1,591,743	1,544,883	1,997,399	2,129,895
-	-	-	-	-	-	-
<u>1,328,856</u>	<u>1,242,885</u>	<u>1,271,651</u>	<u>1,591,743</u>	<u>1,544,883</u>	<u>1,997,399</u>	<u>2,129,895</u>
1,355,667	1,359,338	1,382,472	1,392,029	1,392,029	1,925,636	2,759,287
-	-	-	-	-	-	-
-	-	-	-	-	-	-
170,955	125,183	175,497	234,339	234,339	221,010	185,369
<u>1,526,622</u>	<u>1,484,521</u>	<u>1,557,969</u>	<u>1,626,368</u>	<u>1,626,368</u>	<u>2,146,646</u>	<u>2,944,656</u>
<u>197,766</u>	<u>241,636</u>	<u>286,318</u>	<u>34,625</u>	<u>81,485</u>	<u>149,247</u>	<u>814,761</u>
14,001	720	24,719	19,533	19,533	32,557	4,134
					2,829	2,470
(69,243)	(71,000)	-	-	(46,860)	(153,419)	(209,677)
<u>(55,242)</u>	<u>(70,280)</u>	<u>24,719</u>	<u>19,533</u>	<u>(27,327)</u>	<u>(118,033)</u>	<u>(203,073)</u>
<u>142,524</u>	<u>171,356</u>	<u>311,037</u>	<u>54,158</u>	<u>54,158</u>	<u>31,214</u>	<u>611,688</u>
<u>\$ (1,123,071)</u>	<u>\$ 1,191,461</u>	<u>\$ 1,699,655</u>	<u>\$ 2,440,896</u>	<u>\$ 2,440,896</u>	<u>\$ 2,025,259</u>	<u>\$ 2,748,270</u>

Fund Balances of Governmental Funds

Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Fund				
Committed	\$ 1,600,000	\$ 1,600,000	\$ 1,600,000	\$ 170,000
Assigned				
Unassigned	<u>2,964,602</u>	<u>3,623,779</u>	<u>3,810,511</u>	<u>5,607,882</u>
Total General Fund	<u>\$ 4,564,602</u>	<u>\$ 5,223,779</u>	<u>\$ 5,410,511</u>	<u>\$ 5,777,882</u>
All other governmental funds				
Restricted	\$ 846,908	\$ 1,148,960	\$ 1,557,669	\$ 960,737
Committed	4,633,079	3,441,870	1,820,403	1,311,759
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>\$ 4,633,079</u>	<u>\$ 3,441,870</u>	<u>\$ 1,820,403</u>	<u>\$ 1,311,759</u>

Source: Audited Financial Statements

2012	2013	2014	2015	2016	2017
\$ 240,000	\$ 286,150	\$ 285,000	\$ 360,000	\$ 1,765,000	\$ 1,840,000
				350,000	350,000
<u>3,063,979</u>	<u>2,990,283</u>	<u>5,420,162</u>	<u>7,048,964</u>	<u>7,606,176</u>	<u>10,267,874</u>
<u>\$ 3,303,979</u>	<u>\$ 3,276,433</u>	<u>\$ 5,705,162</u>	<u>\$ 7,408,964</u>	<u>\$ 9,721,176</u>	<u>\$ 12,457,874</u>
\$ 1,507,673	\$ 1,787,750	\$ 1,520,545	\$ 1,691,286	\$ 1,706,954	\$ 115,275
75,112	354,495	519,059	934,569	1,086,413	2,050,545
(184,268)	-	(435)	-	-	-
<u>\$ 1,398,517</u>	<u>\$ 2,142,245</u>	<u>\$ 2,039,169</u>	<u>\$ 2,625,855</u>	<u>\$ 2,793,367</u>	<u>\$ 2,165,820</u>

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

	2008	2009	2010	2011
Revenues:				
Property taxes	\$ 3,205,734	\$ 3,403,586	\$ 3,438,168	\$ 3,393,604
Taxes other than property	434,126	366,282	332,189	503,766
Franchise fees	389,224	431,574	387,803	428,332
Licenses and permits	693,964	612,092	732,233	820,694
Intergovernmental	1,838,817	889,209	656,480	428,833
Use of money and property	851,667	612,902	212,126	210,904
Charges for services	1,396,904	1,749,121	1,751,358	1,605,081
Miscellaneous	192,178	945,347	810,197	360,205
Total revenues	<u>9,002,614</u>	<u>9,010,113</u>	<u>8,320,554</u>	<u>7,751,419</u>
Expenditures				
Current:				
Administration	1,345,356	1,481,883	1,651,144	1,453,778
Public safety	1,067,269	1,130,438	1,092,359	1,120,237
Community development	1,855,950	1,792,913	2,025,711	1,686,842
Parks and recreation	590,228	900,850	964,244	1,060,335
Drainage and street operation	425,579	413,625	625,610	756,279
Public works				
Debt service:				
Principal	121,470	127,128	133,693	142,285
Interest	89,846	84,188	77,623	73,264
Capital outlay	3,169,654	3,475,782	2,908,054	2,321,552
Total expenditures	<u>8,665,352</u>	<u>9,406,807</u>	<u>9,478,438</u>	<u>8,614,572</u>
Excess (deficiency) of revenues over (under) expenditures	<u>337,262</u>	<u>(396,694)</u>	<u>(1,157,884)</u>	<u>(863,153)</u>
Other financing sources (uses)				
Transfers in	4,021,974	2,075,139	2,009,503	2,406,621
Transfers out	(3,905,254)	(2,051,943)	(1,877,887)	(2,335,276)
Sale of assets	1,430,776	143,518	242	6,600
Proceeds from debt	-	-	-	47,000
Special Item*	-	-	-	-
Other financing sources (uses)	<u>1,547,496</u>	<u>166,714</u>	<u>131,858</u>	<u>124,945</u>
Net change in fund balances	<u>\$ 1,884,758</u>	<u>\$ (229,980)</u>	<u>\$ (1,026,026)</u>	<u>\$ (738,208)</u>
Debt service as a percentage of noncapital expenditures	4.0%	3.7%	3.3%	3.5%

* 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".

Source: Audited Financial Statements

	2012	2013	2014	2015	2015 (Note 1)	2016	2017
\$	3,543,251	\$ 3,785,652	\$ 4,153,332	\$ 4,606,184	\$ 4,606,184	\$ 4,960,016	\$ 5,302,028
	423,353	545,228	524,763	645,836	645,836	511,091	610,337
	430,149	421,634	463,598	513,997	513,997	474,732	573,336
	651,476	754,460	1,006,907	1,485,394	1,485,394	1,334,953	1,544,996
	457,952	1,264,716	610,850	397,470	397,470	752,717	412,855
	196,891	200,937	281,583	295,447	295,447	356,479	222,688
	1,836,621	1,407,987	1,411,082	1,858,220	1,811,360	1,449,127	1,482,830
	249,686	241,344	599,992	175,380	175,380	102,599	62,048
	<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>	<u>10,211,118</u>
	1,580,902	1,363,140	276,162	447,843	1,557,773	1,859,492	1,813,551
	1,057,330	1,131,772	1,209,028	1,205,913	1,075,160	1,255,198	1,560,295
	1,992,581	1,918,408	2,581,031	2,557,545	1,725,877	1,641,631	1,833,654
	1,049,563	1,033,239	1,178,463	1,044,944	466,881	565,440	575,594
	549,782	492,889	678,195	645,804			
					1,066,943	951,786	1,214,072
	1,377,532	15,048	15,618	16,212	16,212	81,360	0
	62,725	4,536	3,966	3,372	3,372	1,492	0
	1,584,367	2,719,447	783,990	1,765,807	1,765,807	1,259,010	1,314,478
	<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>8,311,644</u>
	(1,465,403)	(56,521)	2,325,654	2,290,488	2,253,043	2,326,305	1,899,474
	2,900,401	2,178,543	1,490,019	2,790,955	3,097,282	2,299,774	2,988,073
	(2,831,158)	(2,107,543)	(1,490,019)	(2,790,955)	(3,059,837)	(2,146,355)	(2,778,396)
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	(1,250,000)	-	-	-	-	-	-
	<u>(1,180,757)</u>	<u>71,000</u>	<u>0</u>	<u>0</u>	<u>37,445</u>	<u>153,419</u>	<u>209,677</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>	<u>\$ 2,109,151</u>
	23.1%	0.3%	0.3%	0.3%	0.3%	1.3%	0.0%

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
2008	\$ 4,387,840,511	\$ 12,144,678	\$ 15,300,600	\$ 4,384,684,589	0.077%	6.61%
2009	4,767,614,000	3,396,490	15,632,400	4,755,378,090	0.072%	8.43%
2010	4,904,290,340	3,417,417	15,596,000	4,892,111,757	0.069%	2.87%
2011	4,900,568,415	3,203,017	15,335,600	4,888,435,832	0.072%	-0.08%
2012	5,083,703,530	6,024,790	15,283,800	5,074,444,520	0.074%	3.79%
2013	5,329,042,601	5,859,024	15,300,600	5,319,601,025	0.078%	4.82%
2014	5,850,746,460	5,041,770	15,632,400	5,840,155,830	0.079%	9.76%
2015	6,220,950,601	3,384,189	14,732,200	6,209,602,590	0.074%	6.33%
2016	6,668,595,288	3,162,336	14,589,400	6,657,168,224	0.075%	7.21%
2017	7,103,893,376	3,727,197	14,357,000	7,093,263,573	0.075%	6.55%

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

Source: Santa Clara County Assessor 2016/17 Combined Tax Rolls

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
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
2017	1.0000	0.01290	0.1618	0.0086	0.0498	0.0006	1.2337

Source: County of Santa Clara Assessor 2007/08 - 2016/17 Tax Rate Table

Principal Taxpayers

Current Year And Ten Years Ago

Taxpayer	Type of Property	2017		2008	
		Assessed Value	Percentage of Net Assessed Valuation	Assessed Value	Percentage of Net Assessed Valuation
LaPaloma Property LLC	Single family residential	\$ 55,543,582	0.78%		
Douglas M Leone Trustee and Et Al	Single family residential	27,040,299	0.38%		
Homa Natoma LLC	Single family residential	23,664,321	0.33%		
David W Packard/David & Lucille Packard	Single family residential	22,324,174	0.31%		
Kumar Malavalli Trustee and Et Al	Single family residential	18,796,114	0.26%		
Top Elegant Investment LLC	Vacant	18,500,000	0.26%		
Charles F Perrell Trustee	Single family residential	16,832,985	0.24%		
12401 Hilltop Drive LLC	Single family residential	16,820,473	0.24%		
Even Stride LLC	Single family residential	16,548,575	0.23%		
David Hitz Trustee	Single family residential	16,319,108	0.23%		
Large House LLC	Single family residential			\$ 28,966,490	0.66%
Wilfred J Corrigan Trustee	Single family residential			20,951,075	0.48%
Northfork Vineyards LLC	Single family residential			20,337,186	0.46%
William M Carrico Trustee	Single family residential			18,040,536	0.41%
Kumar Malavalli Trustee and Et Al	Single family residential			17,043,143	0.39%
Sehat Sutardja and Dai Weili	Single family residential			15,360,863	0.35%
David Hitz Trustee	Single family residential			15,271,245	0.35%
Charles F Perrell Trustee	Single family residential			13,243,725	0.30%
Mark Jung Trustee and Et Al	Single family residential			12,265,000	0.28%
Ashish K Bhardwaj and Bali Tanuja	Dry Farm			12,240,000	0.28%
Totals		\$ 232,389,631	3.28%	\$ 173,719,263	3.96%

Note: There are no commercial or industrial facilities within Town limits; only three of the top ten principal taxpayers for fiscal year 2008 are included in the top ten taxpayer list for fiscal year 2017.

Source: Santa Clara County Assessor 2007/08 and 2016/17 Combined Tax Rolls and the SBE Non Unitary Tax Roll

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Tax Levy	% of Chg	Collected within FY		Collections Subsequent Year (3)	Total Collections		Value of property subject to local tax rate
			Amount	% of Levy		Amount	% of Levy	
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
2017	5,302,028	7%	5,302,028	100%		5,302,028	100%	7,093,263,573

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 2016-2017 Combined Tax Rolls
Town of Los Altos Hills financial reports

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Capital Lease	Loan	Total Governmental Activities and Primary Government	Debt to Personal Income	Debt per Capita
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%	-
2017	-	-	-	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

Direct and Overlapping Debt

For the Year Ended June 30, 2017

TOWN OF LOS ALTOS HILLS

2016-17 Assessed Valuation: \$7,093,263,573

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/2017	% Applicable (1)	Town's Share of Debt 6/30/17
Santa Clara County	\$ 784,845,000	1.693 %	\$ 13,287,426
Foothill-DeAnza Community College District	649,079,095	4.928	31,986,618
Palo Alto Unified School District	280,846,553	7.256	20,378,226
Mountain View-Los Altos Union High School District	55,766,725	10.286	5,736,165
Los Altos School District	70,340,000	21.936	15,429,782
El Camino Hospital District	227,050,000	8.640	19,617,120
Midpeninsula Regional Open Space District	44,225,000	2.898	1,281,641
Santa Clara Valley Water District Benefit Assessment District	90,945,000	1.693	1,539,699
Town of Los Altos Hills	0	100.	0
Town of Los Altos Hills 1915 Act Bonds	1,755,000	100.	1,755,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 111,011,677
 <u>OVERLAPPING GENERAL FUND DEBT:</u>			
Santa Clara County General Fund Obligations	\$ 638,110,521	1.693 %	\$ 10,803,211
Santa Clara County Pension Obligation Bonds	362,470,957	1.693	6,136,633
Santa Clara County Board of Education Certificates of Participation	5,690,000	1.693	96,332
Foothill-DeAnza Community College District Certificates of Participation	30,830,528	4.928	1,519,328
Mountain View-Los Altos Union High School District Certificates of Participation	1,940,000	10.286	199,548
Santa Clara County Vector Control District Certificates of Participation	2,685,000	1.693	45,457
Midpeninsula Regional Park District General Fund Obligations	112,143,611	2.898	3,249,922
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$ 22,050,431
Less: County supported obligations			7,385,011
TOTAL NET OVERLAPPING GENERAL FUND DEBT			14,665,420
 TOTAL DIRECT DEBT			 \$ -
TOTAL GROSS OVERLAPPING DEBT			\$ 133,062,108
TOTAL NET OVERLAPPING DEBT			\$ 125,677,097
 GROSS COMBINED TOTAL DEBT			 \$ 133,062,108 (2)
NET COMBINED TOTAL DEBT			\$ 125,677,097

(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 2016-17 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.57%
Gross Combined Total Debt	1.88%
Net Combined Total Debt	1.77%

Source: California Municipal Statistics

Legal Debt Margin Information

Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Assessed Valuation	Bonded Debt Limit - 15% of Assessed Valuation	Amount of Debt Subject to Limit	Legal Debt Margin
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
2017	7,093,263,573	1,063,989,536	-	1,063,989,536

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 2016-17 Combined Tax Rolls

Demographics and Economic Statistics

Last Ten Years

Year	Town Population	Personal Income (in thousand)	Per Capita Personal Income	Unemployment Rate	Median Age	% of Pop 25+ with High School Degree	% of Pop 25+ with Bachelor's Degree
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%
2016	8,634	1,028,190	\$119,086	2.4%	51.1	98.0%	83.7%

Note: 2007 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

Principal Employers

Current Year And Ten Years Ago

Employer	2017		2008	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Foothill Community College	352	60.48%	352	62.63%
Pinewood School	50	8.59%	62	11.03%
Saint Nicholas School	35	6.01%	42	7.47%
Fremont Hills Country Club	32	5.50%	30	5.34%
Congregation Beth Am	53 ^	9.11%	25	4.45%
Town of Los Altos Hills	19	3.26%	21	3.74%
Los Altos School District	32	5.50%	21	3.74%
Purissima Hills Water District	9	1.55%	9	1.60%
Totals	582	100.00%	562	100.00%

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.

Source: Information available from employers and websites.

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

Full Time Equivalent City Government Employees by Function

Last Ten Fiscal Years

	<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>	<u>2017</u>
Administration	3.30	3.30	3.30	3.30	3.30	3.42	3.42	5.92	6.12	6.32
Public safety	1.00	1.00	1.00	1.00	1.00	0.60	-	-	-	-
Community development	9.28	8.90	8.90	8.90	8.90	9.36	9.16	7.66	7.61	7.61
Town center and corpyard	1.12	1.12	1.12	1.12	1.12	1.50	2.09	1.00	0.85	0.85
Parks and recreation	1.00	1.00	2.00	2.00	2.00	2.54	0.75	0.60	0.60	1.65
Pathways	1.85	1.69	1.69	1.69	1.69	1.25	1.25	1.39	1.39	1.69
Drainage and street	2.62	2.46	2.46	2.46	2.46	1.92	2.02	1.70	1.70	2.15
Sewer	0.83	0.53	0.53	0.53	0.53	0.41	0.51	0.93	1.93	1.93
Solid waste	0.10	-	-	-	-	-	-	-	-	-
	<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>	<u>22.20</u>

Source: Town of Los Altos Hills Personnel Records

Operating Indicators by Function

Last Ten Fiscal Years

	2008	2009	2010	2011
Building permits issued:				
New homes	23	15	17	18
Valuation	\$ 19,575,954	\$ 15,674,840	\$ 13,277,815	\$ 22,801,520
Additions and remodels	107	70	88	103
Valuation	\$ 11,604,584	\$ 7,704,603	\$ 11,734,420	\$ 11,739,278
Planning permits issued	305	162	107	132
Streets resurfaced/rehabilitated	3.44	4.37	2.87	2.61
Recreation classes and activities offered*	22	164	195	147

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

Source: Town of Los Altos Hills

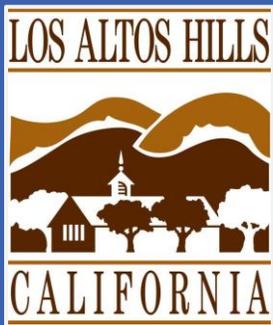
	2012	2013	2014	2015	2016	2017
	16	20	21	37	39	33
\$	14,446,905	\$ 20,970,084	\$ 25,266,696	\$ 32,021,811	\$ 27,158,677	\$ 27,718,202
	92	88	116	132	109	113
\$	9,004,645	\$ 10,623,625	\$ 13,485,643	\$ 13,479,448	\$ 10,014,195	\$ 17,247,476
	152	76	162	193	159	152
	1.48	4.13	7.00	8.12	8.50	6.30
	177	131	72	92	100	133

Capital Asset Statistics By Function

Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	67	71	75	80	82	85	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	58	55	58	58	58	60	60	60	65
Storm drains - miles	20	20	20	20	20	20	20	20	20	20
Sewer Operations										
Sanitary sewers - miles	52	53	52	53	54	55	56	56	56	56

Source: Town of Los Altos Hills



26379 Fremont Road
Los Altos Hills, CA 94022
www.losaltoshills.ca.gov