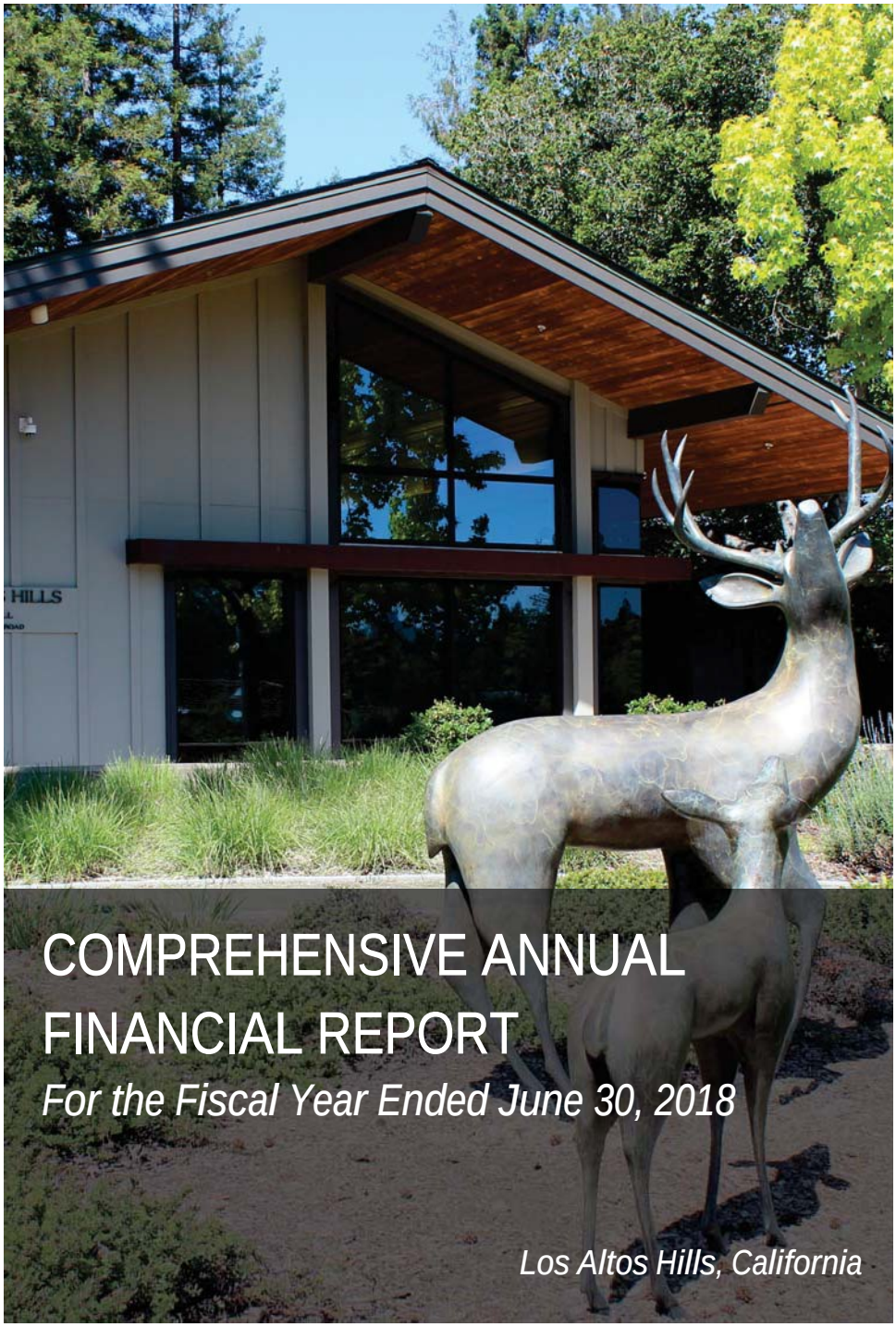


COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2018

Los Altos Hills, California

This page intentionally left blank

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2018

Town of Los Altos Hills, California

This page intentionally left blank

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal i
Town Organizational 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
Statement of Changes in Fiduciary Net Position – Fiduciary Funds 35

Notes to Basic Financial Statements 39

FINANCIAL SECTION (Continued)

Required Supplemental Information

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 70

Schedule of Proportionate Share of the Net Pension Liability 71

Schedule of Contributions 72

Schedule of Changes in the Town's Net OEPB Liability and Related Ratios 73

Schedule of OPEB Investment Returns 74

Schedule of OPEB Contributions 75

Notes to the Required Supplementary Information 76

Supplemental Information

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

Street Capital Projects Fund 78

Sewer Enterprise Fund 79

Nonmajor Governmental Funds:

Combining Balance Sheets 82

Combining Statement of Revenues, Expenditures and Changes in Fund Balances 84

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual 86

Agency Funds:

Statement of Changes in Assets and Liabilities 88

STATISTICAL SECTION

Net Position by Component 92

Changes in Net Position 94

Fund Balances of Governmental Funds 98

Changes in Fund Balances of Governmental Funds 100

Assessed and Estimated Actual Value of Taxable Property 102

Property Tax Rates – Direct and Overlapping Governments 103

Principal Taxpayers 104

Property Tax Levies and Collections 105

Ratios of Outstanding Debt by Type 106

Direct and Overlapping Debt 107

Legal Debt Margin Information 108

Demographics and Economic Statistics 109

Principal Employers 110

Full-Time Equivalent City Government Employees by Function 111

Operating Indicators by Function 112

Capital Asset Statistics by Function 114

INTRODUCTORY SECTION

This page intentionally left blank

Letter of Transmittal

January 23, 2019

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, 2018. 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, 2018, 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 unmodified ("clean") opinion on the Town's financial statements for the fiscal year ended June 30, 2018. 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 23.2 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 76. 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 70 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 82.

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

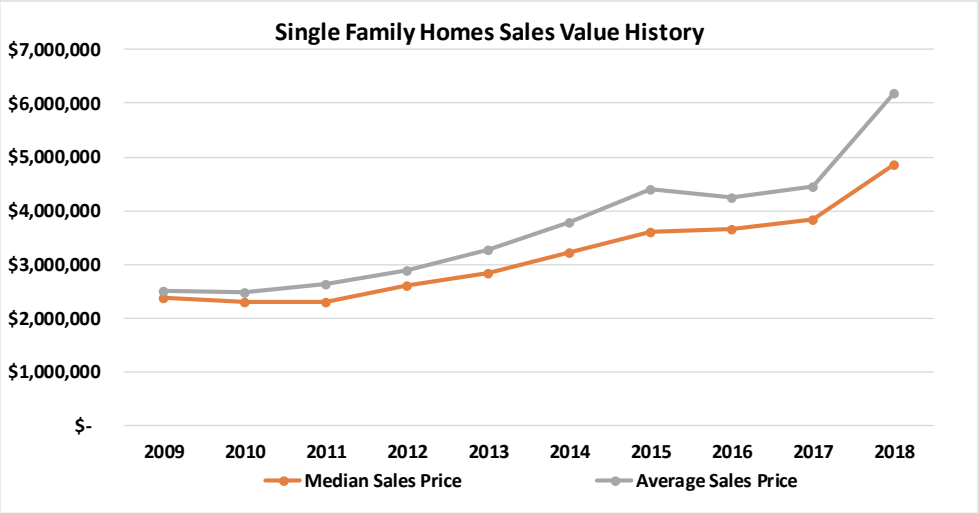
As shown in the Basic Financial Statements, starting on page 20, the Town is financially healthy. As of June 30, 2018, the Town has no outstanding debt, the unfunded pension liability per CalPERS Actuary is estimated at $3.4 million, and the total unrestricted fund balance is $13.0 million, of which $8.25 million 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 overall increase in total town-wide net position.

In contrast to published reports about municipal finances nationwide, the Town's finances are in good condition. However, pension cost spending and pension liabilities continue to substantially increase based on updated actuarial studies by CalPERS. These updated actuarial studies by CalPERS anticipate lower long-term investment earnings, increasing employee compensation, a longer life span, and earlier retirement. The Town has addressed these changes by developing new pension benefits for new employees, increasing employee participation in pension costs, and making voluntary payments to partially retire long-term pension liabilities. The following initiatives were taken during calendar year 2018: (1) a discretionary pension liability retirement payment was made to CalPERS for $1,360,000; (2) a third-party administered pension trust was established with a $500,000 contribution of which $300,000 was contributed prior to June 30, 2018; (3) the City Council authorized a $1 million increase to the existing pension reserve. This increase of the established reserve represents the Town's expectation that past service pension cost increases have not yet been included in the CalPERS published employer liabilities. The Notes to Financial Statements provide detailed information regarding the Town's pension obligations.

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 2018, the Town's median sale price of single-family residential homes increased 26.52 percent to $4,850,000 (from $3,833,500 for calendar year 2017). This is a 97 percent increase over the median price reported in the peak of the real estate bubble in 2008 ($2,460,000).



Results Region-wide were similar. In June 2018, the median price of home sales in Santa Clara County was $1,300,000, or 67.9 percent increase over the peak median price for Santa Clara County before the recession ($774,500).

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 2018-2019 net taxable assessed value is projected to be $8.5 billion based on Santa Clara County's data. As a result, the Town's property tax revenue is expected to be $4.7 million in 2018-2019. 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.

California SB 107 shifts a portion of the assessed property tax from the County of Santa Clara to Los Altos Hills. The Town received approximately $155,000 in fiscal year 2018. The Town anticipates receiving $319,000 in the upcoming fiscal year.

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, 2017. 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 2017-2018. 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.

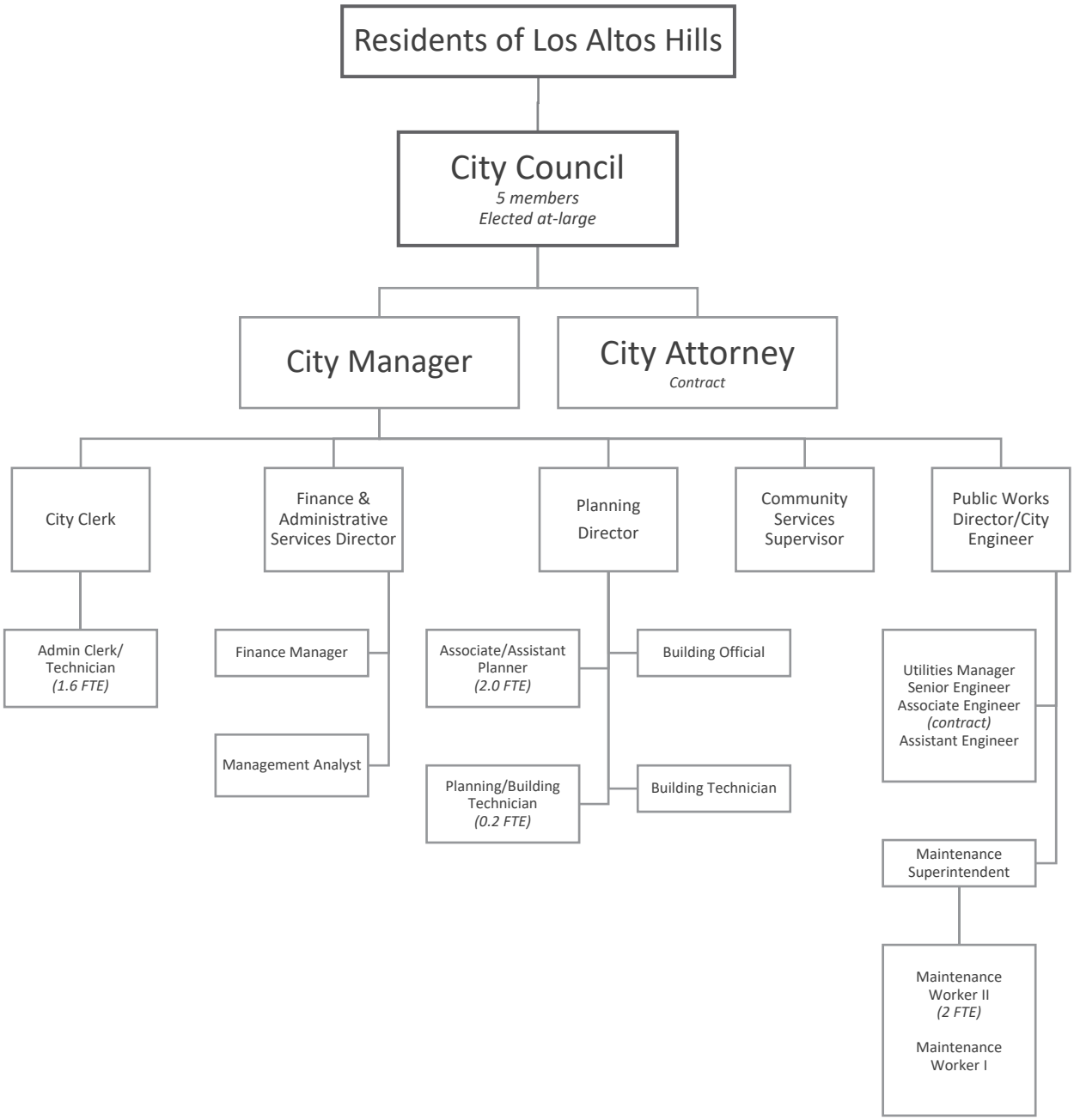
Preparation of this CAFR is not possible without the hard work of the entire Finance and Administrative Services Department.

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

Kelly Mayes, Administrative Services Director

Nichol Bowersox, 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, 2017

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

This page intentionally left blank

MAZE & ASSOCIATES

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, 2018, 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. 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

Change in Accounting Principles

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which became effective during the year ended June 30, 2018 and required a prior period adjustment to the financial statements as discussed in Note 7C.

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
January 23, 2019

Management's Discussion and Analysis

For the Year Ended June 30, 2018

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, 2018. 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, 2018 by $48.5 million (net position). Of this amount, $15.7 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 $2.8 million as reflected in the government-wide statement of activities. Net position of governmental activities increased by $1.8 million, primarily due to increases in general revenues related to property and other taxes. Net position of business-type activities increased by $0.9 million, reflecting this year's net income from the Sewer operations resulting from the increases in the sewer fee required to support increased capital and operating expenses.
- *Cash and investments* at June 30, 2018 totaled $21.9 million, of which $18.5 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 $0.4 million, or 2.2 percent as compared to the prior year, primarily due to increasing deposits partially offset by this year's total revenues exceeding total spending.
- *Accounts payable and other current liabilities* at June 30, 2018 was $4.8 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 million, a decrease of $0.6 million or 4.5% from the prior year. Of the total, $8.25 million, or 59.1% of the fund balance is available for spending at the government's discretion (unassigned fund balance).
- *General Fund* unassigned fund balance at June 30, 2018 was $8.25 million, a decrease of $2.0 million, or 19.6 percent over the previous year. The decrease is mainly due to additional reserves committed for particular purposes that were approved by the City Council at the beginning of the fiscal year.
- *Sewer Fund* unrestricted net position at June 30, 2018 was $2.65 million, increased by $39,601 (or 1.52%) from the prior year. Charges for services increased by $0.16 million, or 5.7% over the previous year primarily due to increases 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

- 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. The Town made a $1.4 million prepayment of this liability in January 2018 which is expected to more than offset increased by CalPERS for changing actuarial assumptions. At the close of this fiscal year, the Town's net pension liability increased $0.5 million to $3.4 million, an 17.3% increase and is expected to increase again in fiscal year 2018-2019.
- OPEB – During fiscal year 2018, the Town implemented the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The purpose of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees are provided with postemployment benefits other than pensions by requirement recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense. As a result, the beginning net positions of the Governmental Activities, Business-Type Activities, and Internal Service Fund were restated and reduced by $984,120, $31,152, and $715,739, respectively.
- Reserves – Each year, the City Council reviews the current committed and assigned reserves and updates the balances of these reserves as necessary. Any changes are adopted by resolution of the City Council. For fiscal year 2018, changes have been reflected in the accompanying financial statements. The general fund unassigned fund balance has been reclassified to reflect these changes to committed reserves.

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 nine 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 70.

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 page 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 an agency fund, which is used to report resources held by the Town in a custodial capacity for the West Loyola Special Assessment District; and PARS 115 Trust Fund, which accounts for assets that the Town has invested in a trust for prefunding pension related liabilities. The fiduciary fund financial statements can be found on page 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 37-68 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 page 70-76 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 82-87 and the Statistical Section follows on page 91**.**

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 $48.5 million at the close of the fiscal year.

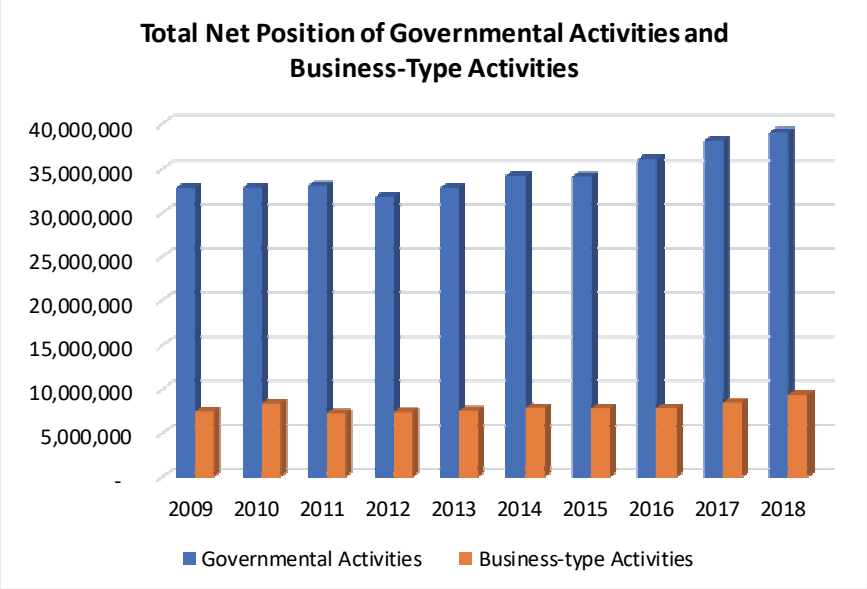
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current and other assets	$ 18,881,555	$ 18,406,655	$ 3,495,185	$ 3,480,821	$ 22,376,740	$ 21,887,476
Noncurrent assets	25,898,305	25,454,787	6,756,311	5,893,083	$ 32,654,616	$ 31,347,870
Total assets	44,779,860	43,861,442	10,251,496	9,373,904	$ 55,031,356	$ 53,235,346
DEFERRED OUTFLOWS OF RESOURCES	2,440,472	702,215	142,777	38,596	$ 2,583,249	$ 740,811
LIABILITIES						
Current liabilities	4,037,139	3,073,876	801,420	797,299	$ 4,838,559	$ 3,871,175
Noncurrent liabilities	3,598,498	2,838,742	213,140	153,094	$ 3,811,638	$ 2,991,836
Total liabilities	7,635,637	5,912,618	1,014,560	950,393	$ 8,650,197	$ 6,863,011
DEFERRED INFLOWS OF RESOURCES	441,929	419,117	28,183	23,036	$ 470,112	$ 442,153
NET POSITION						
Net investment in capital assets	25,898,305	24,739,048	6,704,180	5,831,322	$ 32,602,485	$ 30,570,370
Restricted	192,287	115,275	-	-	$ 192,287	$ 115,275
Unrestricted	13,052,174	13,377,599	2,647,350	2,607,749	$ 15,699,524	$ 15,985,348
Total net position	39,142,766	38,231,922	9,351,530	8,439,071	$ 48,494,296	$ 46,670,993

The government's overall net position increased by $1,823,303, after restatements required by GASB Statement No. 75, during the current fiscal year compared to an increase of $2,748,270 in the prior fiscal year. The increase resulted primarily from additional property and other tax revenues received that were higher than prior year and increased sewer charges for services. As an offset to increased revenues, additional pension payments were made during the current fiscal year as well as the adoption of GASB Statement 75 in the current fiscal year related to other postemployment benefits (OPEB) expenses.

The largest portion of the Town's net position, 67 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 $192,287 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 $15,699,524 is unrestricted and may only be used to meet the government's ongoing services to citizens and operational needs. Of this amount, $2,647,350 may only be used to meet sewer related obligations.

At June 30, 2018, 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. Total net position has increased or remained consistent over the most recent ten years for governmental activities and business-type activities as illustrated in the graph below. The Town of Los Altos Hills has maintained a stable financial position.



The remainder of this page left intentionally blank.

Changes in Net Position

The following schedule reflects the net changes in net position for the fiscal years 2018 and 2017. The Town's overall net position increased by $2,838,580 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

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	$ 4,660,824	$ 2,917,428	$ 7,578,252	$ 3,019,947	$ 2,759,287	$ 5,779,234
Operating grants and contributions	194,053	-	194,053	343,107	-	343,107
Capital grants and contributions	94,031	130,930	224,961	69,635	185,369	255,004
Total program revenues	4,948,908	3,048,358	7,997,266	3,432,689	2,944,656	6,377,345
General revenues						
Property taxes	5,721,224	-	5,721,224	5,302,028	-	5,302,028
Motor vehicle license tax	57,572	-	57,572	56,294	-	56,294
Other taxes	667,037	-	667,037	610,337	-	610,337
Franchise fees	579,333	-	579,333	573,336	-	573,336
Rental income	218,816	-	218,816	202,452	-	202,452
Investment income	32,349	6,642	38,991	20,236	4,134	24,370
Other unrestricted revenue	39,051	3,220	42,271	13,747	2,470	16,217
Gain on disposal of capital assets	5,885	-	5,885	5,500	-	5,500
Total general revenues	7,321,267	9,862	7,331,129	6,783,930	6,604	6,790,534
						-
Total revenues	12,270,175	3,058,220	15,328,395	10,216,619	2,951,260	13,167,879
Expenses						
General government	2,459,576	-	2,459,576	2,119,990	-	2,119,990
Public safety	2,194,391	-	2,194,391	1,817,299	-	1,817,299
Community development	2,894,119	-	2,894,119	2,210,748	-	2,210,748
Public works	1,669,907	-	1,669,907	1,461,155	-	1,461,155
Parks and recreation	1,157,213	-	1,157,213	680,522	-	680,522
Sewer utilities	-	2,114,609	2,114,609	-	2,129,895	2,129,895
Total expenses	10,375,206	2,114,609	12,489,815	8,289,714	2,129,895	10,419,609
Increase (decrease) in net position before transfers	1,894,969	943,611	2,838,580	1,926,905	821,365	2,748,270
Transfers	-	-	-	209,677	(209,677)	-
Change in net position	1,894,969	943,611	2,838,580	2,136,582	611,688	2,748,270
Net position at beginning of year as restated	37,247,797	8,407,919	45,655,716	36,095,340	7,827,383	43,922,723
Net position at end of year	$ 39,142,766	$ 9,351,530	$ 48,494,296	$ 38,231,922	$ 8,439,071	$ 46,670,993

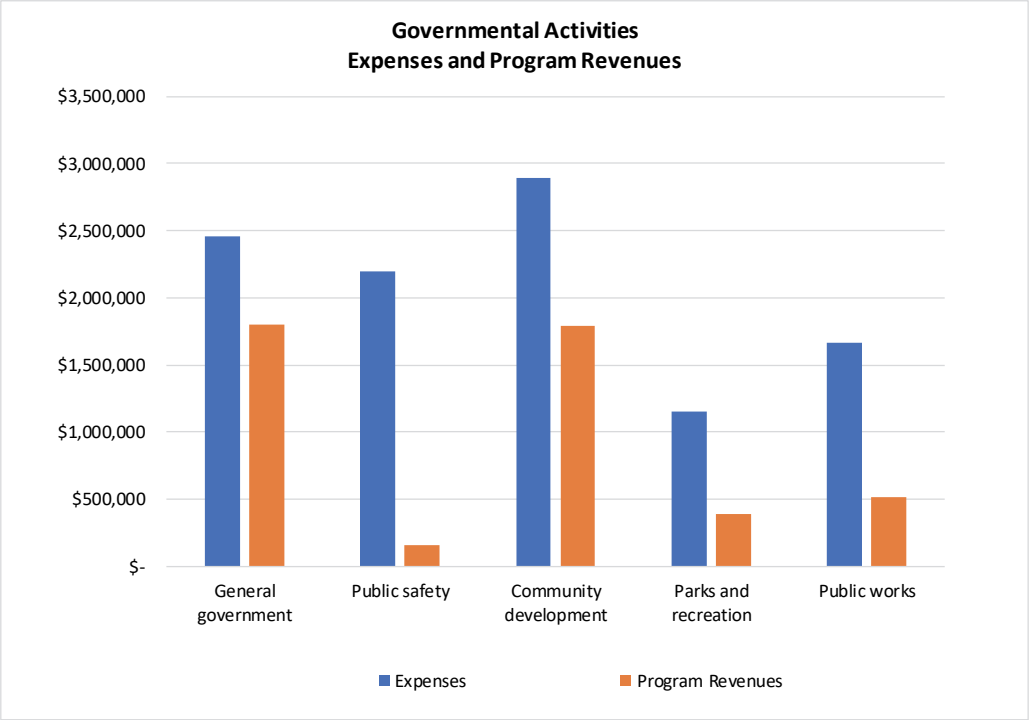
Governmental Activities. During the current fiscal year, net position in governmental activities increased by $1,894,969 from the prior fiscal year for an ending balance of $39,142,766. The increase in net position is because total revenues exceeded expenditures in 2017-2018. Included in the beginning net position is a restatement due to the implementation of GASB 75 for other postemployment benefits.

Major changes in revenues and expenses of governmental activities:

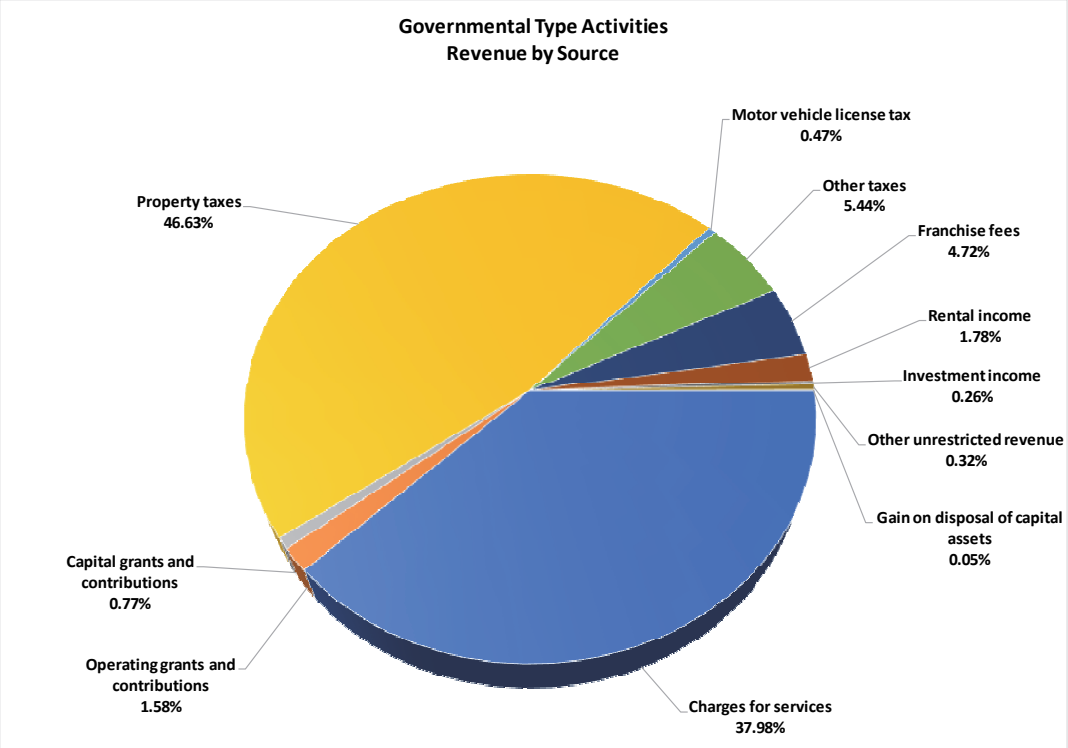
- Property tax and charges for services are the main revenue sources for the Town, accounting for 47% and 38%, respectively, of the total governmental activities' revenues.

- Property tax totaled $5.7 million, an increase of $419,196, or 7.9%. The increase of property tax revenue is due to strong real estate market and increases in assessed property values.
- Charges for services revenues of $4.7 million increased by $1.6 million, 54.3% predominantly due to increases community development activities primarily relating to residential development.
- Other taxes increased by $56,700, or 9.3% as the Town has seen increases in business license tax, real property transfer tax and sales/use tax revenues.
- Franchise fees totaled $579,333, an increase of $5,997, or 1.05%, mainly due to recovery of unpaid water franchise fees from prior years.
- Capital grants and contribution revenue decreased $30,043 primarily due to prior year grants that were finalized in in the prior fiscal year.
- Total expenses of all governmental activities were $10.4 million for fiscal year 2017-2018, an increase of $2,085,492, or 25.2% from the prior year. This increase can be attributed to an increase in public safety for additional hours patrolling the Town through the Town's contract with Santa Clara County Sheriff's office; an additional position added to public works; an increase in contract services for staffing augmentation with planning and building, public works, and administrative services; and an additional twenty new programs were added in parks and recreation.
- The Town's governmental activities expenses are related to 23.7% general government; 21.15% public safety; 27.9% community development; 16.1% public works; 11.15% parks and recreation.

The following graph depicts the expense and program revenues by governmental activities for fiscal year 2018:



The graph on the following page shows the revenues by source for governmental-type activities. Property taxes comprise the largest revenue source at 46.63% of total governmental revenue. Other primary revenue sources include 37.98% for charges for services and 5.44% for other taxes.



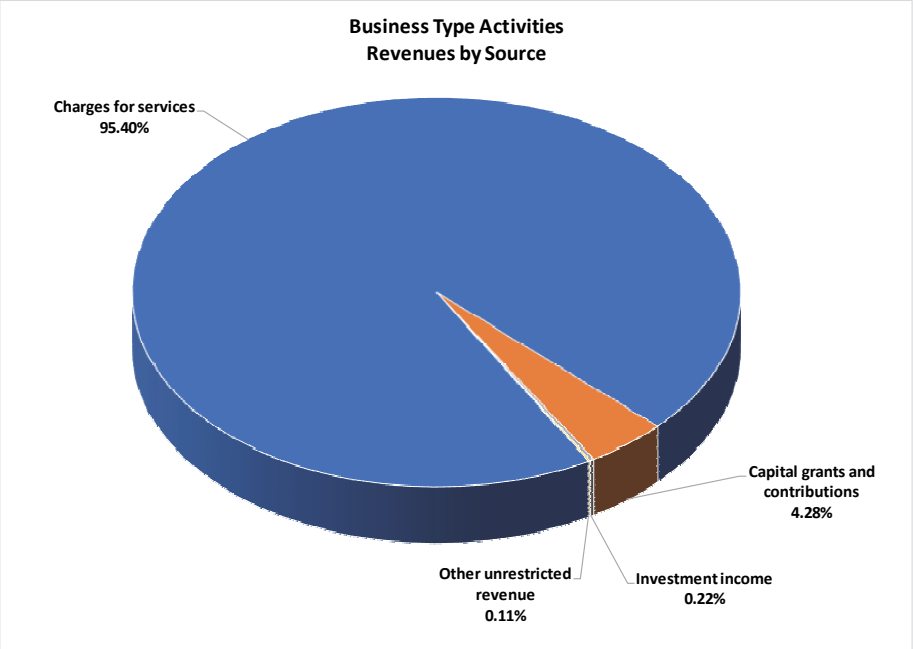
The table below shows the governmental activities total costs of services and net costs of services for fiscal year 2018. This table identifies the cost of these services supported by charges for services, operating grants, and capital grants.

	Total Cost of Services 2018	Net Cost (Benefit) of Services 2018	% of Total Costs
Governmental activities:			
General government	2,459,576	643,013	23.71%
Public safety	2,194,391	2,001,393	21.15%
Community development	2,894,119	1,102,094	27.89%
Public works	1,669,907	917,314	16.10%
Parks and recreation	1,157,213	762,484	11.15%
Total governmental activities	10,375,206	5,426,298	100.00%

Business-type Activities. Business-type activities increased the Town's net position by $943,611. Key elements of this are as follows:

The Town's has one business-type activity that is related 100% to sewer utilities and sewer capital infrastructure. Charges for services accounted for most the Town's total business-type revenues, with charges for services contributing 95.40% of the total revenues.

Below is a graph depicting the revenues by source for business-type activities. The primary source of revenue is charges for services, which amounted to $ 2,917,428, a 5.73% increase from fiscal year 2017. Other revenue sources include capital grants and contributions, investment income, and other unrestricted revenue for a total of $140,792.



The business-type activities total costs of services for fiscal year 2018 was $2,114,609 and the net benefits of services was $933,749. Therefore, the cost of these services was 100% supported by charges for services and capital grants and contributions.

FUND FINANCIAL ANALYSIS

The Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Town's governmental funds are accounted for using the modified accrual basis of accounting. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2018, the Town's governmental funds reported a combined ending fund balance of $13,962,773, a decrease of $660,921, or a decrease of 4.52% in comparison with the prior fiscal year. Approximately $8.25 million, or 59.12% of this amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is non-spendable, restricted, committed, or assigned to indicate that it is not available for new spending.

Committed and assigned fund balances primarily consist of reserves for specific future uses. These reserves are approved each year by the City Council during the annual budget process. Other funds that are committed primarily consist of capital project funds. Capital projects are approved by the City Council during the annual budget process for the upcoming fiscal year. For fiscal year 2018, the City Council authorized the following changes to the committed reserves: (1) an increase of $1,000,000 to the pension reserve to bring the total reserve up to $1,570,000; (2) an increase of $5,000 to the IT reserve to bring the total reserve up to $25,000; (3) an increase of $200,000 to the Public/Private Road reserve to bring the total reserve up to $200,000; and (4) an increase of $80,000 to the Risk Management reserve bring the total reserve up to $80,000. All remaining reserves classified as committed or assigned remained unchanged.

Governmental funds revenues, expenditures, and change in fund balances for the last ten fiscal years can be found under the Statistical Section on pages 100-101 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 $8,254,294, while total fund balance decreased to $11,729,294. 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 83 percent of total General Fund expenditures of $9.95 million, while total fund balance represents approximately 117.93 percent of the same amount. The ratios indicate that the Town's unassigned fund balance can support General Fund operations for most of the entire year without additional revenue sources.

The fund balance of the Town's General Fund decreased by $0.73 million during the current fiscal year. This decrease is primarily attributable to a one-time payment authorized by the City Council to prepay a portion of the Town's unfunded pension liability in the amount of approximately $1.4 million.

General Fund Revenues for the year ended June 30, 2018 totaled $11,255,395, increased by $1,902,323, or 20.34%. The following chart summarizes revenues in major categories with two-year comparison:

			Increase(Decrease)	
	2018	2017	$ Variance	% Variance
Property taxes	$ 5,721,224	$ 5,302,028	$ 419,196	7.91%
Taxes other than property	667,037	610,337	56,700	9.29%
Franchise fees	579,333	573,336	5,997	1.05%
Licenses and permits	1,246,623	1,544,996	(298,373)	-19.31%
Intergovernmental	41,460	60,357	(18,897)	-31.31%
Investment income	29,825	20,236	9,589	47.39%
Charges for services	1,112,702	1,069,543	43,159	4.04%
Interfund charges	1,632,812	-	1,632,812	100.00%
Rental income	167,096	150,991	16,105	10.67%
Miscellaneous	57,283	21,248	36,035	169.59%
Total general fund revenues	$ 11,255,395	$ 9,353,072	$ 1,902,323	20.34%

The increase or decrease in revenue sources in the General fund as compared to prior fiscal year are primarily attributable to the following:

- Property tax increased to $5.7 million, up 7.9 percent, during fiscal year 2018. 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 $667,037, increased by $56,700 or 9.29 percent, as compared to the prior year. This increase is primarily attributable to an increase in business license taxes as compared to the prior year. Other taxes within this category (real property transfer tax, sales and use tax, and public safety sales tax) have remained consistent with the prior year.
- Franchise fees increased by $5,997 or 1.05% during the current fiscal year and thus remained consistent with the prior year.
- Licenses and permits totaled $1,246,623, a decrease of $298,373, or 19% 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. Dependent upon the total number of permits issued, this revenue stream can fluctuate year over year.
- Intergovernmental revenue totaled $41,460, a decrease of $18,897 or 31.31 percent from the prior year. Intergovernmental revenue includes vehicle code fines, AB 939 fees, and abandoned vehicle recovery. These revenues will fluctuate based on timing of payments and the amount of fees and recovery collected during the year.
- Interfund charges were interspersed with transfers in previous years' presentations. This presentation change in 2018 shows an increase in this category due to reclassifications from prior years' presentations.
- Investment income totaled $29,825, an increase of $9,589 or 47.39 percent from prior year. Investment income includes interest earned on accounts (i.e. checking), interest earned on investments, realized gain / losses on investments, and unrealized gain / losses on investments. The Town recognized greater interest income in the current fiscal year than in the prior year.
- Charges for services totaled $1,112,702, an increase of $43,159 or 4.04%. Charges for services include various fees charged for Town services including administrative, community development, public works, parks and recreation, and engineering. These will fluctuate year over year depending upon the services provided throughout the year.

General Fund Expenditures increased $3,322,814 (50.17%) to $9.945 million in 2017-2018.

			Increase(Decrease)	
	2018	2017	$ Variance	% Variance
General government	$ 1,978,198	$ 1,813,551	$ 164,647	9.08%
Public safety	1,366,163	1,213,343	152,820	12.59%
Community development	2,540,126	1,833,654	706,472	38.53%
Public works	1,678,516	1,214,072	464,444	38.26%
Parks and recreation	722,696	548,474	174,222	31.76%
Nondepartmental - additional pension payments	1,660,209	-	1,660,209	100.00%
Total general fund expenditures	$ 9,945,908	$ 6,623,094	$ 3,322,814	50.17%

Without the additional payments to the Town's unfunded pension liability, the General Fund's expenditures increased by $1,662,605, or 25.10% as compared to the prior year. 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 mainly due to increases in contract services for building official, building inspection, and code enforcement.

Interfund charges were interspersed with transfers in previous years' presentations. This presentation change in 2018 shows an increase across all functions due to reclassifications from prior years' presentations. If the prior fiscal year were presented in the same format, excluding additional pension payments, the general fund's expenditures would show an increase of $429,744, or 5.47% as compared to the prior fiscal year.

The net between revenues and expenditures was $1.3 million before $2.0 million in transfers to other funds. Transfers to other funds consist of capital projects to support capital improvement needs.

The Street Capital Project Fund is classified as a major fund for the Town. The Streets Capital Project Fund had a decrease of $12,177 in fund balance during the current fiscal year and the ending fund balance is $368,574 at June 30, 2018.

			Increase(Decrease)	
	2018	2017	$ Variance	% Variance
Intergovernmental				
Gas taxes	$ 144,791	$ 147,650	$ (2,859)	-1.94%
SB1 Road Maintenance Rehab	60,408	-	60,408	100.00%
Traffic congesion relief	33,623	23,109	10,514	45.50%
Vehicle registration	53,027	52,415	612	1.17%
Charges for services	60,551	46,526	14,025	30.14%
Transfers in	1,610,052	951,198	658,854	69.27%
Total revenues	1,962,452	1,220,898	741,554	60.74%
Less: Capital Outlays	(1,974,629)	(905,829)	(1,068,800)	117.99%
Net change in Streets Capital Improvement fund	$ (12,177)	$ 315,069	$ (327,246)	-103.86%

Revenue sources for the street capital improvement program are limited. Current year revenues totaled $352,400, increased by $82,700, or 30.66% primarily due to SB1 road maintenance rehabilitation intergovernmental revenues received in 2018 that were not received in fiscal year 2017 and an increase in transfers for capital improvement projects. Total spending was $1,974,629 for the annual street rehabilitation projects.

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 utilities enterprise fund at the end of the fiscal year was $2,647,350. Total growth in net position for sewer utilities enterprise fund was $331,923, or 54.26%. Total sewer operating revenues increased by $158,891, or 5.75%, while sewer operating expenses decreased by $224,963, or 9.62%. Included in sewer operating expenses are interfund charges for town center allocations, vehicle and equipment allocations, corporate yard allocations, and overhead allocations. Total interfund allocations decreased by $2,066, or 0.76%, as compared to the prior fiscal year. Sewer connection fees decreased by $54,439, or 29.37%. The overall change in net position is primarily attributable to lower expenses combined with moderate increased revenue.

Sewer Utility Enterprise Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position

			Increase(Decrease)	
	2018	2017	$ Variance	% Variance
Operating Revenues				
Sewer assessment charges	$ 2,917,428	$ 2,759,287	$ 158,141	5.73%
Other	3,220	2,470	750	30.36%
Total Operating Revenues	2,920,648	2,761,757	158,891	5.75%
Operating Expenses				
Salaries and benefits	26,241	168,700	(142,459)	-84.45%
Contract services - treatment plants	890,814	1,024,901	(134,087)	-13.08%
Professional services	422,500	287,433	135,067	46.99%
Support goods and services	7,833	8,403	(570)	-6.78%
Repairs and maintenance	321,657	420,672	(99,015)	-23.54%
Utilities	5,480	5,743	(263)	-4.58%
Interfund charges:				
Town center allocation	22,762	16,140	6,622	41.03%
Vehicle and equipment allocation	13,083	14,777	(1,694)	-11.46%
Corp Yard allocation	34,840	32,698	2,142	6.55%
Overhead allocation	200,541	209,677	(9,136)	-4.36%
Depreciation	168,858	150,428	18,430	12.25%
Total Operating Expenses	2,114,609	2,339,572	(224,963)	-9.62%
Earnings from operations	806,039	422,185	383,854	90.92%
Nonoperating Revenues (Expenses)				
Capital contributions - sewer connection fees	130,930	185,369	(54,439)	-29.37%
Investment income	6,642	4,134	2,508	60.67%
Nonoperating Revenues (Expenses), net	137,572	189,503	(51,931)	-27.40%
Change in net position	943,611	611,688	331,923	54.26%
Net Position, beginning of year as restated	8,407,919	7,827,383	580,536	7.42%
Net Position, end of year	$ 9,351,530	$ 8,439,071	$ 912,459	10.81%

Unrestricted net position for the internal service fund at the end of the fiscal year was $880,609. Total decrease in net position for the internal service fund was $3,765, or 130.94%, as compared an increase of $12,170 in the prior fiscal year. Total operating revenues consist of interfund charges for services. These operating revenues increased by $145,928, or 22.96% as compared to prior fiscal year. Operating expenses increased by $163,609, or 26%, as compared to prior year. This increase in primarily attributable to salaries and benefits as these were adjusted for implementation of GASB Statement No. 75 related to other postemployment benefits.

Internal Service Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position

			Increase(Decrease)	
	2018	2017	$ Variance	% Variance
Operating Revenues				
Interfund Charges for Services				
Town Hall services	$ 524,481	$ 371,879	$ 152,602	41.04%
Corporate Maintenance Yard services	139,361	130,793	8,568	6.55%
Vehicle services	117,748	132,990	(15,242)	-11.46%
Total Operating Revenues	781,590	635,662	145,928	22.96%
Operating Expenses				
Salaries and benefits	123,379	19,299	104,080	539.30%
Professional services	49,880	56,191	(6,311)	-11.23%
Support goods and services	104,009	89,890	14,119	15.71%
IT support and maintenance	159,744	129,451	30,293	23.40%
Repairs and maintenance	128,374	92,536	35,838	38.73%
Utilities	42,152	49,766	(7,614)	-15.30%
Machinery and equipment	22,962	27,537	(4,575)	-16.61%
Depreciation	162,357	164,578	(2,221)	-1.35%
Total Operating Expenses	792,857	629,248	163,609	26.00%
Earnings (loss) from operations	(11,267)	6,414	(17,681)	-275.66%
Nonoperating Revenues (Expenses)				
Gain on disposal of capital assets	5,885	5,500	385	7.00%
Other income	1,617	256	1,361	531.64%
Nonoperating Revenues	7,502	5,756	1,746	30.33%
Change in net position	(3,765)	12,170	(15,935)	-130.94%
Net Position, beginning of year as restated	4,534,931	5,238,504	(703,573)	-13.43%
Net Position, end of year	$ 4,531,166	$ 5,250,674	$ (719,508)	-13.70%

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 consolidates input 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.

The actual general fund revenues were $439,679 less than the final adopted budget for fiscal year 2018. The actual general fund expenditures exceeded the final adopted budget by $871,041. This is attributable by additional prepayments for the Town's unfunded pension liability for $1,660,209 during fiscal year 2018. The Town makes a concentrated effort to control expenditures. Shown below are the expenditures by function for fiscal year 2018 as compared to the final adopted budget.

	Original Budget	Adopted Budget	2018 Actual Expenditures	Variance with Final Budget- Favorable (Unfavorable)
General government	$ 2,219,941	$2,219,941	$ 1,978,203	$ 241,738
Public safety	1,369,891	1,369,891	1,366,163	3,728
Community development	2,979,150	2,979,150	2,540,121	439,029
Public works	1,793,446	1,793,446	1,678,516	114,930
Parks and recreation	712,439	712,439	722,696	(10,257)
Nondepartmental - additional pension payments	-	-	1,660,209	(1,660,209)
Total general fund expenditures	$ 9,074,867	$9,074,867	$ 9,945,908	$ (871,041)

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, 2018, amounts to $32,602,485 (net of accumulated depreciation), an increase of $2,032,115 (6.65%). The investment in capital assets include land, buildings, equipment, vehicles and infrastructure. Current year capital spending included $2,564,141 in infrastructure and $1,041,715 in the sewer collection system. No changes were recorded in land for the fiscal year. The table on the following page presents summarized information on capital assets net of depreciation for fiscal years 2017 and 2018. 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)

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 250,535	$ -	$ 250,535	$ 250,535	$ -	$ 250,535
Buildings	3,380,897	-	3,380,897	3,511,535	-	3,511,535
Office equipment	-	-	-	-	-	-
Vehicles	129,660	-	129,660	161,379	-	161,379
Sewer collection system		6,704,180	6,704,180	-	5,831,323	5,831,323
Infrastructure	22,137,213	-	22,137,213	20,815,599	-	20,815,599
Total capital assets, net	$ 25,898,305	$ 6,704,180	$ 32,602,485	$ 24,739,048	$ 5,831,323	$ 30,570,371

Long-Term Debt

The Town has no long-term bonded debt as of and for the year ended June 30, 2018. The remainder of the Town's long-term obligations comprise 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 eight years. Property tax revenue is projected to approximate $5.9 million in 2018-2019, and permit and license revenues are estimated to remain similar to 2018-2019.

Overall, the adopted 2018-2019 General Fund budget reflects revenue over expenditures in the amount of $60,855. Total revenues and transfers in are budgeted at $11.3 million, while total expenditures are budgeted at $9.4 million and transfers out are budgeted at $1.9 million, with an estimated total ending fund balance of $11.1 million. The 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 2018-2019 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 and has established a trust that may be used to fund future pension obligations where funds 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

TOWN OF LOS ALTOS HILLS

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	$ 18,467,112	$ 3,468,205	$ 21,935,317
Accounts receivables	414,443	26,980	441,423
Total Current Assets	18,881,555	3,495,185	22,376,740
Noncurrent Assets:			
Loans receivable	-	52,131	52,131
Total Noncurrent Assets	-	52,131	52,131
Capital Assets:			
Non-depreciable capital assets	250,535	-	250,535
Depreciable capital assets, net of depreciation	25,647,770	6,704,180	32,351,950
Total Capital Assets	25,898,305	6,704,180	32,602,485
Total Assets	44,779,860	10,251,496	55,031,356
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	2,299,094	126,367	2,425,461
Related to OPEB	141,378	16,410	157,788
Total Deferred Outflows of Resources	2,440,472	142,777	2,583,249
Total Assets and Deferred Outflows	47,220,332	10,394,273	57,614,605
LIABILITIES			
Current Liabilities:			
Accounts payable	288,597	171,687	460,284
Other liabilities	132,091	543,115	675,206
Refundable deposits	3,612,100	86,618	3,698,718
Compensated absences due within one year	4,351	-	4,351
Total Current Liabilities	4,037,139	801,420	4,838,559
Noncurrent Liabilities:			
Compensated absences due in more than one year	103,730	4,494	108,224
Net pension liability	3,223,752	177,189	3,400,941
Net OPEB liability	271,016	31,457	302,473
Total Noncurrent Liabilities	3,598,498	213,140	3,811,638
Total Liabilities	7,635,637	1,014,560	8,650,197
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	378,205	20,787	398,992
Related to OPEB	63,724	7,396	71,120
Total Deferred Inflows of Resources	441,929	28,183	470,112
NET POSITION			
Net investment in capital assets	25,898,305	6,704,180	32,602,485
Restricted for:			
Parks and recreation	75,793	-	75,793
Public safety	85,187	-	85,187
Art donations	31,307	-	31,307
Unrestricted	13,052,174	2,647,350	15,699,524
Total Net Position	39,142,766	9,351,530	48,494,296
Total Liabilities, Deferred Inflows and Net Position	$ 47,220,332	$ 10,394,273	$ 57,614,605

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			Net Revenue (Expense) and Change in Net Position		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$ 2,459,576	$ 1,804,216	$ 12,347	$ -	$ (643,013)	$ -	$ (643,013)
Public safety	2,194,391	156,083	36,915	-	(2,001,393)	-	(2,001,393)
Community development	2,894,119	1,792,025	-	-	(1,102,094)	-	(1,102,094)
Public works	1,669,907	513,771	144,791	94,031	(917,314)	-	(917,314)
Parks and recreation	1,157,213	394,729	-	-	(762,484)	-	(762,484)
Total Governmental Activities	10,375,206	4,660,824	194,053	94,031	(5,426,298)	-	(5,426,298)
Business-type Activities:							
Sewer	2,114,609	2,917,428	-	130,930	-	933,749	933,749
Total Business-type Activities	2,114,609	2,917,428	-	130,930	-	933,749	933,749
Total Primary Government	$ 12,489,815	$ 7,578,252	$ 194,053	$ 224,961	(5,426,298)	933,749	(4,492,549)
		General Revenues:					
		Taxes:					
		Property taxes			5,721,224	-	5,721,224
		Motor vehicle license tax			57,572	-	57,572
		Other taxes			667,037	-	667,037
		Franchise fees			579,333	-	579,333
		Rental income			218,816	-	218,816
		Investment income			32,349	6,642	38,991
		Other unrestricted revenue			39,051	3,220	42,271
		Gain on disposal of capital assets			5,885	-	5,885
		Total General Revenues			7,321,267	9,862	7,331,129
		Change in Net Position			1,894,969	943,611	2,838,580
		Net Position, Beginning of Year, as restated (Note 7C)			37,247,797	8,407,919	45,655,716
		Net Position, End of Year			$ 39,142,766	$ 9,351,530	$ 48,494,296

See accompanying notes to financial statements

This page intentionally left blank

Governmental Fund Financial Statements

General Fund accounts for financial resources traditionally associated with the 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.

TOWN OF LOS ALTOS HILLS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General	Streets Capital Projects	Nonmajor Governmental Funds	Total
ASSETS				
Cash and investments	$ 15,215,255	$ 352,694	$ 1,870,033	$ 17,437,982
Receivables:				
Taxes other than property	31,238	-	-	31,238
Intergovernmental	3,784	18,300	16,667	38,751
Interest	63,618	-	-	63,618
Miscellaneous	280,836	-	-	280,836
Total Assets	$ 15,594,731	$ 370,994	$ 1,886,700	$ 17,852,425
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 225,304	$ 2,420	$ 21,795	$ 249,519
Other liabilities	28,033	-	-	28,033
Refundable deposits	3,612,100	-	-	3,612,100
Total Liabilities	3,865,437	2,420	21,795	3,889,652
FUND BALANCES				
Restricted	-	-	192,287	192,287
Committed	3,125,000	368,574	1,672,618	5,166,192
Assigned	350,000	-	-	350,000
Unassigned	8,254,294	-	-	8,254,294
Total Fund Balances	11,729,294	368,574	1,864,905	13,962,773
TOTAL LIABILITIES AND FUND BALANCES	$ 15,594,731	$ 370,994	$ 1,886,700	$ 17,852,425

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2018

Fund Balances of Governmental Funds	$ 13,962,773
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	22,247,748
The Internal Service Fund is used by the Town to charge the cost of Town Hall, office, and corporate yard services. The assets and liabilities of the Internal Service Fund are included in the Governmental Activities in the Statement of Net Position.	4,531,166
Deferred outflows of resources are not deemed available to pay current period expenditures and therefore are not reported as governmental fund assets:	
Deferred outflows related to pensions	2,299,094
Deferred outflows related to other postemployment benefits	141,378
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(102,696)
Net pension liability	(3,223,752)
Net OPEB liability	(271,016)
Deferred inflows of resources are not deemed due and payable in the current period and therefore are not reported as governmental fund liabilities:	
Deferred inflows due to pension liabilities	(378,205)
Deferred inflows due to OPEB liabilities	(63,724)
Net Position of Governmental Activities	$ 39,142,766

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General	Streets Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Property taxes	$ 5,721,224	$ -	$ -	$ 5,721,224
Taxes other than property	667,037	-	-	667,037
Intergovernmental	41,460	291,849	156,083	489,392
Charges for services	1,112,702	60,551	452,053	1,625,306
Licenses and permits	1,246,623	-	-	1,246,623
Franchise fees	579,333	-	-	579,333
Fines and forfeitures	381	-	-	381
Rental income	167,096	-	51,720	218,816
Interfund charges	1,632,812	-	-	1,632,812
Investment income	29,825	-	2,524	32,349
Other revenues	56,902	-	-	56,902
Total revenues	11,255,395	352,400	662,380	12,270,175
EXPENDITURES				
General government	1,978,203	-	5,736	1,983,939
Public safety	1,366,163	-	415,262	1,781,425
Community development	2,540,121	-	-	2,540,121
Public works	1,678,516	-	-	1,678,516
Parks and recreation	722,696	-	-	722,696
Nondepartmental				
Additional pension payments	1,660,209	-	-	1,660,209
Capital outlay	-	1,974,629	589,560	2,564,189
Total expenditures	9,945,908	1,974,629	1,010,558	12,931,095
Excess (Deficiency) of Revenues Over Expenditures	1,309,487	(1,622,229)	(348,178)	(660,920)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,610,052	605,382	2,215,434
Transfers out	(2,038,067)	-	(177,367)	(2,215,434)
Total Other Financing Sources (Uses)	(2,038,067)	1,610,052	428,015	-
Net Change in Fund Balances	(728,580)	(12,177)	79,837	(660,920)
Fund Balances, Beginning of Year	12,457,874	380,751	1,785,068	14,623,693
Fund Balances, End of Year	$ 11,729,294	$ 368,574	$ 1,864,905	$ 13,962,773

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Total Governmental Funds	$ (660,920)
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:	
Governmental funds report capital outlays as expenditures but in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:	
Capital outlays	2,564,189
Depreciation expense charged to governmental activities	(1,242,575)
Change in Compensated absences	18,074
Government funds do not report pension expense as it does not require the use of current financial resources	1,144,947
Government funds do not report OPEB expense as it does not require the use of current financial resources	75,019
Internal Service Funds are used by management to charge the costs of certain activities, such as cost of Town Hall, office, and corporate yard services to individual funds. The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.	(3,765)
Change in Net Position of Governmental Activities	$ 1,894,969

See accompanying notes to 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 Town 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.

TOWN OF LOS ALTOS HILLS

PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2018

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
ASSETS		
Current Assets:		
Cash and investments	$ 3,468,205	$ 1,029,130
Accounts receivable	26,980	-
Total Current Assets	3,495,185	1,029,130
Noncurrent Assets:		
Loan receivable	52,131	-
Capital assets, net of accumulated depreciation	6,704,180	3,650,557
Total Noncurrent Assets	6,756,311	3,650,557
Total Assets	10,251,496	4,679,687
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	126,367	-
Related to OPEB	16,410	-
Total Deferred Outflows of Resources	142,777	-
Total Assets and Deferred Outflows	10,394,273	4,679,687
LIABILITIES		
Current Liabilities:		
Accounts payable	171,687	39,078
Accrued payroll and related liabilities	543,115	104,058
Sewer reimbursement deposits	86,618	-
Total Current Liabilities	801,420	143,136
Noncurrent liabilities:		
Compensated absences due in more than one year	4,494	5,385
Net pension liability	177,189	-
Net OPEB liability	31,457	-
Total noncurrent liabilities	213,140	5,385
Total Liabilities	1,014,560	148,521
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	20,787	-
Related to OPEB	7,396	-
Total Deferred Inflows of Resources	28,183	-
NET POSITION		
Investment in Capital Assets	6,704,180	3,650,557
Unrestricted	2,647,350	880,609
Total Net Position	9,351,530	4,531,166
Total Liabilities, Deferred Inflows and Net Position	$ 10,394,273	$ 4,679,687

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
OPERATING REVENUES		
Charges for services	$ 2,917,428	$ -
Other income	3,220	-
Town Hall services	-	524,481
Corporate yard services	-	139,361
Vehicle services	-	117,748
Total Operating Revenues	2,920,648	781,590
OPERATING EXPENSES		
Salaries and benefits	26,241	123,379
Contract services - treatment plant	890,814	-
Professional services	422,500	49,880
Support goods and services	7,833	104,009
IT Support and maintenance	-	159,744
Repairs and maintenance	321,657	128,374
Utilities	5,480	42,152
Interfund charges	271,226	-
Machinery and equipment	-	22,962
Depreciation	168,858	162,357
Total Operating Expenses	2,114,609	792,857
Operating (Loss)	806,039	(11,267)
NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of capital assets	-	5,885
Capital Contributions - sewer connection fees	130,930	-
Interest income	6,642	-
Other income	-	1,617
Nonoperating Revenues (Expenses), net	137,572	7,502
Changes in Net Position	943,611	(3,765)
Total Net Position, Beginning of Year, as restated (Note 7C)	8,407,919	4,534,931
Total Net Position, End of Year	$ 9,351,530	$ 4,531,166

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Business-type Activities	Governmental Activities
	Enterprise Fund Sewer	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 2,976,153	$ -
Receipts from interfund services provided	-	784,473
Payments for interfund services used	(271,226)	-
Payments to suppliers	(1,574,243)	(516,331)
Payments to employees	(214,596)	(120,076)
Net Cash From (For) Operating Activities	916,088	148,066
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	5,885
Acquisition of capital assets	(1,049,596)	-
Capital contributions received for connection fees	130,930	-
Net Cash From (For) Capital and Related Financing Activities	(918,666)	5,885
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal received from loans	9,628	-
Investment income	6,642	-
Net cash flows from investing activities	16,270	-
Net Increase (Decrease) in Cash and Investments	13,692	153,951
Cash and Cash Equivalents, Beginning of Year	3,454,513	875,179
Cash and Cash Equivalents, End of Year	$ 3,468,205	$ 1,029,130
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM (FOR) OPERATING ACTIVITIES		
Operating income (loss)	$ 806,039	$ (11,267)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	168,858	162,357
Other nonoperating income	-	1,617
(Increase) decrease in accounts receivable	(671)	1,269
(Increase) decrease in deferred outflows related to pensions	(87,771)	-
(Increase) decrease in deferred outflows related to OPEB	25,569	-
Increase (decrease) in accounts payable	74,041	(9,210)
Increase (decrease) in accrued payroll	(114,362)	-
Increase (decrease) in other liabilities	56,176	3,427
increase (decrease) in compensated absences	(2,356)	(127)
Increase (decrease) in pension liability	27,092	-
Increase (decrease) in OPEB liability	(41,674)	-
Increase (decrease) in deferred inflows related to pensions	(2,249)	-
Increase (decrease) in deferred inflows related to OPEB	7,396	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 916,088	$ 148,066
Non-cash capital and related financing activities:		
Purchase of capital assets on account	$ 7,881	$ -

See accompanying notes to 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.

PARS 115 Trust Fund accounts for assets that the Town has invested in a trust for prefunding pension related liabilities.

TOWN OF LOS ALTOS HILLS

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	PARS 115 Trust Fund	West Loyola Special Assessment District #1 Agency Fund
ASSETS		
Restricted Cash and Investments	$ 301,295	$ 295,124
Miscellaneous receivables	-	785
Total Assets	$ 301,295	$ 295,909
LIABILITIES		
Due to bondholders	$ -	$ 295,909
Total Liabilities	-	$ 295,909
NET POSITION		
Restricted for Pension benefits	301,295	
Total Net Position	$ 301,295	

See accompanying notes to financial statements

TOWN OF LOS ALTOS HILLS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	PARS 115 Trust Fund
ADDITIONS	
Investment income:	
Interest	$ 1,337
Less: investment expenses	(42)
Employer contributions	300,000
Total additions	301,295
Change in net position	301,295
BEGINNING NET POSITION	-
ENDING NET POSITION	$ 301,295

See accompanying notes to financial statements

This page intentionally left blank

Notes to Basic Financial Statements - Index

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 39
A. Reporting Entity 39
B. Basis of Presentation 39
C. Basis of Accounting and Measurement Focus 42
D. Cash and Cash Equivalents 42
E. Fair Value Measurements 42
F. Receivables 43
G. Capital Assets 43
H. Deferred Inflows and Deferred Outflows of Resources 43
I. Property Taxes 44
J. Accumulated Compensated Absences 44
K. Interfund Transactions 44
L. Use of Estimates 44
M. Post-Employment Benefits Other Than Pensions (OPEB) 45
N. New GASB Pronouncements 45
NOTE 2 – DEPOSITS AND INVESTMENTS 46
A. Policies 46
B. Classification 47
C. Authorized Investments 47
D. Interest Rate Risk and Fair Value Hierarchy 48
E. Credit Risk 50
F. Concentration of Credit Risk 50
NOTE 3 – INTERFUND TRANSACTIONS 50
NOTE 4 – CAPITAL ASSETS 51
NOTE 5 – LONG TERM DEBT 52
NOTE 6 – SPECIAL ASSESSMENT DEBT WITHOUT TOWN COMMITMENT 52
NOTE 7 – NET POSITION/FUND BALANCES 53
A. Net Position 53
B. Fund Balances – Components 53
C. Net Position Restatements 54

NOTE 8 – PENSION PLAN 54
A. General Information About the Pension Plan 54
B. Net Pension Liability 55
C. Changes in the Net Pension Liability 57
D. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension 58
E. Payable to Pension Plan 59
NOTE 9 – RISK MANAGEMENT 59
A. Risk Pool 59
NOTE 10 – CONTINGENT LIABILITIES 60
A. Commitments and Contingencies 60
B. Service Concession Arrangements (SCA) 60
NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) 60
A. General Information About the OPEB Plan 60
B. Plan Description 61
C. Benefits Provided 61
D. Employees Covered by Benefit Terms 61
E. Contributions 61
F. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB 63
G. Net OPEB Liability 64
H. Changes in Net OPEB Liability 66
I. Discount Rate 66
J. Payable to the OPEB Plan 67
K. OPEB Liabilities, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB 67
NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY 68
A. Excess of Expenditures Over Appropriations 68
B. Deficit Fund Balances 68

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.

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles of the government are described below.

B. Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities displays 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 nonoperating 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 nonoperating 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 funds:

- *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. The Town's Agency Fund includes West Loyola Sewer Assessment District #1 and PARS 115 Trust Fund.
- The *Special Revenue Funds* account for specific revenues that are legally restricted to expenditures for particular purposes.
- 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 interfund transfers between the General Fund, 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. The general fund is the only fund that reports a positive unassigned fund balance.

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 funds. 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 months 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 carries various receivable balances for taxes, franchise fees, interest, license fees, and sewer fees. As of June 30, 2018, accounts receivable are shown at $379,476 in the General Fund, $18,300 in the Street Capital Project Fund, $16,667 in Nonmajor Governmental Funds and $26,980 in the Sewer Fund.

G. Capital Assets

Capital assets, including infrastructure acquired prior to GASB 34, are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated 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 statements 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 and OPEB-related deferred outflows of resources arising from certain changes in the collective net pension liability and net OPEB 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 and net OPEB 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, 2018 are as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 126,281	$ 6,850	$ 133,131
Additions	18,383	1,872	20,255
Reductions	(36,583)	(4,228)	(40,811)
Ending Balance	$ 108,081	$ 4,494	$ 112,575
Current Portion	$ 4,351	$ -	$ 4,351

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 benefit 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. Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the California Employers' Retiree Benefit Trust (CERBT), and additions to / deductions from CERBT's fiduciary net position have been determined on the same basis as they are reported by CERBT. For this purpose, CERBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

N. New GASB Pronouncements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2018.

Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. See Note 11 for additional information.

Governmental Accounting Standards Board (GASB) Statement No. 81 – *Irrevocable Split-Interest Agreements*. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. This statement had no effect on the Town's financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). See Note 11 for additional information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. New GASB Pronouncements (Continued)

Governmental Accounting Standards Board (GASB) Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement had no effect on the Town's 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, 2018.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Classification

As of June 30, 2018, cash and investments are classified in the accompanying financial statements as follows:

Cash on hand	$	1,900
Deposits with financial institutions		6,272,382
Investments with fiscal agent		491,299
Investments		15,766,155
Total Cash and Investments	$	22,531,736

As of June 30, 2018, cash and investments consist of the following:

Statement of Net Position:		
Cash and investments	$	21,935,317
Fiduciary funds:		
Cash and investments held by OPEB trust		301,295
Cash and investments		295,124
Total Cash and Investments	$	22,531,736

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%
State Treasury Notes/Bonds	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%

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2018, the Town had the following investments.

	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Treasury Bonds/Notes	$ 1,287,212	$ 3,854,066	$ 3,789,746	$ 8,931,024
Federal Agency Collateralized Mortgage Obligation	27,079	237,012	431,732	695,823
U.S. Agency Notes	-	2,382,680	833,149	3,215,829
Corporate Notes	387,568	883,170	710,570	1,981,308
LAIF Investment Pool	554,771	-	-	554,771
CAMP Investment Pool	14,537	-	-	14,537
Municipal Bonds	74,418	73,806	224,639	372,863
Money Market	491,299	-	-	491,299
Total Investments	$ 2,836,884	$ 7,430,734	$ 5,989,836	$ 16,257,454

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	$ 8,931,024	$ -	$ 8,931,024
Federal Agency Collateralized Mortgage Obligation	-	695,823	695,823
U.S. Agency Notes	-	3,215,829	3,215,829
Corporate Notes	-	1,981,308	1,981,308
Municipal Bonds	-	372,863	372,863
CAMP Investment Pool	-	14,537	14,537
Total Investments	$ 8,931,024	$ 6,280,360	15,211,384
Investments Measured at Amortized Cost:			
Money Market			491,299
Local Agency Investment Fund			554,771
Cash in banks and on hand			6,274,282
Total Cash and investments			$ 22,531,736

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

D. Interest Rate Risk and Fair Value Hierarchy (Continued)

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 does not have any Level 3 investments.

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, 2018, these investments matured in an average of 193 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.

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, 2018, the fair value approximated the Town's cost.

At June 30, 2018, these investments have an average maturity of 35 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. At June 30, 2018, these investments have an average maturity of 46 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.

Investment Type	AAA	AA+	AA	AA-	A+	A	A-	AAAm	Total
U.S. Treasury Notes	$ -	$ 8,931,024	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,931,024
Federal Agency Collateralized Mortgage Obligation	-	695,823	-	-	-	-	-	-	695,823
U.S. Agency Notes	-	3,215,829	-	-	-	-	-	-	3,215,829
Corporate Notes	272,067	133,871	460,807	634,506	110,102	219,839	150,116	-	1,981,308
CAMP Investment Pool	-	-	-	-	-	-	-	14,537	14,537
Municipal Bonds	-	-	198,279	174,584	-	-	-	-	372,863
Money Market	-	-	-	-	-	-	-	190,004	190,004
Totals	$ 272,067	$ 12,976,547	$ 659,086	$ 809,090	$ 110,102	$ 219,839	$ 150,116	$ 204,541	15,401,388
Not Rated:									
Public Agency Retirement Services (PARS)									301,295
Local Agency Investment Fund (LAIF)									554,771
Total Investments									$ 16,257,454

Bank balances are insured up to $250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). As of June 30, 2018, the Town's cash in bank exceeded the insured limit by $6,256,088. 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, 2018, the following investment, 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:

Issuer	Investment Type	Amount
Federal National Mortgage Association	Federal Agency	$ 1,729,842

NOTE 3 – INTERFUND TRANSACTIONS

The following schedule briefly summarizes the Town's transfer activity for the fiscal year ended June 30, 2018:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
Street Capital Projects Fund	General Fund	$ 1,549,852	**(A)**
	Non-Major Governmental Funds	60,200	**(B)**
Non-Major Governmental Funds	General Fund	488,215	**(A) & (C)**
	Non-Major Governmental Funds	117,167	**(A)**
Total Interfund Transfers		$ 2,215,434	

(A) To fund capital projects.
(B) To transfer remaining fund balance after fund merge.
(C) To fulfill council approved budgeted transfers.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance at June 30, 2017	Additions	Balance at June 30, 2018
Governmental activities			
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	81,100,624	2,564,141	83,664,765
Buildings	5,152,825	-	5,152,825
Vehicles	528,778	-	528,778
Office Equipment	444,411	-	444,411
Total capital assets being depreciated	87,226,638	2,564,141	89,790,779
Less accumulated depreciation for:			
Infrastructure	(60,285,025)	(1,242,527)	(61,527,552)
Buildings	(1,641,290)	(130,638)	(1,771,928)
Vehicles	(367,399)	(31,719)	(399,118)
Office Equipment	(444,411)	-	(444,411)
Total accumulated depreciation	(62,738,125)	(1,404,884)	(64,143,009)
Net governmental-type activities			
Capital assets being depreciated	24,488,513	1,159,257	25,647,770
Governmental activities capital assets, net	$ 24,739,048	$ 1,159,257	$ 25,898,305

	Balance at June 30, 2017	Additions	Balance at June 30, 2018
Business-type activities			
Capital assets being depreciated:			
Sewer collection system	$ 8,578,199	$ 1,041,715	$ 9,619,914
Office equipment	1,509	-	1,509
Total capital assets being depreciated	8,579,708	1,041,715	9,621,423
Less accumulated depreciation for:			
Sewer collection system	(2,746,876)	(168,858)	(2,915,734)
Office equipment	(1,509)	-	(1,509)
Total accumulated depreciation	(2,748,385)	(168,858)	(2,917,243)
Net capital assets being depreciated	5,831,323	872,857	6,704,180
Business-type activities capital assets, net	$ 5,831,323	$ 872,857	$ 6,704,180

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	Amount
General Government	$ 322,133
Public safety	315,053
Community development	213,077
Parks and recreation	122,768
Public works	269,496
Internal service funds	162,357
Total	$ 1,404,884

Business-Type Activities	Amount
Sewer	$ 168,858
Total	$ 168,858

NOTE 5 – LONG TERM DEBT

The Town has no long-term debt as of and for the year ended June 30, 2018.

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, 2018, the balance of the assessment district's outstanding debt was as follows:

			Principal Maturities		
Issue	Fiscal Year Issued	Interest Rate	Annual Amount	Fiscal Years Ended	Outstanding June 30, 2018
West Loyola Sewer Assessment District No. 1	2009	2.25% - 6.15%	$35,000 - $775,000	2010-2040	$ 1,715,000

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, 2018, the following represents the components of fund balance:

Fund Balance Classifications	General Fund	Street Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental
Restricted for:				
Parks and Recreation	$ -	$ -	$ 75,793	$ 75,793
Public Safety	-	-	85,187	85,187
Art donations	-	-	31,307	31,307
Total Restricted Fund Balances	-	-	192,287	192,287
Committed for:				
Disaster Contingency Reserve	1,250,000	-	-	1,250,000
Pension Contributions Reserve	1,570,000	-	-	1,570,000
IT Equipment Replacement Reserve	25,000	-	-	25,000
Risk Management	80,000	-	-	80,000
Public/Private Roads	200,000	-	-	200,000
Street & Road Repairs Capital Projects	-	368,574	-	368,574
All other Capital Projects	-	-	1,672,618	1,672,618
Total Committed Fund Balances	3,125,000	368,574	1,672,618	5,166,192
Assigned for:				
Operating Contingency Reserve	350,000	-	-	350,000
Total Assigned Fund Balances	350,000	-	-	350,000
Unassigned:	8,254,294	-	-	8,254,294
Total Unassigned Fund Balances	8,254,294	-	-	8,254,294
Total Fund Balances	$ 11,729,294	$ 368,574	$ 1,864,905	$ 13,962,773

NOTE 7 – NET POSITION/FUND BALANCES (CONTINUED)

C. Net Position Restatements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB), which became effective during the year ended June 30, 2018. In June 2015, GASB issued Statement No. 75 and the intention of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees – both active employees and inactive employees – are provided with postemployment benefits other than pensions by requiring recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense.

The implementation of the Statement required the Town to make prior period adjustments. As a result, the beginning net positions of the Governmental Activities, Business-Type Activities, and Internal Service Fund were restated and reduced by $984,120, $31,152 and $715,739 respectively. See Note 11.

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.

NOTE 8 – PENSION PLAN (CONTINUED)

A. General Information about the Pension Plan (Continued)

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.

The plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous		
	Tier I	Tier II	Tier III
	Prior to	Starting	On or after
Hire date	September 1, 2011	September 1, 2011	January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-63+	50 - 63+	52 - 67+
Monthly benefits, as a % of eligible compensation	1.426% - 2.418%	1.092%-2.418%	1.0%-2.5%
Required employee contribution rates	7.00%	7.00%	6.50%
Required employer contribution rates	9.096%	7.850%	6.908%

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, 2018, the contribution recognized as part of pension expense for the Plans were as follows:

	Miscellaneous Plans
Contributions - employer	$ 1,640,692

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, 2017, using an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2018 actuarial valuations were determined using the following actuarial assumptions for Miscellaneous Plan:

	All CalPERS Plans
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15% (1)
Mortality Rate Table	Derived using CalPERS Membership Data for all Funds (2)

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

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 10 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15 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 7.15 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 7.15 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	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Assets	11.00%	2.80%	5.21%
Inflation Sensitive Assets	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(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, 2018, the Town's reported net pension liabilities for its proportionate share of the net pension liability of the Miscellaneous Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plans	$ 3,400,941
Total Net Pension Liability	$ 3,400,941

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, 2017 and 2018 is as follows:

	Miscellaneous Plans
Proportion - June 30, 2016	0.0829%
Proportion - June 30, 2017	0.0863%
Change - Increase (Decrease)	0.0033%

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:

		Miscellaneous Plans
1% Decrease		6.15%
Net Pension Liability	$	5,340,706
Current Discount Rate		7.15%
Net Pension Liability	$	3,400,941
1% Increase		8.15%
Net Pension Liability	$	1,794,393

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

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

For the year ended June 30, 2018, the Town's recognized pension expense of $518,298 for the Miscellaneous Plans. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for Miscellaneous Plans:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,640,692	$ -
Differences between actual and expected experience	4,743	(67,949)
Changes in assumptions	588,470	(44,871)
Difference between proportional and actual contributions	-	(212,970)
Net differences between projected and actual earnings on plan investments	133,088	-
Adjustment due to differences in proportion	58,468	(73,202)
Total	$ 2,425,461	$ (398,992)

NOTE 8 – PENSION PLAN (CONTINUED)

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

The $1,640,692 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years Ending June 30,		
2019	$	(9,817)
2020		300,352
2021		174,257
2022		(79,015)
	$	385,777

D. Payable to Pension Plan

As of June 30, 2018, the Town reported a payable of $12,498 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

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 Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA), a self-insurance pool. The PLAN JPA 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, PLAN JPA becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2018, the Town contributed $117,273 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 $2,395 in insurance recoveries during fiscal year 2018. 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 Shared Agency Risk Pool Joint Powers Agency (SHARP JPA) 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, 2018, the Town contributed $72,608 for current year coverage.

As of June 30, 2018, the Town does not have earthquake insurance.

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 PLAN, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA, 95833.

- For PLAN JPA and SHARP JPA, 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. General Information About the OPEB Plan

Town employees are provided with other postemployment benefits (OPEB) through the Town’s multi-employer defined benefit postemployment healthcare plan (the “Plan”) administered by the California Public Employees’ Retirement System (CalPERS). The Plan consists of participating employers of the State of California and public agencies. During fiscal year 2008, the Town elected to prefund its OPEB liabilities through an irrevocable trust, the California Employers’ Retiree Benefit Trust (CERBT). CERBT is administered by CalPERS. CERBT is a tax qualified irrevocable trust organized under the Internal Revenue Code (IRC) Section 115.

The CERBT was established by Chapter 331 of the 1988 California Statues, and employers elect to participate in the CERBT to pre-fund health, dental, and other non-pension postemployment benefits for their retirees and survivors.

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

B. Plan Description

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 provisions are established, and may be amended, by the City Council. The following Note 11C below is a summary of Plan benefits by employee group as of June 30, 2018.

C. Benefits Provided

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.

D. Employees Covered by Benefit Terms

Membership in the plan consisted of the following at the measurement date of June 30, 2017:

	Count
Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	
Active employees	19
Total	32

E. Contributions

Town contributions to the Plan occur as benefits are paid to retirees and/or to the CERBT. Benefit payments may occur in the form of direct payments for premiums and taxes (“explicit subsidies”) and/or indirect payments to retirees in the form of higher premiums for active employees (“implicit subsidies”). Benefits and other contributions paid by the Town during the measurement period and those expected to be made in the following the measurement period but prior to the end of the fiscal year are shown below. For fiscal year ending June 30, 2018, Town contributions totaled $157,788.

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

E. Contributions (Continued)

Benefit Payments during the Measurement Period (July 1, 2016 through June 30, 2017)"	
Benefits Paid by Trust	$ -
Benefits Paid by Employer (not reimbursed by Trust)	122,645
Implicit benefit payments	13,000
Total Benefit Payments During the Measurement Period	$ 135,645

Employer Contributions During the Measurement Period (July 1, 2016 through June 30, 2017)	
Employer Contributions to the Trust	$ 268,000
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by the Trust)	122,645
Implicit Contributions	13,000
Total Employer Contributions During the Measurement Date	$ 403,645

Employer Contributions Subsequent to the Measurement Period (July 1, 2017 through June 30, 2018)	
Employer Contributions to the Trust	$ -
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by the Trust)	124,764
Implicit Contributions	33,024
Total Employer Contributions Subsequent to the Measurement Date	$ 157,788

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

E. Contributions (Continued)

The Town prefunds its OPEB liability by contributing 100% or more of the Actuarily Determined Contribution ("ADC") each year. The ADC consists of two components, which has been adjusted with interest, to the Town's fiscal year ending June 30, 2018:

- The amounts attributed to service performed in the current fiscal year (the normal cost); and
- Amortization of the unfunded actuarial accrued liability (UAAL).

Expected contributions, relative to the ADC, for the fiscal year ending June 30, 2018 are as follows:

Fiscal Year Ending	2018
Actuarially determined contribution	$ 103,483
Contributions in relation to the actuarially determined contributions	(157,788)
Contribution deficiency (excess)	$ (54,305)
Covered payroll	$ 2,082,980

F. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ending June 30, 2018, the Town recognized OPEB expense of ($83,728). At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	$ 157,788	$ -
Net difference between projected and actual earnings on OPEB plan investments	-	71,120
Total	$ 157,788	$ 71,120

The $157,788 reported as deferred outflows of resources related to OPEB resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	$ (17,780)
2020	(17,780)
2021	(17,780)
2022	(17,780)
2023	-
Total	$ (71,120)

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

G. Net OPEB Liability

Actuarial Methods and Assumptions

The Town's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2017, based on the following actuarial methods and assumptions:

Actuarial Assumptions:	
Actuarial Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method, level percent of pay
Asset Valuation Method	Market Value of Assets
Long Term Return on Assets	6.00%
Discount Rate	6.00%
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.25% per year, used only to allocate the cost of benefits between service years.
Assumed Wage Inflation	3.00% per year, used to determine amortization payments if developed on a level percent of pay basis.
General Inflation	2.75% per year
Healthcare Trend Rate	8.00% in 2018, reducing half of a percent per year until year 2024 (5.00% in 2024).

Mortality rates were based on the CalPERS published rates and adjusted to back out 20 years of Scale BB to central year 2008 and then projected by medical plan premiums and claims costs by age that are assumed to increase once each year. The required PEMHCA minimum employer contribution (MEC) is assumed to increase annually by 4.5%.

The demographic actuarial assumptions used in the June 30, 2017 valuation were based on the 2014 experience study of the CalPERS system using data from 1997 to 2011, except for a different basis used to project future mortality improvements.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

G. Net OPEB Liability (Continued)

The Town has elected CERBT Strategy Risk Level 1. This portfolio consists of assets management internally by CalPERS and/or external advisors. The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. As the CERBT is not a defined benefit plan, there is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. CalPERS will not make up the difference between the employer's CERBT assets and the actual cost of OPEB provided to the employer's plan members. These investments are not insured by FDIC, CalPERS, the State of California, or any other government agency.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Benchmarks
Global Equity	57.0%	MSCI All Country World Indez IMI (net)
Fixed Income	27.0%	Bloomberg Barclays Long Liability Index
Treasury Inflation Protection Securities	5.0%	Bloomberg Barclays Barclays US TIPS Index
Real Estate Investment Trusts	8.0%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3.0%	S&P GSCI Total Return Index
Total	100.0%	

CERBT Strategy 1 Performance

	1 Month	3 Month	Fiscal YTD	1 Years	3 Years	5 Years	10 Years
Gross Return	1.49%	1.99%	1.49%	7.50%	6.80%	6.99%	6.21%
Net Return	1.49%	1.97%	1.49%	7.41%	6.71%	6.88%	6.13%

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

H. Changes in Net OPEB Liability

The changes in the net OPEB liability follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016 (Measurement Date)	$ 2,432,311	$ 1,729,133	$ 703,178
Changes for the year:			
Service Cost	57,272	-	57,272
Interest on the Total OPEB Liability	145,306	-	145,306
Differences between Expected and Actual Experience	-	-	-
Contributions			
Employer - City's contribution	-	403,645	(403,645)
Employer - implicit subsidy	-	-	-
Employee	-	-	-
Net Investment Income	-	200,657	(200,657)
Benefit payments, including Refunds of Employee Contributions	(135,645)	(135,645)	-
Implicit Rate Subsidy Fulfilled	-	-	-
Administrative Expense	-	(1,019)	1,019
Net changes	66,933	467,638	(400,705)
Balance at June 30, 2017 (Measurement Date)	$ 2,499,244	$ 2,196,771	$ 302,473

Detailed information about the OPEB plan's fiduciary net position is available through CalPERS for the Schedule of Changes in Fiduciary Net Position by Employer as of the measurement date at https://www.calpers.ca.gov/docs/forms-publications/gasb-75-schedule-changes-fiduciary-net-position-2017.pdf. The benefit payments and refunds include implied subsidy benefit payments in the amount of $13,000.

I. Discount Rate

The discount rate used to measure the total OPEB liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made at contractually required rates, actuarially determined. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. There has not been a change in the discount rate since the prior measurement date.

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

I. Discount Rate (Continued)

Sensitivity of the Town's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the Town's proportionate share of the net OPEB liability, as well as what the Town's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.0%) or 1-percentage-point higher (7.0%) than the current discount rate:

1% Decrease		5.00%
Net OPEB Liability	$	585,682
Current Discount Rate		6.00%
Net OPEB Liability	$	302,473
1% Increase		7.00%
Net OPEB Liability	$	63,617

Sensitivity of the Town's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the Town's proportionate share of the net OPEB liability, as well as what the Town's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point (7.0% decreasing to 4.0%) or 1-percentage point higher (9.0% decreasing to 6%) than the current healthcare cost trend rates:

1% Decrease		7.00%
Net OPEB Liability	$	44,709
Trend Rate		8.00%
Net OPEB Liability	$	302,473
1% Increase		9.00%
Net OPEB Liability	$	637,532

J. Payable to the OPEB Plan

At June 30, 2018, the City reported a payable of $0 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

K. OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by CERBT. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures Over Appropriations

The following fund has excess appropriation of expenditure in FY 18:

Fund	Expenditures in Excess of Appropriations
General Fund	
Parks and Recreation	$ 10,257
Street Capital Project Fund	
Capital Outlay	74,629

B. Deficit Fund Balances

No individual funds had a deficit fund balance at June 30, 2018.

Remainder of this page left intentionally blank.

Required

Supplemental Information

TOWN OF LOS ALTOS HILLS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget- Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Property taxes	$ 5,610,400	$ 5,610,400	$ 5,721,224	$ 110,824
Taxes other than property	562,600	562,600	667,037	104,437
Franchise fees	516,200	516,200	579,333	63,133
Licenses and permits	1,799,500	1,799,500	1,246,623	(552,877)
Intergovernmental	50,700	50,700	41,460	(9,240)
Use of money and property	74,827	74,827	29,825	(45,002)
Charges for services	1,181,400	1,181,400	1,112,702	(68,698)
Rental income	133,600	133,600	167,096	33,496
Fines and forfeitures	9,200	9,200	381	(8,819)
Interfund charges	1,727,247	1,727,247	1,632,812	(94,435)
Miscellaneous	29,400	29,400	56,902	27,502
Total revenues	11,695,074	11,695,074	11,255,395	(439,679)
EXPENDITURES				
Current:				
General government	2,219,941	2,219,941	1,978,203	241,738
Public safety	1,369,891	1,369,891	1,366,163	3,728
Community development	2,979,150	2,979,150	2,540,121	439,029
Public works	1,793,446	1,793,446	1,678,516	114,930
Parks and recreation	712,439	712,439	722,696	(10,257)
Nondepartmental:				
Additional pension payments	-	-	1,660,209	(1,660,209)
Total expenditures	9,074,867	9,074,867	9,945,908	(871,041)
Excess (Deficiency) of Revenues Over Expenditures	2,620,207	2,620,207	1,309,487	(1,310,720)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(1,910,544)	(1,910,544)	(2,038,067)	(127,523)
Total Other Financing Sources (Uses)	(1,910,544)	(1,910,544)	(2,038,067)	(127,523)
Net Change in Fund Balances	709,663	709,663	(728,580)	(1,438,243)
Fund Balances, Beginning of Year	-	-	12,457,874	12,457,874
Fund Balances, End of Year	$ 709,663	$ 709,663	$ 11,729,294	$ 11,019,631

See notes to required supplementary information

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

	Miscellaneous Plan			
Measurement Date	**6/30/2014**	**6/30/2015**	**6/30/2016**	**6/30/2017**
Plan's Proportion of the Net Pension Liability (Asset)	0.03226%	0.07776%	0.08293%	0.08630%
Plan's Proportionate Share of the Net Pension Liability (Asset)	$ 2,007,540	$ 2,133,424	$ 2,881,005	$ 3,400,941
Plan's Covered Payroll	$ 1,607,595	$ 1,624,334	$ 1,641,880	$ 1,786,436
Plan's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered Payroll	124.88%	131.34%	175.47%	190.38%
Plan’s Fiduciary Net Position as a Percentage of the Total Pension Liability	79.82%	78.40%	74.06%	73.31%

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

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

	Miscellaneous Plan			
Fiscal Year	**2015**	**2016**	**2017**	**2018**
Actuarially determined contribution	$ 181,280	$ 221,507	$ 250,340	$ 1,640,692
Contributions in relation to the actuarially determined contributions	(181,280)	(221,507)	(250,340)	(1,640,692)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,624,334	$ 1,641,880	$ 1,786,436	$ 1,877,689
Contributions as a percentage of covered payroll	11.16%	13.49%	14.01%	87.38%

Notes to Schedule

Valuation date:	6/30/2013	6/30/2014	6/30/2015	6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal		
Amortization method	Level percentage of payroll, closed		
Remaining amortization period	30 years		
Asset valuation method	5-year smoothed market		
Inflation	2.75%		
Salary increases	Varies by Entry Age and Service		
Investment rate of return	7.15%, 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 four years are shown.

Prepared for Town of Los Altos Hills
For the measurement year ending June 30
Last 10 Years*

SCHEDULE OF CHANGES IN THE TOWN'S NET OPEB LIABILITY AND RELATED RATIOS

Measurement Date		**2017**
Total OPEB Liability		
Service Cost	$	57,272
Interest on the total OPEB Liability		145,306
Changes in benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit Payments		(135,645)
Net change in total OPEB liability		66,933
Total OPEB liability - beginning		2,432,311
Total OPEB liability - ending (a)	$	2,499,244
Plan fiduciary net position		
Contributions - employer-Town's contribution	$	403,645
Contributions - employer-implicit subsidy		-
Net investment income		200,657
Benefit payments		(135,645)
Implicit rate subsidy fulfilled		-
Administrative expense		(1,019)
Net change in plan fiduciary net position		467,638
Plan fiduciary net position - beginning		1,729,133
Plan fiduciary net position - ending (b)	$	2,196,771
Net OPEB liability - ending (a) - (b)	$	302,473
Town's covered-employee payroll	$	1,856,292
Town's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll		16.29%

Notes to Schedule:
* The Town adopted GASB 75 for the fiscal year ending June 30, 2018.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future year's information will be displayed up to 10 years as information becomes available.

* Fiscal year 2018 was the first year of implementation, therefore only one year is shown.

Prepared for Town of Los Altos Hills
For the fiscal year ending June 30
Last 10 Years*

SCHEDULE OF OPEB INVESTMENT RETURNS

Fiscal Year Ending	**2018**
Annual money-weighted rate of return, net of investment expense	6.00%

* Fiscal year 2018 was the first year of implementaiton, therefore only one year is shown.

Prepared for Town of Los Altos Hills
For the fiscal year ending June 30
Last 10 Years*
SCHEDULE OF OPEB CONTRIBUTIONS

Fiscal Year Ending		**2018**
Actuarially determined contribution	$	103,483
Contributions in relation to the actuarially determined contributions		(157,788)
Contribution deficiency (excess)	$	(54,305)
Covered payroll	$	2,082,980
Contributions as a percentage of covered payroll		7.58%

Notes to Schedule

Valuation date: 6/30/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal, level percent of pay
Asset valuation method	Market value of assets
Inflation	2.75%
Assumed Rate of Payroll Growth	3.00%
Healthcare trend rates	8.00% in 2018, reducing half of a percent per year until year 2024. 5.00% in year 2024.
PEMHCA trend rate	4.50%
Rate of return on assets	6.00%
Retirement Age	Age 50 and 5 years of service
Mortality rate	CalPERS Rates (1)
Other information	The ADC takes into account the implicit subsidy

(1) Mortality rate is based on assumption data of 20 years of projected on-going mortality improvement using Society of Actuaries Scale BB in June 30, 2016, CalPERS actuarial valuation.

* - Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

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 – 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.

NOTE 3 - SCHEDULE OF CHANGES IN THE TOWN’S NET OPEB LIABILITY AND RELATED RATIOS

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.

Supplemental Information

TOWN OF LOS ALTOS HILLS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
STREET CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget- Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Intergovernmental	$ 190,148	$ 190,148	$ 291,849	$ 101,701
Charges for services	40,000	40,000	60,551	20,551
Total revenues	230,148	230,148	352,400	122,252
EXPENDITURES				
Capital outlay	1,940,000	1,940,000	1,974,629	(34,629)
Total expenditures	1,940,000	1,940,000	1,974,629	(34,629)
Excess (Deficiency) of Revenues Over Expenditures	(1,709,852)	(1,709,852)	(1,622,229)	87,623
OTHER FINANCING SOURCES (USES)				
Transfers in	1,610,052	1,610,052	1,610,052	-
Total Other Financing Sources (Uses)	1,610,052	1,610,052	1,610,052	-
Net Change in Fund Balances	(99,800)	(99,800)	(12,177)	87,623
Fund Balances, Beginning of Year	380,751	380,751	380,751	-
Fund Balances, End of Year	$ 280,951	$ 280,951	$ 368,574	$ 87,623

See notes to required supplementary information

TOWN OF LOS ALTOS HILLS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SEWER ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget- Positive
	Original	Final	Amounts	(Negative)
OPERATING REVENUES				
Charges for services	$ 2,870,620	$ 2,870,620	$ 2,917,428	$ 46,808
Other income	-	-	3,220	3,220
Total Operating Revenues	2,870,620	2,870,620	2,920,648	50,028
OPERATING EXPENSES				
Salaries and benefits	157,209	157,209	26,241	130,968
Contract services - treatment plant	1,059,100	1,059,100	890,814	168,286
Professional services	384,500	384,500	422,500	(38,000)
Support goods and services	6,800	6,800	7,833	(1,033)
Repairs and maintenance	458,400	458,400	321,657	136,743
Utilities	5,700	5,700	5,480	220
Interfund charges	225,175	225,175	271,226	(46,051)
Depreciation	215,000	215,000	168,858	46,142
Total Operating Expenditures	2,511,884	2,511,884	2,114,609	397,275
Operating income	358,736	358,736	806,039	447,303
NONOPERATING REVENUES (EXPENSES)				
Capital Contributions - sewer connection fees	252,100	252,100	130,930	(121,170)
Interest income	8,583	8,583	6,642	(1,941)
Nonoperating Revenues (Expenses), net	260,683	260,683	137,572	(123,111)
Changes in Net Position	619,419	619,419	943,611	324,192
Fund Balances, Beginning of Year as restated	8,407,919	8,407,919	8,407,919	-
Fund Balances, End of Year	$ 9,027,338	$ 9,027,338	$ 9,351,530	$ 324,192

See notes to required supplementary information

This page intentionally left blank

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 for 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 constructions.

CAPITAL PROJECTS FUND

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

TOWN OF LOS ALTOS HILLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2018

	SPECIAL REVENUE FUNDS			CAPITAL PROJECT FUNDS
	Parks and Recreation In-Lieu Fee	COPS	Special Donations	Capital Projects
ASSETS				
Cash and investments	$ 75,793	$ 75,551	$ 31,307	$ 1,687,382
Accounts Receivable	-	16,667	-	-
Total Assets	$ 75,793	$ 92,218	$ 31,307	$ 1,687,382
LIABILITIES				
Accounts payable	$ -	$ 7,031	$ -	$ 14,764
Total Liabilities	-	7,031	-	14,764
FUND BALANCES				
Committed	-	-	-	1,672,618
Restricted	75,793	85,187	31,307	-
Total Fund Balances (Deficit)	75,793	85,187	31,307	1,672,618
TOTAL LIABILITIES AND FUND BALANCES	$ 75,793	$ 92,218	$ 31,307	$ 1,687,382

Total Nonmajor Governmental Funds
$ 1,870,033
16,667
$ 1,886,700
$ 21,795
21,795
1,672,618
192,287
1,864,905
$ 1,886,700

TOWN OF LOS ALTOS HILLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	SPECIAL REVENUE FUNDS			CAPITAL PROJECT FUNDS
	Parks and Recreation In-Lieu Fund	COPS	Special Donations	Capital Projects
REVENUES				
Intergovernmental	$ -	$ 156,083	$ -	$ -
Investment income	(65)	-	-	2,589
Rental income	-	-	-	51,720
Charges for services	123,636	-	-	328,417
Total Revenues	123,571	156,083	-	382,726
EXPENDITURES				
General government	-	-	3,505	2,231
Public safety	-	415,262	-	-
Capital outlay	-	-	-	589,560
Total Expenditures	-	415,262	3,505	591,791
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	123,571	(259,179)	(3,505)	(209,065)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	333,292	-	272,090
Transfers (out)	(117,167)	-	-	(60,200)
Total Other Financing Sources (Uses)	(117,167)	333,292	-	211,890
NET CHANGE IN FUND BALANCES	6,404	74,113	(3,505)	2,825
BEGINNING FUND BALANCES	69,389	11,074	34,812	1,669,793
ENDING FUND BALANCES	$ 75,793	$ 85,187	$ 31,307	$ 1,672,618

Total Nonmajor Governmental Funds
$ 156,083
2,524
51,720
452,053
662,380
5,736
415,262
589,560
1,010,558
(348,178)
605,382
(177,367)
428,015
79,837
1,785,068
$ 1,864,905

TOWN OF LOS ALTOS HILLS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	SPECIAL REVENUE FUNDS					
	PARKS AND RECREATION IN-LIEU FEE			COPS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Charges for services	$ 50,000	$ 123,636	$ 73,636	$ -	$ -	$ -
Intergovernmental	-	-	-	100,000	156,083	56,083
Rental income	-	-	-	-	-	-
Investment income	-	(65)	(65)	-	-	-
Total Revenues	50,000	123,571	73,571	100,000	156,083	56,083
EXPENDITURES						
General government	-	-	-	-	-	-
Public safety	-	-	-	433,292	415,262	18,030
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	433,292	415,262	18,030
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	50,000	123,571	73,571	(333,292)	(259,179)	38,053
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	333,292	(333,292)
Transfers out	(117,167)	(117,167)	-	-	-	-
Total Other Financing Sources (Uses)	(117,167)	(117,167)	-	-	333,292	(333,292)
NET CHANGES IN FUND BALANCES	($67,167)	6,404	$73,571	($333,292)	74,113	($295,239)
BEGINNING FUND BALANCES		69,389			11,074	
ENDING FUND BALANCES		$ 75,793			$ 85,187	

(Continued)

TOWN OF LOS ALTOS HILLS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	SPECIAL REVENUE FUNDS			CAPITAL PROJECT FUNDS		
	SPECIAL DONATIONS			CAPITAL PROJECTS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Charges for services	$ -	$ -	$ -	$ -	$ 328,417	$ 328,417
Intergovernmental	-	-	-	10,000	-	(10,000)
Rental income	-	-	-	46,000	51,720	5,720
Investment Income	-	-	-	5,205	2,589	(2,616)
Total Revenues	-	-	-	61,205	382,726	321,521
EXPENDITURES						
General government	-	3,505	(3,505)	-	2,231	(2,231)
Public safety	-	-	-	-	-	-
Capital outlay	-	-	-	374,567	589,560	(214,993)
Total Expenditures	-	3,505	(3,505)	374,567	591,791	(217,224)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(3,505)	3,505	(313,362)	(209,065)	104,297
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	144,567	272,090	(127,523)
Transfers out	-	-	-	(60,200)	(60,200)	-
Total Other Financing Sources (Uses)	-	-	-	84,367	211,890	(127,523)
NET CHANGE IN FUND BALANCES	$ -	(3,505)	$ 3,505	$ (228,995)	2,825	($23,226)
BEGINNING FUND BALANCES		34,812			1,669,793	
ENDING FUND BALANCES		$ 31,307			$ 1,672,618	

TOWN OF LOS ALTOS HILLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
WEST LOYOLA SEWER ASSESSMENT DISTRICT				
ASSETS				
Restricted cash and investments	$ 302,630	$ -	$ (7,506)	$ 295,124
Miscellaneous receivables	826	785	(826)	785
Total Assets	$ 303,456	$ 785	$ (8,332)	$ 295,909
LIABILITIES				
Accounts payable	$ -	$ 899	$ -	$ 899
Due to bond holders	303,456	(114)	(8,332)	295,010
Total Liabilities	$ 303,456	$ 785	$ (8,332)	$ 295,909

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.

Contents ***Page***

Financial Trends - These schedules contain trend information to help the reader understand how Town's financial performance and well-being have changed over time. 92

Revenue Capacity - These schedules contain information to help the reader assess one of the Town's most significant local revenue source, the property tax. 102

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. 106

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. 109

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. 111

Net Position by Component

Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2009	2010	2011	2012
Governmental activities:				
Invested in capital assets, net	$ 22,733,833	$ 23,564,257	$ 24,421,688	$ 25,681,352
Restricted	936,212	1,447,591	960,737	1,507,673
Unrestricted	9,131,068	7,831,794	7,654,909	4,582,714
Total governmental activities net position	$ 32,801,113	$ 32,843,642	$ 33,037,334	$ 31,771,739
Business-type activities:				
Invested in capital assets, net	$ 2,427,865	$ 4,022,707	$ 4,369,141	$ 4,452,208
Restricted	2,999,604	1,727,745	-	-
Unrestricted	2,002,327	2,619,265	2,856,291	2,915,748
Total business-type activities net position	$ 7,429,796	$ 8,369,717	$ 7,225,432	$ 7,367,956
Primary government:				
Invested in capital assets, net	$ 25,161,698	$ 27,586,964	$ 28,790,829	$ 30,133,560
Restricted	3,935,816	3,175,336	960,737	1,507,673
Unrestricted	11,133,395	10,451,059	10,511,200	7,498,462
Total net position	$ 40,230,909	$ 41,213,359	$ 40,262,766	$ 39,139,695

Source: Audited Financial Statements

2013	2014	2015	2016	2017	2018
$ 26,654,599	$ 25,535,393	$ 25,370,209	$ 24,700,834	$ 24,739,048	$ 25,898,305
1,787,750	1,520,545	1,666,812	1,706,954	115,275	192,287
4,349,494	7,124,524	7,064,274	9,687,552	13,377,599	13,052,174
$ 32,791,843	$ 34,180,462	$ 34,101,295	$ 36,095,340	$ 38,231,922	$ 39,142,766
$ 4,312,151	$ 4,774,920	$ 5,022,034	$ 5,244,525	$ 5,831,322	$ 6,704,180
-	-	-	-	-	-
3,227,161	3,075,429	2,774,135	2,582,858	2,607,749	2,647,350
$ 7,539,312	$ 7,850,349	$ 7,796,169	$ 7,827,383	$ 8,439,071	$ 9,351,530
$ 30,966,750	$ 30,310,313	$ 30,392,243	$ 29,945,359	$ 30,570,370	$ 32,602,485
1,787,750	1,520,545	1,666,812	1,706,954	115,275	192,287
7,576,655	10,199,953	9,838,409	12,270,410	15,985,348	15,699,524
$ 40,331,155	$ 42,030,811	$ 41,897,464	$ 43,922,723	$ 46,670,993	$ 48,494,296

Changes in Net Position

Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2009	2010	2011	2012
Governmental activities*:				
Expenses:				
Administration	$ 2,198,029	$ 2,071,985	$ 1,822,653	$ 2,046,868
Public safety	1,469,522	1,491,760	1,384,604	1,345,461
Community development	2,422,892	2,660,434	2,111,541	2,437,335
Parks and recreation	1,240,406	1,279,596	1,310,566	1,300,211
Drainage and street operations	558,980	830,146	934,755	700,017
Public works	-	-	-	-
Interest on long-term debt	82,603	75,962	71,553	44,305
Total governmental activities expenses	7,972,432	8,409,883	7,635,672	7,874,197
Program revenues:				
Charges for services:				
Administration	-	-	-	-
Public safety	1,958	-	-	-
Community development	1,278,407	1,218,744	1,362,932	1,843,682
Parks and recreation	566,446	541,337	532,623	476,599
Drainage and street operations	620,523	709,133	601,078	340,010
Public works	-	-	-	-
Operating contributions and grants	1,619,218	996,454	447,717	531,671
Capital contributions and grants	-	-	-	-
Total governmental activities program revenues	4,086,552	3,465,668	2,944,350	3,191,962
Total governmental activities net program expenses	(3,885,880)	(4,944,215)	(4,691,322)	(4,682,235)
General revenues and other changes in net position:				
Governmental revenues:				
Taxes				
Property taxes	3,410,921	3,444,173	3,393,604	3,543,231
Other taxes	404,678	366,442	544,092	427,826
Franchise taxes	431,574	387,803	428,332	430,149
Use of money and property	498,721	212,126	178,450	156,743
Rental income ***	-	-	-	-
Investment Income ***	-	-	-	-
Other unrestricted revenue	69,520	303,395	193,425	39,448
Sale of Capital Assets-net	143,518	242	6,600	-
Other intergovernmental revenue	108,147	140,947	69,166	-
Special Item**	-	-	-	(1,250,000)
Transfers	23,196	131,616	71,345	69,243
Total governmental activities general revenues and other changes in net position	5,090,275	4,986,744	4,885,014	3,416,640
Total governmental activities changes in net position	**1,204,395**	**42,529**	**193,692**	**(1,265,595)**

* 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
*** Change in Financial Reporting in 2018

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

2013	2014	2015	2015 (Note 1)	2016	2017	2018
$ 1,837,120	$ 639,350	$ 538,004	$ 1,923,816	$ 2,339,474	$ 2,119,990	$ 2,459,576
1,440,002	1,555,955	1,567,747	1,379,621	1,601,654	1,817,299	2,194,391
2,448,821	3,224,490	3,324,935	2,289,743	2,167,702	2,210,748	2,894,119
1,314,872	1,479,822	1,358,479	621,974	738,495	680,522	1,157,213
627,512	842,532	839,577	-	-	-	-
-	-	-	1,413,588	1,252,271	1,461,155	1,669,907
4,526	3,955	3,304	3,304	1,492	-	-
7,672,853	7,746,104	7,632,046	7,632,046	8,101,088	8,289,714	10,375,206
-	-	-	29,038	72,566	27,615	1,804,216
3,200	-	1,302	1,302	-	-	156,083
1,768,740	1,871,118	2,623,027	2,433,038	2,217,874	2,219,769	1,792,025
433,785	281,886	316,391	269,295	199,241	222,834	394,729
169,526	186,631	340,110	-	-	-	-
-	-	-	548,157	388,931	549,729	513,771
1,267,777	500,245	338,453	291,593	303,292	343,107	194,053
-	266,736	246,533	246,533	398,990	69,635	94,031
3,643,028	3,106,616	3,865,816	3,818,956	3,580,894	3,432,689	4,948,908
(4,029,825)	(4,639,488)	(3,766,230)	(3,813,090)	(4,520,194)	(4,857,025)	(5,426,298)
3,785,652	4,153,331	4,606,184	4,606,184	4,960,016	5,302,028	5,721,224
594,656	626,479	649,542	649,542	565,055	666,631	724,609
421,634	463,598	513,997	513,997	474,732	573,336	579,333
142,931	199,609	208,776	208,776	356,479	222,688	-
-	-	-	-	-	-	218,816
-	-	-	-	-	-	32,349
34,057	585,089	174,469	174,469	4,538	13,747	39,051
-	-	-	-	-	5,500	5,885
-	-	-	-	-	-	-
-	-	-	-	-	-	-
71,000	-	-	46,860	153,419	209,677	-
5,049,930	6,028,106	6,152,968	6,199,828	6,514,239	6,993,607	7,321,267
1,020,105	**1,388,618**	**2,386,738**	**2,386,738**	**1,994,045**	**2,136,582**	**1,894,969**

Changes in Net Position (continued)

Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2009	2010	2011	2012
Business-type activities:				
Expenses:				
Sewer	$ 1,097,072	$ 947,450	$ 1,022,325	$ 1,328,856
Solid waste	387,335	-	-	-
Total business-type activities expenses	1,484,407	947,450	1,022,325	1,328,856
Program revenues:				
Charges for services:				
Sewer	1,335,790	1,643,706	1,406,130	1,355,667
Solid waste	361,763	-	-	-
Operating contributions and grants	-	-	-	-
Capital contributions and grants	3,208,687	272,405	(1,486,331)	170,955
Total business-type activities program revenues	4,906,240	1,916,111	(80,201)	1,526,622
Total business-type activities net program revenue (expenses)	3,421,833	968,661	(1,102,526)	197,766
General revenues and other changes in net position:				
Use of money and property	113,527	102,876	29,585	14,001
Investment Income ***	-	-	-	-
Other unrestricted revenue	-	-	-	-
Transfers	(23,196)	(131,616)	(71,345)	(69,243)
Total business-type activities general revenues and other changes in net position	90,331	(28,740)	(41,760)	(55,242)
Total business-type activities changes in net position	3,512,164	939,921	(1,144,286)	142,524
Total primary government change in net position	$ 4,716,559	$ 982,450	$ (950,594)	$ (1,123,071)

* 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
*** Change in Financial Reporting in 2018

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

2013	2014	2015	2015 (Note 1)	2016	2017	2018
$ 1,242,885	$ 1,271,651	$ 1,591,743	$ 1,544,883	$ 1,997,399	$ 2,129,895	$ 2,114,609
-	-	-	-	-	-	-
1,242,885	1,271,651	1,591,743	1,544,883	1,997,399	2,129,895	2,114,609
1,359,338	1,382,472	1,392,029	1,392,029	1,925,636	2,759,287	2,917,428
-	-	-	-	-	-	-
-	-	-	-	-	-	-
125,183	175,497	234,339	234,339	221,010	185,369	130,930
1,484,521	1,557,969	1,626,368	1,626,368	2,146,646	2,944,656	3,048,358
241,636	286,318	34,625	81,485	149,247	814,761	933,749
720	24,719	19,533	19,533	32,557	4,134	-
-	-	-	-	-	-	6,642
-	-	-	-	2,829	2,470	3,220
(71,000)	-	-	(46,860)	(153,419)	(209,677)	-
(70,280)	24,719	19,533	(27,327)	(118,033)	(203,073)	9,862
171,356	311,037	54,158	54,158	31,214	611,688	943,611
$ 1,191,461	$ 1,699,655	$ 2,440,896	$ 2,440,896	$ 2,025,259	$ 2,748,270	$ 2,838,580

Fund Balances of Governmental Funds

Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	2009	2010	2011	2012
General Fund				
Committed	$ 1,600,000	$ 1,600,000	$ 170,000	$ 240,000
Assigned	-	-	-	-
Unassigned	3,623,779	3,810,511	5,607,882	3,063,979
Total General Fund	$ 5,223,779	$ 5,410,511	$ 5,777,882	$ 3,303,979
All other governmental funds				
Restricted	$ 1,148,960	$ 1,557,669	$ 960,737	$ 1,507,673
Committed	3,441,870	1,820,403	1,311,759	75,112
Unassigned	-	-	-	(184,268)
Total all other governmental funds	$ 3,441,870	$ 1,820,403	$ 1,311,759	$ 1,398,517

Source: Audited Financial Statements

2013	2014	2015	2016	2017	2018
$ 286,150	$ 285,000	$ 360,000	$ 1,765,000	$ 1,840,000	$ 3,125,000
-	-	-	350,000	350,000	350,000
2,990,283	5,420,162	7,048,964	7,606,176	10,267,874	8,254,294
$ 3,276,433	$ 5,705,162	$ 7,408,964	$ 9,721,176	$ 12,457,874	$ 11,729,294
$ 1,787,750	$ 1,520,545	$ 1,691,286	$ 1,706,954	$ 115,275	$ 192,287
354,495	519,059	934,569	1,086,413	2,050,545	2,041,192
-	(435)	-	-	-	-
$ 2,142,245	$ 2,039,169	$ 2,625,855	$ 2,793,367	$ 2,165,820	$ 2,233,479

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	2009	2010	2011	2012
Revenues:				
Property taxes	$ 3,403,586	$ 3,438,168	$ 3,393,604	$ 3,543,251
Taxes other than property	366,282	332,189	503,766	423,353
Franchise fees	431,574	387,803	428,332	430,149
Licenses and permits	612,092	732,233	820,694	651,476
Intergovernmental	889,209	656,480	428,833	457,952
Use of money and property	612,902	212,126	210,904	196,891
Investment Income **	-	-	-	-
Charges for services	1,749,121	1,751,358	1,605,081	1,836,621
Interfund charges	-	-	-	-
Rental income	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	945,347	810,197	360,205	249,686
Total revenues	9,010,113	8,320,554	7,751,419	7,789,379
Expenditures				
Current:				
Administration	1,481,883	1,651,144	1,453,778	1,580,902
Public safety	1,130,438	1,092,359	1,120,237	1,057,330
Community development	1,792,913	2,025,711	1,686,842	1,992,581
Parks and recreation	900,850	964,244	1,060,335	1,049,563
Drainage and street operation	413,625	625,610	756,279	549,782
Public works	-	-	-	-
Debt service:	-	-	-	-
Principal	127,128	133,693	142,285	1,377,532
Interest	84,188	77,623	73,264	62,725
Additional pension and OPEB payments	-	-	-	-
Capital outlay	3,475,782	2,908,054	2,321,552	1,584,367
Total expenditures	9,406,807	9,478,438	8,614,572	9,254,782
Excess (deficiency) of revenues over (under) expenditures	(396,694)	(1,157,884)	(863,153)	(1,465,403)
Other financing sources (uses)				
Transfers in	2,075,139	2,009,503	2,406,621	2,900,401
Transfers out	(2,051,943)	(1,877,887)	(2,335,276)	(2,831,158)
Sale of assets	143,518	242	6,600	-
Proceeds from debt	-	-	47,000	-
Special Item*	-	-	-	(1,250,000)
Other financing sources (uses)	166,714	131,858	124,945	(1,180,757)
Net change in fund balances	$ (229,980)	$ (1,026,026)	$ (738,208)	$ (2,646,160)
Debt service as a percentage of noncapital expenditures	3.7%	3.3%	3.5%	23.1%

* Special item is related to provision for one-time refund of Roadway Impact Fee
** Change in Financial Reporting in 2018

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

2013	2014	2015	2015 (Note 1)	2016	2017	2018
$ 3,785,652	$ 4,153,332	$ 4,606,184	$ 4,606,184	$ 4,960,016	$ 5,302,028	$ 5,721,224
545,228	524,763	645,836	645,836	511,091	610,337	667,037
421,634	463,598	513,997	513,997	474,732	573,336	579,333
754,460	1,006,907	1,485,394	1,485,394	1,334,953	1,544,996	1,246,623
1,264,716	610,850	397,470	397,470	752,717	412,855	489,392
200,937	281,583	295,447	295,447	356,479	222,688	-
-	-	-	-	-	-	32,349
1,407,987	1,411,082	1,858,220	1,811,360	1,449,127	1,482,830	1,625,306
-	-	-	-	-	-	1,632,812
-	-	-	-	-	-	218,816
-	-	-	-	-	-	381
241,344	599,992	175,380	175,380	102,599	62,048	56,902
8,621,958	9,052,107	9,977,928	9,931,068	9,941,714	10,211,118	12,270,175
1,363,140	276,162	447,843	1,557,773	1,859,492	1,813,551	1,983,939
1,131,772	1,209,028	1,205,913	1,075,160	1,255,198	1,560,295	1,781,425
1,918,408	2,581,031	2,557,545	1,725,877	1,641,631	1,833,654	2,540,121
1,033,239	1,178,463	1,044,944	466,881	565,440	575,594	722,696
492,889	678,195	645,804	-	-	-	-
-	-	-	1,066,943	951,786	1,214,072	1,678,516
-	-	-	-	-	-	-
15,048	15,618	16,212	16,212	81,360	-	-
4,536	3,966	3,372	3,372	1,492	-	-
-	-	-	-	-	-	1,660,209
2,719,447	783,990	1,765,807	1,765,807	1,259,010	1,314,478	2,564,189
8,678,479	6,726,453	7,687,440	7,678,025	7,615,409	8,311,644	12,931,095
(56,521)	2,325,654	2,290,488	2,253,043	2,326,305	1,899,474	(660,920)
2,178,543	1,490,019	2,790,955	3,097,282	2,299,774	2,988,073	2,215,434
(2,107,543)	(1,490,019)	(2,790,955)	(3,059,837)	(2,146,355)	(2,778,396)	(2,215,434)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
71,000	-	-	37,445	153,419	209,677	-
$ 14,479	$ 2,325,654	$ 2,290,488	$ 2,290,488	$ 2,479,724	$ 2,109,151	$ (660,920)
0.3%	0.3%	0.3%	0.3%	1.3%	0.0%	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	Property tax revenue per fin stmt
2009	$ 4,767,614,000	$ 3,396,490	$ 15,632,400	$ 4,755,378,090	0.072%	8.43%	$ 3,403,586
2010	4,904,290,340	3,417,417	15,596,000	4,892,111,757	0.069%	2.87%	3,438,168
2011	4,900,568,415	3,203,017	15,335,600	4,888,435,832	0.072%	-0.08%	3,393,604
2012	5,083,703,530	6,024,790	15,283,800	5,074,444,520	0.074%	3.79%	3,543,251
2013	5,329,042,601	5,859,024	15,300,600	5,319,601,025	0.078%	4.82%	3,785,652
2014	5,850,746,460	5,041,770	15,632,400	5,840,155,830	0.079%	9.76%	4,153,332
2015	6,220,950,601	3,384,189	14,732,200	6,209,602,590	0.074%	6.33%	4,606,184
2016	6,668,595,288	3,162,336	14,589,400	6,657,168,224	0.075%	7.21%	4,960,016
2017	7,103,893,376	3,727,197	14,357,000	7,093,263,573	0.075%	6.55%	5,302,028
2018	7,557,427,113	3,513,572	14,109,200	7,546,831,485	0.076%	6.39%	5,721,224

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

Source: Santa Clara County Assessor 2017/18 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
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
2018	1.0000	0.01000	0.1583	0.0062	0.0621	0.0009	1.2375

Source: County of Santa Clara Assessor 2008/09 - 2017/18 Tax Rate Table

Principal Taxpayers

Current Year And Ten Years Ago

		2018		2009	
Taxpayer	Type of Property	Assessed Value	Percentage of Net Assessed Valuation	Assessed Value	Percentage of Net Assessed Valuation
LaPaloma Property LLC	Single family residential	$ 56,654,449	0.75%		
Douglas M Leone Trustee and Et Al	Single family residential	27,581,104	0.37%		
Homa Natoma LLC	Single family residential	24,137,607	0.32%		
David W Packard/David & Lucille Packard	Single family residential	22,779,804	0.30%		
Sutaardja Sehat and Dai Weili Trustee	Single family residential	19,923,511	0.26%		
Kumar Malavalli Trustee and Et Al	Single family residential	19,172,036	0.25%		
Top Elegant Investment LLC	Vacant	18,870,000	0.25%		
Charles F Perrell Trustee	Single family residential	17,169,643	0.23%		
12401 Hilltop Drive LLC	Single family residential	17,156,881	0.23%		
Even Stride LLC	Single family residential	16,879,546	0.22%		
Wilfred J Corrigan Trustee	Single family residential			-	-
Northfork Vineyards LLC	Single family residential			-	-
William M Carrico Trustee	Single family residential			-	-
Kumar Malavalli Trustee and Et Al	Single family residential			-	-
Sehat Sutardja and Dai Weili	Single family residential			-	-
David Hitz Trustee	Single family residential			-	-
Charles F Perrell Trustee	Single family residential			-	-
Mark Jung Trustee and Et Al	Single family residential			-	-
Ashish K Bhardwaj and Bali Tanuja	Dry Farm			-	-
Totals		$ 240,324,581	3.18%	$ -	-

Note: Information is not available for 2009

Source: Santa Clara County Assessor 2017/18 Combined Tax Rolls and the SBE Non Unitary Tax Roll

Property Tax Levies and Collections

Last Ten Fiscal Years

			Collected within FY		Total Collections		Value of property subject to
Fiscal Year	Tax Levy	% of Chg	Amount	% of Levy	Amount	% of Levy	local tax rate
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
2018	5,721,224	8%	5,721,224	100%	5,721,224	100%	7,546,831,485

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 2017-2018 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
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	-	-	-	-	-
2017	-	-	-	-	-
2018	-	-	-	-	-

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, 2018

TOWN OF LOS ALTOS HILLS

2017-18 Assessed Valuation: $7,546,831,485

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/2018	% Applicable (1)	Town's Share of Debt 6/30/18
Santa Clara County	$ 1,012,400,000	1.678%	$ 16,988,072
Foothill-DeAnza Community College District	633,997,978	4.845	30,717,202
Palo Alto Unified School District	298,433,689	7.158	21,361,883
Mountain View-Los Altos Union High School District	52,243,375	10.024	5,236,876
Los Altos School District	59,645,000	21.670	12,925,072
El Camino Hospital District	127,800,000	8.420	10,760,760
Midpeninsula Regional Open Space District	93,350,000	2.842	2,653,007
Santa Clara Valley Water District Benefit Assessment District	82,285,000	1.678	1,380,742
Town of Los Altos Hills	**0**	**100.**	**0**
Town of Los Altos Hills 1915 Act Bonds	1,715,000	100.	1,715,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$ 103,738,614
OVERLAPPING GENERAL FUND DEBT:			
Santa Clara County General Fund Obligations	$ 590,242,965	1.678%	$ 9,904,277
Santa Clara County Pension Obligation Bonds	357,547,175	1.678	5,999,642
Santa Clara County Board of Education Certificates of Participation	4,985,000	1.678	83,648
Foothill-DeAnza Community College District Certificates of Participation	28,803,859	4.845	1,395,547
Mountain View-Los Altos Union High School District Certificates of Participation	1,845,000	10.024	184,943
Los Altos School District Certificates of Participation	2,616,389	21.670	566,971
Santa Clara County Vector Control District Certificates of Participation	2,470,000	1.678	41,447
Midpeninsula Regional Park District General Fund Obligations	123,040,600	2.842	3,496,814
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			$ 21,673,289
Less: County supported obligations			6,827,541
TOTAL NET OVERLAPPING GENERAL FUND DEBT			14,845,748
TOTAL DIRECT DEBT			**$ -**
TOTAL GROSS OVERLAPPING DEBT			$ 125,411,903
TOTAL NET OVERLAPPING DEBT			$ 118,584,362
GROSS COMBINED TOTAL DEBT			$ 125,411,903 (2)
NET COMBINED TOTAL DEBT			$ 118,584,362

(1) The percentage of overlapping debt applicable to the city 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 2017-18 Assessed Valuation:

Direct Debt	**0.00%**
Total Direct and Overlapping Tax and Assessment Debt	1.37%
Gross Combined Total Debt	1.66%
Net Combined Total Debt	1.57%

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
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
2018	7,546,831,485	1,132,024,723	-	1,132,024,723

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 2017-18 Combined Tax Rolls

Demographics and Economic Statistics

Last Ten Years

Year	Town Population	Personal Income	Per Capita Personal Income	Unemployment Rate	Median Age	% of Pop 25+ with High School Degree	% of Pop 25+ with Bachelor's Degree
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%
2017	8,580	1,043,190	$141,538	2.2%	51.4	97.1%	83.5%

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

	2018		2009	
Employer	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Foothill Community College	352	58.74%	-	-
Pinewood School	50	8.34%	-	-
Saint Nicholas School	35	5.84%	-	-
Fremont Hills Country Club	35	5.84%	-	-
Congregation Beth Am	53 ^	8.85%	-	-
Town of Los Altos Hills	23	3.87%	-	-
Los Altos School District	32	5.34%	-	-
Daughters of Charity	12	2.00%	-	-
Purissima Hills Water District	7	1.17%	-	-
Totals	599	100.00%	-	0.00%

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.

Note: Information was not available in 2009

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Administration	3.30	3.30	3.30	3.30	3.42	3.42	5.92	6.12	6.32	6.32
Public safety	1.00	1.00	1.00	1.00	0.60	-	-	-	-	-
Community development	8.90	8.90	8.90	8.90	9.36	9.16	7.66	7.61	7.61	7.61
Town center and corpyard	1.12	1.12	1.12	1.12	1.50	2.09	1.00	0.85	0.85	0.85
Parks and recreation	1.00	2.00	2.00	2.00	2.54	0.75	0.60	0.60	1.65	1.65
Pathways	1.69	1.69	1.69	1.69	1.25	1.25	1.39	1.39	1.69	1.69
Drainage and street	2.46	2.46	2.46	2.46	1.92	2.02	1.70	1.70	2.15	2.15
Sewer	0.53	0.53	0.53	0.53	0.41	0.51	0.93	1.93	1.93	2.93
Solid waste	-	-	-	-	-	-	-	-	-	-
	20.00	21.00	21.00	21.00	21.00	19.20	19.20	20.20	22.20	23.20

Source: Town of Los Altos Hills Personnel Records

Operating Indicators by Function

Last Ten Fiscal Years

	2009	2010	2011	2012
Building permits issued:				
New homes	15	17	18	16
Valuation	$ 15,674,840	$ 13,277,815	$ 22,801,520	$ 14,446,905
Additions and remodels	70	88	103	92
Valuation	$ 7,704,603	$ 11,734,420	$ 11,739,278	$ 9,004,645
Planning permits issued	162	107	132	152
Streets resurfaced/rehabilitated	4.37	2.87	2.61	1.48
Recreation classes and activities offered*	164	195	147	177

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

** 2018 data is currently unavailable due to implementation of new permitting software

Source: Town of Los Altos Hills

2013	2014	2015	2016	2017	2018
20	21	37	39	33	20
$ 20,970,084	$ 25,266,696	$ 32,021,811	$ 27,158,677	$ 27,718,202	$ 22,404,203
88	116	132	109	113	254
$ 10,623,625	$ 13,485,643	$ 13,479,448	$ 10,014,195	$ 17,247,476	$ - **
76	162	193	159	152	74
4.13	7.00	8.12	8.50	6.30	6.30
131 *	72	92	100	133	116

Capital Asset Statistics By Function

Last Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2	2	2	2	2	2	2	2	2	2
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	67	71	75	80	82	85	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	58	55	58	58	58	60	60	60	65	65
Storm drains - miles	20	20	20	20	20	20	20	20	20	20
Sewer Operations										
Sanitary sewers - miles	53	52	53	54	55	56	56	56	56	56

Source: Town of Los Altos Hills

This page intentionally left blank

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