

TOWN OF ATHERTON, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Prepared by
FINANCE DEPARTMENT

This Page Left Intentionally Blank

TOWN OF ATHERTON
Basic Financial Statements
For the Year Ended June 30, 2012

Table of Contents

FINANCIAL SECTION:

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements</i>	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities.....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of the Governmental Funds – Balance Sheet with the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
General Fund	20
Special Tax Special Revenue Fund	21
Library Special Revenue Fund.....	22
Road Construction Special Revenue Fund	23
Proprietary Funds:	
Statement of Net Assets	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets	27
Statement of Cash Flows.....	28

TOWN OF ATHERTON
Basic Financial Statements
For the Year Ended June 30, 2012

FINANCIAL SECTION (Continued):

Fiduciary Fund:

Statement of Fiduciary Net Assets.....30

Notes to Basic Financial Statements 31

Supplemental Information:

Non-Major Governmental Funds:

Combining Balance Sheets 56

Combining Statements of Revenues, Expenditures and Changes
in Fund Balances 58

Combining Schedule of Revenues, Expenditures and Changes
in Fund Balances-Budget and Actual 60

Internal Service Funds:

Combining Statements of Net Assets 64

Combining Statements of Revenues, Expenditures, and Changes
in Fund Net Assets..... 65

Combining Statements of Cash Flows 66

Fiduciary Funds:

Statements of Changes in Assets and Liabilities – Agency Funds 68

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Atherton, California

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Atherton (Town) as of and for the year ended June 30, 2012, as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Atherton at June 30, 2012, and the results of its operations and the cash flows of its proprietary fund types where applicable thereof, and budgetary comparisons for major general and special revenue funds for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012 on our consideration of the Town of Atherton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information 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 this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Town of Atherton's financial statements as a whole. The Supplemental Information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards 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.

Mare & Associates

October 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Atherton, we offer readers of the Town of Atherton's financial statements this narrative overview and analysis of the financial activities of the Town of Atherton for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Atherton exceeded its liabilities at the close of the most recent fiscal year by \$46,349,504 (*net assets*). Of this amount, \$6,880,530 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$685,406. The increase is due to higher property tax, sales tax, and other taxes revenues and savings from reorganization.
- As of the close of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$16,853,542, a decrease of \$106,020 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$3,520,405, or 30.3 percent of total general fund expenditures. The Town adopted a fund balance policy of not dropping the unassigned fund balance below 20% of the actual annual operating expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Atherton's basic financial statements. The Town of Atherton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

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

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

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Atherton that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Town of Atherton include general government, planning, building, public safety (Police), and public works.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Atherton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Atherton 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 evaluating a government's near-term financing requirements.

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

The Town of Atherton maintains fourteen 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, Special Tax Special Revenue Fund, and Library Special Revenue Fund, all of which are considered to be major funds. The Town of Atherton also elected to include Facilities Construction Capital Projects Fund as major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Town of Atherton adopts an annual appropriated budget for its General Fund, Special Tax Special Revenue Fund, and Library Special Revenue Fund. A budgetary comparison statement has been provided for the General Fund, Special Tax Special Revenue Fund, and Library Special Revenue Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on **pages 16-23** of this report.

Proprietary funds. The Town of Atherton maintains one type of proprietary funds. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town of Atherton various functions. The Town of Atherton uses internal service funds to account for its fleet of vehicles and equipment, workers' compensation liability, general and employment liabilities, and employee benefits including compensated absences and other post-employment benefits other than pension. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on **pages 26-28** of this report.

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

The basic fiduciary fund financial statements can be found on **page 30** 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 31-54** of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* providing a budgetary comparison statement for General Fund, Special Tax Special Revenue Fund, Library Special Revenue Fund, and Road Construction Special Revenue Fund. Required supplementary information can be found on **pages 20-23** of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on **pages 56-68** of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Atherton, assets exceeded liabilities by \$46,349,504 at the close of the most recent fiscal year.

By far the largest portion of the Town of Atherton's net assets (62 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town of Atherton uses capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town of Atherton's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town's of Atherton Net Assets

	Governmental activities	
	2012	2011
Current and other assets	\$ 21,652,560	\$ 21,732,408
Capital assets	28,835,793	28,865,421
Total assets	50,488,353	50,597,829
Current liabilities	2,287,495	3,060,462
Noncurrent liabilities	1,851,354	1,873,269
Total liabilities	4,138,849	4,933,731
Net Assets:		
Invested in capital assets, net of related debt	28,835,793	28,785,929
Restricted	10,633,181	10,725,520
Unrestricted	6,880,530	6,152,649
Total net assets	\$ 46,349,504	\$ 45,664,098

An additional portion of the Town of Atherton net assets (23 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$6,880,530 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Atherton is able to report positive balances for all three categories of net assets related to governmental activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the Town of Atherton's net assets by \$685,406. The increase was due to higher property tax, sales tax, building department revenues and other taxes revenues and reorganization during the fiscal year which led to a decrease in internal service fund accruals.

Town of Atherton's Changes in Net Assets

	Governmental activities	
	2012	2011
Revenues:		
Program revenues:		
Charges for services	\$ 2,111,785	\$ 2,895,492
Operating grants and contributions	727,577	677,424
Capital Grants and Contributions	-	506,273
General revenues:		
Taxes	11,124,655	10,502,924
Investment earnings	129,185	114,324
Other revenues	194,616	308,289
Total revenues	14,287,818	15,004,726
Expenses:		
General government	3,162,128	3,069,974
Public works	3,608,614	5,176,720
Police	5,322,561	5,089,329
Building	1,321,818	1,169,139
Planning	187,291	185,471
Total expenses	13,602,412	14,690,633
Change in Net Assets	685,406	314,093
Transfers	-	-
Net assets - Beginning	45,664,098	45,350,005
Net assets - Ending	46,349,504	45,664,098

- Charges for services decreased by \$783,707 (31 percent) during the year. The decrease was primarily due to lower public work department revenues of \$902,354 primarily from the prior year reimbursement Road Construction impact fee.
- Operating grants and contribution increased by \$50,153 (7 percent) during the year. The increase was primarily due to higher San Mateo County Measure A revenue of \$23,129 and \$ 34,982 of Gas Tax revenue.
- Capital grants and contributions decreased by \$506,273 (100 percent) during the year. The decrease was primarily due to the Town's decision to stop collecting road impact fees and no new projects reimbursements grants from local and state agencies.
- Taxes increased by \$621,731 (6 percent) during the year. The increase was primarily due to \$323,712 of property tax, a one time increase \$79,749 in sales tax, \$104,059 increase in garbage tax, and \$79,558 increase in document transfer tax.
- Investment earnings increased by \$14,861 (13 percent) during the year. The increase was primarily due to reimbursement from Lehman brother settlement \$33,311, without this amount, the investment income actually decreased. Other revenues decreased by \$113,673 (46 percent) during the year. The decreased was primarily due to one-time

reimbursement of \$64,087 for public works repairs and \$75,655 for unclaimed property escheated.

- Total Government Activities expenses decreased by \$1,088,221 (8 percent) during the year. The decrease was primarily due to reorganization of Public Works and Building department and unfilled department head positions.

Financial Analysis of the Government's Funds

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

From FY 2011, The Town adopted the provision of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Additional information can be found in Note 7 on pages 43 through 46 in the financial statements.

Governmental funds:

The focus of the Town of Atherton'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 of Atherton's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund The general fund is the chief operating fund of the Town of Atherton. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,520,405 while total fund balance reached \$6,220,361. 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 fund expenditures. Unassigned fund balance represents 30.3 percent of the total general fund expenditures, While total fund balance represents 53.7 percent of that same amount.

The fund balance of the Town of Atherton's general fund decreased by \$13,681 during the current fiscal year.

Special Tax Special Revenue Fund has a total fund balance of \$875,110, all of which is reserved for the street and drainage facility maintenance and polices services. Revenue in the fund showed no significant variation from prior year. Expenditure decreased by \$817,446.

Library Special Revenue Fund has a total fund balance of \$6,229,427, all of which is reserved for the library operation. Revenue was higher than prior year due to return of excess donor city fund.

General Fund Budgetary Highlights

During the year there was a \$2,110,324 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$1,224,321 to pay off CalPERS safety side fund.
- \$252,996 to cover additional contribution for solid waste. \$473,687 building department increase that tied to revenue.

During the year, the revenue budget increased by \$605,900. Followings are the main components of the increase:

- \$99,050 higher secured property tax
- \$118,000 higher ERAF revenue.
- \$75,000 higher sales and use tax
- \$75,000 higher franchise tax garnage
- \$40,000 higher document transfer tax
- \$321,500 higher building department revenue.

Capital Assets and Debt Administration

Capital assets. The Town of Atherton's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$28,835,793 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, drainage systems, and construction in progress. Construction in progress decreased by \$1,629,371. This is mainly due to completion of the Fletcher Ridgeview drainage project,

Town of Atherton's Capital Assets (net of depreciation)

	Governmental activities	
	2012	2011
Land	690,884	690,884
Construction in progress	433,394	2,062,765
Building	1,042,051	1,092,615
Other Improvements	449,224	491,177
Vehicles	368,439	363,923
Computer Equipment/Software	77,363	172,236
Furniture & Fixture	7,411	10,376
Machinery & Equipment	84,772	111,400
Infrastructure	25,682,255	23,870,045
Total Fixed Assets	28,835,793	28,865,421

Additional information about the Town's capital assets can be found in Note 5 on pages 40 through 42 in the financial statements.

Long-term debt. At the end of the current fiscal year, the Town of Atherton has total debt outstanding of \$238,330.

Town of Atherton's Outstanding Debt

	Governmental activities	
	2012	2011
Software capital lease	24,330	48,660
Workers' compensation assessment	214,000	321,000
Total Debt	238,330	369,660

The Town of Atherton's reported \$238,330 of total debt during the current fiscal year.

- \$24,330 in capital lease with Springbrook Software for financial software licensing
- \$214,000 in assessment due to The Cities Group to cover negative workers' compensation reserve.

Additional information on the Town of Atherton's outstanding debt can be found in note 6 on page 42-43 of this report.

Economic Factors and Next Year's Budgets

At the date of publication of this report, there is continuing uncertainty regarding Town revenues for the coming fiscal year and beyond. Property taxes comprise 63% of the General Fund revenues and it appears that this will remain a stable source of revenue into the coming year. However, due to the slower than anticipated recovery in the economy, the property tax revenue is projected to increase by 2%.

The Town of Atherton expects to monitor property tax values and development, as well as reform to pension obligations and other post -employment benefits, Analysis on future costs will continue to be a focus as we intend to meet long term obligations and Town operating expenditures. The goal is to continue to provide current level of services to the community.

Requests for Information

This financial report is designed to provide a general overview of the Town of Atherton's 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 financial information should be addressed to the Finance Director, 91 Ashfield Road, Atherton, CA 94027 or www.ci.atherton.ca.us.

TOWN OF ATHERTON

**STATEMENT OF NET ASSETS AND
STATEMENT OF ACTIVITIES**

The Statement of Net Assets and the Statement of Activities summarize all of the Town's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Town's assets and liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Town's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Town funds have been eliminated.

The Statement of Net Assets reports the difference between the Town's total assets and the Town's total liabilities, including all the Town's capital assets. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the Town's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Town's Governmental Activities in a single column, and the financial position of all the Town's Business-Type Activities in a single column. These columns are followed by a Total column that presents the financial position of the entire Town.

The Town's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, and Capital Projects Funds.

The Statement of Activities reports increases and decreases in the Town's net assets. It is also prepared on the full accrual basis, which means it includes all the Town's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Town's expenses, listed by program. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of governmental program. The Town's general revenues are then listed in the Governmental Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements, along with the fund financial statements and footnotes, are called *Basic Financial Statements*.

TOWN OF ATHERTON
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash and investments (Note 3)	\$20,438,585
Receivables:	
Taxes	1,080,055
Grants	5,441
Interest	9,453
Other	111,030
Prepaid expenses	7,996
Capital assets (Note 5):	
Non-depreciable	1,124,278
Depreciable, net	27,711,515
Total Capital assets	28,835,793
Total Assets	50,488,353
LIABILITIES	
Accounts payable	830,889
Accrued liabilities	265,006
Deposits payable	819,267
Compensated absences (Note 1F)	
Due in less than one year	241,003
Due in more than one year	159,274
Long-term debt (Note 6)	
Due within one year	131,330
Due in more than one year	107,000
Net OPEB obligation (Note 9)	
Due in more than one year	1,585,080
Total Liabilities	4,138,849
NET ASSETS (Note 7)	
Investment in capital assets	28,835,793
Restricted for:	
Streets and drainage maintenance and police services	875,110
Library operations	6,229,427
Public facilities constructions	2,095,385
Special revenue projects	1,101,896
Capital projects	331,363
Unrestricted	6,880,530
Total Net Assets	\$46,349,504

See accompanying notes to financial statements

TOWN OF ATHERTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
General government	\$3,162,128	\$943	\$19,660	(\$3,141,525)
Public works	3,608,614	399,477	482,824	(2,726,313)
Police	5,322,561	88,347	225,093	(5,009,121)
Building	1,321,818	1,458,444		136,626
Planning	187,291	164,574		(22,717)
	\$13,602,412	\$2,111,785	\$727,577	(10,763,050)
General revenues:				
Taxes:				
Property taxes				9,651,970
Sales taxes				220,647
Other taxes				1,252,038
				11,124,655
Total Taxes				11,124,655
Investment earnings				129,185
Miscellaneous				194,616
				11,448,456
Total General Revenues				11,448,456
Change in Net Assets				685,406
Net Assets-Beginning				45,664,098
Net Assets-Ending				\$46,349,504

See accompanying notes to financial statements

This Page Left Intentionally Blank

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the Town in fiscal 2012. Individual non-major funds may be found in the Supplemental Section.

GENERAL FUND

The General Fund accounts for all the general revenues and financial resources of the Town not specifically levied or collected for the other Town funds, as well as the related expenditures.

SPECIAL TAX SPECIAL REVENUE FUND

Accounts for parcel tax assessments received from property owners to be used for maintenance of streets drainage and police services.

LIBRARY SPECIAL REVENUE FUND

Accounts for the property tax funds dedicated to the Town's library operations.

ROAD CONSTRUCTION SPECIAL REVENUE FUND

Accounts for costs recovered from applicants for accelerated wear and tear to the Town's road as a result of construction projects.

FACILITIES CONSTRUCTION CAPITAL PROJECTS FUND

Accounts for the funds dedicated to facilities construction.

TOWN OF ATHERTON
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	Major Funds						Total Governmental Funds
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Road Construction Special Revenue Fund	Facilities Construction Capital Projects Fund	Other Governmental Funds	
ASSETS							
Cash and investments (Note 3)	\$7,314,597	\$875,113	\$5,312,173	\$1,045,597	\$2,095,385	\$793,511	\$17,436,376
Receivables:							
Taxes	75,872		969,986			34,197	1,080,055
Grants	5,441						5,441
Interest	9,453						9,453
Other	111,030						111,030
Prepays	6,535						6,535
Total Assets	\$7,522,928	\$875,113	\$6,282,159	\$1,045,597	\$2,095,385	\$827,708	\$18,648,890
LIABILITIES							
Accounts payable	\$343,368		\$52,732	\$241,182		\$193,607	\$830,889
Accrued liabilities	103,811						103,811
Deposits payable	819,264	\$3					819,267
Claims payable	26,863						26,863
Deferred revenue	9,261					5,257	14,518
Total Liabilities	1,302,567	3	52,732	241,182		198,864	1,795,348
FUND BALANCES							
Fund balance (Note 7):							
Nonspendable	6,535						6,535
Restricted		875,110	6,229,427	804,415		373,381	8,282,333
Committed	1,738,519						1,738,519
Assigned	954,902				2,095,385	255,463	3,305,750
Unassigned	3,520,405						3,520,405
Total Fund Balances	6,220,361	875,110	6,229,427	804,415	2,095,385	628,844	16,853,542
Total Liabilities and Fund Balances	\$7,522,928	\$875,113	\$6,282,159	\$1,045,597	\$2,095,385	\$827,708	\$18,648,890

See accompanying notes to financial statements

TOWN OF ATHERTON
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balances reported on the governmental funds balance sheet \$16,853,542

Amounts reported for Governmental Activities in the Statement of Net Assets
are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and
therefore are not reported in the Governmental Funds. 28,474,041

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However they used by management to
change the costs of certain activities, such as insurance and central services and maintenance
to individual governmental funds. The net current assets of the Internal Service Funds are therefore
included in the Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	3,002,209
Prepays	1,461
Capital assets, net	361,752
Accounts payable and other liabilities / contracts payable	
Compensated absences	(400,277)
Claims payable	(50,000)
Net OPEB Obligation	(1,585,080)
Long term debt	(238,330)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	14,518
Accrued liabilities	(84,332)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$46,349,504

See accompanying notes to financial statements

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

	Major Funds						Total Governmental Funds
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Road Construction Special Revenue Fund	Facilities Construction Capital Projects Fund	Other Governmental Funds	
REVENUES							
Property taxes	\$6,732,067		\$969,986			\$80,232	\$7,782,285
Special assessments		\$1,869,685					1,869,685
Sales taxes	289,801						289,801
Other taxes	1,068,951						1,068,951
Measure A grants						287,712	287,712
From other governmental agencies	78,126					362,675	440,801
Permit and licenses	183,087						183,087
Fines and forfeitures	60,734						60,734
Service charges	1,970,960						1,970,960
Use of money and property	169,966	5,810	35,761	7,000	\$13,565	4,404	236,506
Miscellaneous	60,108	23,933				148	84,189
Total Revenues	10,613,800	1,899,428	1,005,747	7,000	13,565	735,171	14,274,711
EXPENDITURES							
Current:							
General government	3,146,894	5,186					3,152,080
Planning	187,291						187,291
Building	1,344,338						1,344,338
Police	5,371,944					109,880	5,481,824
Public Works	1,478,110	116,579		303,530		344,471	2,242,690
Non-departmental			350,583			16,974	367,557
Capital outlay	61,548	1,279,184				264,219	1,604,951
Total Expenditures	11,590,125	1,400,949	350,583	303,530		735,544	14,380,731
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(976,325)	498,479	655,164	(296,530)	13,565	(373)	(106,020)
Other Financing Sources (uses):							
Transfer in (Note 4)	1,116,000				153,356		1,269,356
Transfer (out) (Note 4)	(153,356)	(1,116,000)					(1,269,356)
Total Other Financing Sources (uses)	962,644	(1,116,000)			153,356		
Net change in fund balances	(13,681)	(617,521)	655,164	(296,530)	166,921	(373)	(106,020)
BEGINNING FUND BALANCES	6,234,042	1,492,631	5,574,263	1,100,945	1,928,464	629,217	16,959,562
ENDING FUND BALANCES	\$6,220,361	\$875,110	\$6,229,427	\$804,415	\$2,095,385	\$628,844	\$16,853,542

See accompanying notes to financial statements

TOWN OF ATHERTON
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2012

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$106,020)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	1,890,614
Retirements, net, are deducted from fund balance	(223,127)
Depreciation expense is deducted from the fund balance	(1,627,108)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Deferred Revenue	(36,572)
Accrued liabilities	283,300

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities such as equipment acquisition, maintenance, and insurance to individual funds.

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

Change in Net Asset - All Internal Service Funds	504,319
--	---------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$685,406
---	-----------

See accompanying notes to financial statements

TOWN OF ATHERTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$6,424,450	\$6,643,500	\$6,732,067	\$88,567
Sales taxes	175,500	250,500	289,801	39,301
Other taxes	822,000	967,500	1,068,951	101,451
Permits and licenses	150,000	160,000	183,087	23,087
Fines and forfeitures	47,000	55,000	60,734	5,734
From other governmental agencies	39,035	37,035	78,126	41,091
Service charges	1,547,300	1,705,550	1,970,960	265,410
Use of money and property	179,282	171,882	169,966	(1,916)
Other	38,200	37,700	60,108	22,408
Total Revenues	9,422,767	10,028,667	10,613,800	585,133
EXPENDITURES:				
Current:				
General government				
City council	21,328	26,728	16,555	10,173
Administration	816,617	622,561	469,675	152,886
City attorney	282,000	230,000	150,630	79,370
Finance	651,548	673,688	557,493	116,195
Non-departmental	480,304	2,033,634	1,952,541	81,093
General government total	2,251,797	3,586,611	3,146,894	439,717
Planning	192,647	227,647	187,291	40,356
Building	871,437	1,345,124	1,344,338	786
Public works	1,726,570	1,773,026	1,478,110	294,916
Police	5,302,197	5,434,414	5,371,944	62,470
Capital outlay	138,630	226,780	61,548	165,232
Total Expenditures	10,483,278	12,593,602	11,590,125	563,760
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,060,511)	(2,564,935)	(976,325)	1,588,610
OTHER FINANCING SOURCES USES				
Transfer in (Note 4)	(1,116,000)	1,116,000	1,116,000	
Transfer (out) (Note 4)	(153,356)	(153,356)	(153,356)	
NET CHANGE IN FUND BALANCE	(\$2,329,867)	(\$1,602,291)	(13,681)	\$1,588,610
Fund balance, beginning of year			6,234,042	
Fund balance, end of year			\$6,220,361	

See accompanying notes to financial statements

TOWN OF ATHERTON
SPECIAL TAX SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$1,860,000	\$1,860,000	\$1,869,685	\$9,685
Use of money and property			5,810	5,810
From other governmental agencies			23,933	23,933
Total Revenues	1,860,000	1,860,000	1,899,428	39,428
EXPENDITURES:				
Current:				
General government	1,550	1,550	5,186	(3,636)
Public works	116,580	116,580	116,579	1
Capital outlay	136,745	1,359,352	1,279,184	80,168
Total Expenditures	254,875	1,477,482	1,400,949	76,533
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4)	(1,116,000)	(1,116,000)	(1,116,000)	
Total Other Financing Sources (Uses)	(1,116,000)	(1,116,000)	(1,116,000)	
Net change in fund balance	\$489,125	(\$733,482)	(617,521)	(\$115,961)
Fund Balance, beginning of year			1,492,631	
Fund Balance, end of year			\$875,110	

See accompanying notes to financial statements

TOWN OF ATHERTON
LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$750,000	\$750,000	\$969,986	\$219,986
Use of money and property	40,000	40,000	35,761	(4,239)
Total Revenues	<u>790,000</u>	<u>790,000</u>	<u>1,005,747</u>	<u>215,747</u>
EXPENDITURES:				
Library Maintenance	321,694	321,695	350,583	(28,888)
Total Expenditures	<u>321,694</u>	<u>321,695</u>	<u>350,583</u>	<u>(28,888)</u>
NET CHANGES IN FUND BALANCE	<u>\$468,306</u>	<u>\$468,305</u>	655,164	<u>\$186,859</u>
BEGINNING FUND BALANCE			<u>5,574,263</u>	
ENDING FUND BALANCE			<u>\$6,229,427</u>	

See accompanying notes to financial statements

TOWN OF ATHERTON
ROAD CONSTRUCTION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Service charges				
Use of money and property			\$7,000	\$7,000
Total Revenues			7,000	7,000
EXPENDITURES:				
Public works	\$276,214	\$276,214	303,530	(27,316)
Total Expenditures	276,214	276,214	303,530	(27,316)
NET CHANGES IN FUND BALANCE	<u>(\$276,214)</u>	<u>(\$276,214)</u>	(296,530)	<u>(\$20,316)</u>
BEGINNING FUND BALANCE			1,100,945	
ENDING FUND BALANCE			<u>\$804,415</u>	

See accompanying notes to financial statements

This Page Left Intentionally Blank

PROPRIETARY FUNDS

Proprietary funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services be financed primarily through user charges.

INTERNAL SERVICE FUND

Accounts for special activities and services performed by a designated Town department on a cost reimbursement basis.

TOWN OF ATHERTON
 PROPRIETARY FUND
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets	
Cash and investments (Note 3)	\$3,002,209
Prepays	1,461
Noncurrent Assets:	
Capital assets (Note 5):	
Depreciable	1,028,884
Less accumulated depreciation	(667,132)
Total capital assets	361,752
Total noncurrent assets	361,752
Total Assets	3,365,422
LIABILITIES	
Current liabilities:	
Accounts payable	
Compensated absences (Note 1F)	241,003
Long term debt (Note 6)	131,330
Total current liabilities	372,333
Non-current liabilities:	
Compensated absences (Note 1F)	159,274
Long term debt (Note 6)	107,000
Net OPEB obligation (Note 9)	1,585,080
Claims payable (Note 10)	50,000
Total noncurrent liabilities	1,901,354
Total Liabilities	2,273,687
NET ASSETS (Note 7)	
Invested in capital assets	361,752
Unrestricted	729,983
Total Net Assets	\$1,091,735

See accompanying notes to financial statements

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

	Governmental Activities- Internal Service Funds
OPERATING REVENUES	
Charges for services	<u>\$1,541,161</u>
Total Operating Revenues	<u>1,541,161</u>
OPERATING EXPENSES	
Insurance	241,665
OPEB expense	623,161
Supplies and maintenance	45,919
Employee benefits earned	
Depreciation	<u>145,472</u>
Total Operating Expenses	<u>1,056,217</u>
Operating Income	<u>484,944</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>19,375</u>
Total Nonoperating Revenues	<u>19,375</u>
Change in net assets	504,319
BEGINNING NET ASSETS	<u>587,416</u>
ENDING NET ASSETS	<u><u>\$1,091,735</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Interdepartmental charges	\$1,541,161
Payments to suppliers	(880,494)
Cash Flows from Operating Activities	660,667
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets, net	(75,465)
Principal payments on long term debt	(131,330)
Cash Flow (used) for Capital and Related Financing Activities	(206,795)
 CASH FLOWS FORM INVESTING ACTIVITIES	
Interest Income	19,375
Cash Flow from Investing Activities	19,375
Net Cash Flow	473,247
Cash and investments at beginning of period	2,528,962
Cash and investment at end of period	\$3,002,209
 Reconciliation of Operating Income to Cash Flows	
from Operating Activities	
Operating income	\$484,944
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	145,472
Compensated absences	(266,735)
Changes in assets and liabilities:	
Prepays	(1,461)
Accounts payable	(5,850)
Accrued liabilities	9,225
Net OPEB obligation	295,072
Cash Flows from Operating Activities	\$660,667

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

TOWN OF ATHERTON
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 3)	<u>\$30,584</u>
Total Assets	<u><u>\$30,584</u></u>
LIABILITIES	
Deposits payable	<u>\$30,584</u>
Total Liabilities	<u><u>\$30,584</u></u>

See accompanying notes to financial statements

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Atherton (the Town) was incorporated as a general law City in 1923 and is situated between the cities of Menlo Park and Redwood City on the Peninsula of the San Francisco Bay Area. The Town operates under the Mayor-Council-Manager form of government. There are five Council Members who serve overlapping terms of four years, and the Council, in turn, elects one of the Council Members to serve as Mayor for one year. The Town provides the following services: public safety (police), public works and streets, park, building and planning, and general administration services.

The financial statements and accounting policies of the Town conform with generally accepted accounting principles applicable to governments. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. *Reporting Entity*

The financial statements of the Town of Atherton include the financial activities of the Town, as well as the Atherton Channel District, which are controlled by and dependent on the Town. Its financial activities has been aggregated and merged (termed “blended”) with those of the town in the accompanying financial statements.

The Atherton Channel District was established to assist in the maintenance and rehabilitation of the areas within the Town determined to be in the flood plain of the local stream. The District has all accounting and administrative functions performed by Town staff and the District receives advances from the Town to finance operations. The financial activities of the District have been included in the Atherton Channel District Capital Projects Fund in the accompanying basic financial statements.

B. *Basis of Presentation*

The Town’s Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities, except where interfund services have been received or provided. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues 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 (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund - Accounts for all the general revenues and financial resources of the Town not specifically levied or collected for the other Town funds, as well as the related expenditures.

Special Tax Special Revenue Fund – Accounts for parcel tax assessments received from property owners to be used for the maintenance of streets and drainage, and police services.

Library Special Revenue Fund - Accounts for property tax funds dedicated to the Town's library operations.

Road Construction Special Revenue Fund - Accounts for costs recovered from applicants for accelerated wear and tear to the Town's road as a result of construction projects.

Facilities Construction Capital Projects Fund - Accounts for the funds dedicated to facilities construction.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town also reports the following fund types:

Internal Service Fund - Accounts for special activities and services performed by a designated Town department for other departments on a cost reimbursement basis.

Fiduciary Funds. Agency Funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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*. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are sales taxes, gas taxes, charges for services, and interest revenue. Fines, licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain indirect costs are included in program expenses reported for individual functions and activities.

The Town follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. Property Tax

Revenue is recognized in the period for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes and sewer charges for the Town; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on January 1 and becomes delinquent on August 31.

The term "unsecured" refers to taxes not secured by real property. These taxes are liens on the person or company named on the tax bill. Property tax revenues are recognized by the Town in the fiscal year they are assessed provided they become available as defined above.

San Mateo County distributes property taxes to jurisdictions according to the "alternate method of property tax distribution" known as the Teeter Plan. Under this plan, the County remits 100% of the levied taxes to the appropriate jurisdictions by June 30 each year, pursuing delinquencies and keeping related late penalties to cover their costs.

F. Compensated Absences

Compensated absences comprise accrued compensated time-off, vacation and holiday pay for all regular employees; vacation and holiday pay for management employees. The Town's liability for compensated absences is recorded in Governmental Activities. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be permanently liquidated (matured due to termination) are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

The changes of the compensated absences were as follows:

Beginning Balance	\$667,012
Additions	329,231
Payments	<u>(595,966)</u>
Ending Balance	<u>\$400,277</u>
Current Portion	<u>\$241,003</u>

The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Expenditures in Excess of Budget

The funds below incurred expenditures in excess of their budgets in the amounts below for the year ended June 30, 2012:

Fund Name	Amount
Special Tax Special Revenue Fund - General Government	\$3,636
Library Special Revenue Fund - Library Maintenance	28,888
Supplemental Law Enforcement Services / COPS Grants Special Revenue Fund - Police	9,880
County Measure A Special Revenue Fund	550
Capital Improvement Capital Projects Fund	11,705

H. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- By June 30, the City Manager submits to the Town Council a proposed operating and capital budget for the year commencing July 1. The operating and capital budget includes proposed expenditures and the means of financing them. Continuing appropriations are rebudgeted by the Town Council as part of the adoption of subsequent year's budget.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of resolution during a Town Council meeting in the month of June.
- The City Manager is authorized to transfer budget appropriations within departments in conformance with the adopted policies set by the Town Council. All other transfers must be approved by the Town Council. Any revisions that alter the total expenditures of any department must be approved by the Town Council. Expenditures are budgeted at, and may not legally exceed, the department level for the General Fund and the fund level for Special Revenue and Capital Projects Funds. Budgeted amounts shown are as originally adopted, or as amended by the Town Council during the year.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

- Formal budgeting is employed as a management control device during the year for the general and certain special revenue funds.
- Budgets for the general and certain special revenue are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- Budgets for capital projects are adopted on a project life basis.

The following fund was not budgeted for:

- Facilities Construction Capital Projects Fund

NOTE 3 - CASH AND INVESTMENTS

The Town's dependence on property tax receipts requires it to maintain significant cash reserves to finance operations during the remainder of the year. The Town receives property tax in November (5%), December (45%), March (5%), April (35%), May (5%) and June (5%). The Town pools cash from all sources and all funds except Cash with Fiscal Agents 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

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 value of 150% of the Town's cash on deposit as collateral for these deposits. Under California Law, this collateral is held in an investment pool by an independent financial institution in the Town's name and places the Town ahead of general creditors of the institution pledging the collateral.

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. In the Town's case, fair value equals fair market value, since all of the Town's investments are readily marketable.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Classification

Cash and investments are classified in the financial statements as shown below.

Statement of Net Assets

Cash and investments available for operations \$20,438,585

Fiduciary Funds

Cash and investments available for operations 30,584

Total Cash and Investments \$20,469,169

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

Cash on hand	\$873
Cash in Bank	423,339
Investments	<u>20,044,957</u>
Total Cash and Investments	<u><u>\$20,469,169</u></u>

Cash and investments are used in preparing the Proprietary Fund statement of cash flows since that fund participates in the Town-wide cash and investment pool. That fund's equity in the pool is in substance a demand deposit which may be drawn down at any time.

C. Investments Authorized by the California Government Code and the Town's Investment Policy

The Town's Investment Policy and the California Government Code allow the Town to invest in the following provided the credit ratings of the issuers are acceptable to the Town; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the Town's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	No Limit	No Limit
U.S. Agency Securities	5 years	N/A	No Limit	No Limit
Repurchase Agreements	30 days	A / A-1	No Limit	No Limit
Commercial Paper	270 days	A / A-1	25%	5%
Medium Term Notes	5 years	AAA	5%	No Limit
Local Agency Investment Fund	N/A	N/A	50%	No Limit
Money Market Mutual Funds	N/A	AAAm	20%	No Limit

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Town's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Town's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	24 to 60 Months	Total
U.S. Treasury Obligations	\$1,101,821		\$518,010	\$1,619,831
U.S. Agency Securities	505,355	\$500,120	5,516,445	6,521,920
Commercial Paper	1,996,230			1,996,230
California Local Agency Investment Fund	9,809,828			9,809,828
Money Market Mutual Fund	97,148			97,148
Total Investments	<u>\$13,510,382</u>	<u>\$500,120</u>	<u>\$6,034,455</u>	<u>20,044,957</u>
Cash in Banks				423,339
Petty Cash				873
Total Cash				<u>424,212</u>
Total Cash and Investments				<u>\$20,469,169</u>

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 Standard and Poor's investment ratings as of June 30, 2012 are as follows:

Investment Type	AAA	A-1	AAAm	Not Rated	Total
U.S. Agency Securities	\$6,521,920				\$6,521,920
U.S. Treasury Obligations				\$1,619,831	1,619,831
Commercial Paper		\$1,996,230			1,996,230
California Local Agency Investment Fund				9,809,828	9,809,828
Money Market Mutual Fund			\$97,148		97,148
Total Investments	<u>\$6,521,920</u>	<u>\$1,996,230</u>	<u>\$97,148</u>	<u>\$11,429,659</u>	<u>\$20,044,957</u>

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment fund that represent 5% or more of total Entity-wide investments are as follows at June 30, 2012:

Major Fund	Issuer	Investment Type	Reported Amount
General Fund	Federal National Mortgage Association	Federal Agency Securities	\$2,006,315
General Fund	Federal Home Loan Mortgage Corporation	Federal Agency Securities	3,515,390

G. Local Agency Investment Fund

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 available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. 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 corporation. At June 30, 2012, these investments matured in an average of 268 days.

NOTE 4 - INTERFUND TRANSACTIONS

Transfers Between Funds

With Town Council approval, resources may be transferred from one Town fund to another. The purpose of the majority of transfers is to reimburse a fund, which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2012 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Special Tax Revenue Fund	\$1,116,000 (A)
Facilities Construction Capital Projects Fund	General Fund	<u>153,356 (B)</u>
		<u>\$1,269,356</u>

(A) Transfer was used to fund General Fund activities

(B) Transfer was used to fund Capital projects

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 5 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

The Town has recorded all its public domain (infrastructure) capital assets, which include streets and roads, curbs and gutters, traffic control devices, drainage systems and street lighting systems.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

The Town has set the capitalization threshold for reporting capital assets at \$5,000 and \$100,000 for infrastructure and a half year of depreciation is recorded in the year of acquisition. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets:

Buildings	40 years
Other improvements	20 years
Vehicles	5 to 10 years
Computer Equipment & Software	3 years
Machinery and Equipment	5 to 20 years
Infrastructure	20 to 50 years

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 5 - CAPITAL ASSETS (Continued)

A. Current Year Capital Asset Activities

<i>Governmental activities</i>	Balance July 1, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
General Capital Assets					
Capital assets not being depreciated:					
Land	\$690,884				\$690,884
Construction in progress	2,062,765	\$1,786,819	(\$223,127)	(\$3,193,063)	433,394
Total non-depreciable capital assets	<u>2,753,649</u>	<u>1,786,819</u>	<u>(223,127)</u>	<u>(3,193,063)</u>	<u>1,124,278</u>
Capital assets being depreciated:					
Buildings	1,934,299				1,934,299
Other improvements	1,125,668				1,125,668
Computer equipment and software	247,585				247,585
Furniture and Fixtures	34,798				34,798
Vehicle	32,067	28,089			60,156
Machinery and Equipment	415,994				415,994
Infrastructure	52,414,710	75,706		3,193,063	55,683,479
Total capital assets being depreciated	<u>56,205,121</u>	<u>103,795</u>		<u>3,193,063</u>	<u>59,501,979</u>
Less accumulated depreciation for:					
Buildings	841,684	50,564			892,248
Other improvements	634,491	41,953			676,444
Computer equipment and software	159,181	41,060			200,241
Furniture and Fixture	24,422	2,965			27,387
Vehicles	9,620	9,222			18,842
Machinery and Equipment	311,045	24,785			335,830
Infrastructure	28,544,665	1,456,559			30,001,224
Total accumulated depreciation	<u>30,525,108</u>	<u>1,627,108</u>			<u>32,152,216</u>
Net capital assets being depreciated	<u>25,680,013</u>	<u>(1,523,313)</u>		<u>3,193,063</u>	<u>27,349,763</u>
General capital assets, net	<u>\$28,433,662</u>	<u>\$263,506</u>	<u>(\$223,127)</u>		<u>\$28,474,041</u>
Internal Service Funds					
Depreciable capital assets:					
Vehicles	\$824,692	\$75,465	(\$93,674)		\$806,483
Computer Equipment	183,470				183,470
Other Equipment	38,931				38,931
Total depreciable capital assets	<u>1,047,093</u>	<u>75,465</u>	<u>(93,674)</u>		<u>1,028,884</u>
Less: accumulated depreciation for					
Vehicles	483,216	89,816	(93,674)		479,358
Computer Equipment	99,638	53,813			153,451
Other Equipment	32,480	1,843			34,323
Total accumulated depreciation	<u>615,334</u>	<u>145,472</u>	<u>(93,674)</u>		<u>667,132</u>
Internal Service Funds capital assets, net	<u>431,759</u>	<u>(70,007)</u>			<u>361,752</u>
Governmental capital assets, net	<u>\$28,865,421</u>	<u>\$193,499</u>	<u>(\$223,127)</u>		<u>\$28,835,793</u>

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 5 - CAPITAL ASSETS (Continued)

B. Capital Asset Contributions

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

C. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or programs are as follows:

General government	\$27,312
Public Works	1,528,063
Building	18,455
Police	<u>53,278</u>
Governmental activities subtotal	1,627,108
Internal Service Fund	<u>145,472</u>
Total	<u><u>\$1,772,580</u></u>

NOTE 6 – LONG TERM DEBT

A. Long Term Obligations

	Balance June 30, 2011	Retirements	Balance June 30, 2012	Current Portion
<i>Governmental Activity Debt:</i>				
Software capital lease	\$48,660	\$24,330	\$24,330	\$24,330
Workers' compensation assessment	<u>321,000</u>	<u>107,000</u>	<u>214,000</u>	<u>107,000</u>
Total Governmental Activity Debt	<u><u>\$369,660</u></u>	<u><u>\$131,330</u></u>	<u><u>\$238,330</u></u>	<u><u>\$131,330</u></u>

B. Software capital lease

In fiscal year 2009, the Town began preparation to install a new accounting software system. As part of the software license agreement, the Town agreed to pay \$24,330 per year, for five years which commenced in fiscal year 2009.

C. Workers' Compensation Assessment

During fiscal year 2010, the Town was informed that its workers' compensation insurance reserve with the JPA Group was drawn to a negative. As a result, the Town has agreed to a special assessment in which the Town would make payments over the next four fiscal years to replenish the reserve.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 6 – LONG TERM DEBT (Continued)

D. Debt Service Requirements

At June 30, 2012, the Software capital lease along with the Workers' compensation assessment payments to maturity were as follows:

Year ending June 30,	Amount
2013	\$131,330
2014	107,000
Total	<u>\$238,330</u>

NOTE 7 - FUND BALANCES AND NET ASSETS

A. Net Assets

Net Assets is the excess of all the Town's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets describes the portion of Net Assets which is represented by the current net book value of the Town's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Town cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and Federal and State grant funds.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balances

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.

The Town's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Town to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Town prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 7 - FUND BALANCES AND NET ASSETS (Continued)

B. Fund Balances (Continued)

Nonspendables represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as permanent funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the Town Council which may be altered only by formal action of the Town Council. Encumbrances and nonspendable amounts subject to Council commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the Town's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Town Council or its designee and may be changed at the discretion of the Town Council or its designee. This category includes encumbrances; nonspendables, when it is the Town's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 7 - FUND BALANCES AND NET ASSETS (Continued)

B. Fund Balances (Continued)

Detailed classifications of the Town's Fund Balances, as of June 30, 2012, are below:

	General Fund	Major Special Revenue Funds			Facilities Construction Capital Project Funds	Other Governmental Funds	Total
		Special Tax	Library	Road Construction			
Fund balances:							
Nonspendable:							
Prepays	\$6,535						\$6,535
Total Nonspendable	6,535						6,535
Restricted for:							
Special tax special revenue fund		\$875,110					875,110
Library operations			\$6,229,427				6,229,427
Measure A						\$88,630	88,630
Gas tax						120,542	120,542
Supplemental law enforcement services / COPS Grant						8,759	8,759
Road impact fee				\$804,415			804,415
Evans Creative Design						79,550	79,550
Channel Drainage District						75,900	75,900
Total Restricted		875,110	6,229,427	804,415		373,381	8,282,333
Committed to:							
Emergency Disaster	1,738,519						1,738,519
Total Committed	1,738,519						1,738,519
Assigned to:							
Tennis program/General Fund	954,902						954,902
Capital projects					\$2,095,385	255,463	2,350,848
Total Assigned	954,902				2,095,385	255,463	3,305,750
Unassigned:							
General fund	3,520,405						3,520,405
Total Unassigned	3,520,405						3,520,405
Total Fund Balances	\$6,220,361	\$875,110	\$6,229,427	\$804,415	\$2,095,385	\$628,844	\$16,853,542

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 7 - FUND BALANCES AND NET ASSETS (Continued)

C. General Fund Committed Fund Balance for Emergency Disaster

The Town Council has committed to set aside 15 percent of the actual annual General Fund operating expenditures specifically for emergency contingencies defined as a state of Federal and/or State of emergency or declaration of a local emergency as defined in Atherton's Municipal Code Section 2.44.010.

D. General Fund Unassigned Fund Balance Policy

The Town Council established the General Fund unassigned fund policy such that in no circumstances shall the total General Fund unassigned fund balance drop below 20% of the actual annual operating expenditures.

NOTE 8 – PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

The Town participates in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit cost-sharing pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The Town's employees participate in the separate Safety (police - sworn) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and Town resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the Town contributes these amounts. The Plans' provisions and benefits in effect at June 30, 2012 are summarized below:

	<u>Safety (Police)</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly allowance	monthly allowance
Retirement age	50	55
Monthly benefits, as a % of annual salary	3%	2%
Required employee contribution rates	9%	7%
Required employer contribution rates	38.853%	13.815%

Town's labor contracts (MOU) require the town to pay the employees' contributions as well as employer's portion, except for the sworn officers, who is responsible for 2% of 9% after the Town makes 7% contribution for them.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 8 – PENSION PLAN (Continued)

A. CALPERS Safety and Miscellaneous Employees Plans (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the Town’s total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer pays annually to fund an employee’s projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The Town uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. The Town does not have a net pension obligation since it pays the actuarially required liability. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<i>Safety & Miscellaneous Plan</i>			
June 30, 2010	\$1,416,695	100%	\$0
June 30, 2011	1,322,447	100%	0
June 30, 2012	1,191,680	100%	0

CALPERS uses the market related value method of valuing the Plan’s assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service, and annual retirement benefit increases are assumed to be 3.25%.

As required by State law, effective July 1, 2005, the Town’s Miscellaneous and Safety Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the Town true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The Town satisfied its Miscellaneous and Safety Plans unfunded liabilities by agreeing to contribute to the Side Fund through an addition to its normal contribution rates. The balance of the Miscellaneous Plan’s Side Fund was \$793,507 at June 30, 2012, which will be repaid over the next 8 years. The balance of the Safety Plan’s Side Fund of \$1,224,321 was paid off as of June 30, 2012.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 8 – PENSION PLAN (Continued)

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The latest available actuarial values of the above State-wide pools (which differs from market value) and funding progress were set forth as follow. The information presented below relates to the State-wide pools as a whole, of which the Town is one of the participating employers.

State-Wide Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$8,700,467,733	\$7,464,927,716	\$1,235,540,017	85.8%	\$914,840,596	135.1%
2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6%	973,814,168	174.0%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	955,980,815	177.3%

The Town's Safety Plan represents approximately 0.19%, 0.23%, and 0.24%, of the State-wide pool for the years ended June 30, 2010, 2009, and 2008, respectively, based on covered projected payroll of \$2,053,560; \$2,283,199 and \$2,220,450 for those years.

State-Wide Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$2,780,280,768	\$2,547,323,278	\$232,957,490	91.6%	\$688,606,681	33.8%
2009	3,104,798,222	2,758,511,101	346,287,121	88.8%	742,981,488	46.6%
2010	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%

The Town's Miscellaneous Plan represents approximately 0.35% 0.35%, and 0.37%, of the State-wide pool for the years ended June 30, 2010, 2009, and 2008, respectively, based on covered projected payroll of \$2,943,836; \$2,600,243; and \$2,572,293 for those years.

Audited annual financial statements and ten year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 9 – POSTEMPLOYMENT HEALTH CARE BENEFITS

During fiscal year 2010, the Town implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing other postemployment benefits (OPEB). The provisions of this statement are applied prospectively and do not affect prior years financial statements. Required disclosures are presented below. The Town's Employee Benefits Fund holds assets set aside for the payment of Town's OPEB obligations.

By Town Council resolution, the Town provides certain medical benefits for employees and dependents who retire directly from the Town at fifty years or older and who are vested in the California Public Employees Retirement System (CalPERS). The Town participates in the CalPERS health care plan which is governed under the California Public Employees Health and Medical Care Act (PEMCHA). Required retiree medical plan contributions are also governed by PEMCHA for member agencies.

The Town of Atherton participates in the CalPERS medical program. Retirees who qualify for a CalPERS pension are entitled to employer paid CalPERS medical benefits as described below. The Town does not pay for dental, vision or other health and welfare benefits for retirees. Employees who retire from the Town, receive a PERS pension and continue their CalPERS medical coverage if eligible to receive the benefit described below. This benefit continues throughout the life of the retiree, surviving spouse, and eligible dependents.

Management employees - For management employees, the Town pays 100% of premiums for any medical coverage and any family status. This is subject to a phase-in over four calendar years (2009 through 2012) from 85% to 100%.

Police officers - For police officers, the Town pays 100% of premiums for any medical coverage and any family status. However, this is subject to a maximum monthly benefit of \$1,247.06. Any increase will be subject to Town Council approval.

Miscellaneous employees - The Town pays up to a maximum of 95% of Blue Shield basic/supplemental premiums. The same four years phase-in applies for management retirees,

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 9 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

A. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included 6.00% investment rate of return, 3.25% projected annual salary increase, and 5.5% to 8.2% health cost inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. During fiscal year ended June 30, 2012, the Town joined the Public Agencies Post-Retirement Health Care Plan, a multiple employer trust administered by Public Agency Retirement Services (PARS). The irrevocable trust is administered by PARS, and managed by an appointed board not under the control of the Town Council. The trust is not considered a component unit by the Town and has been excluded from these financial statements. Separately issued financial statements for PARS may be obtained from PARS at 4350 Von Karman Ave., Suite 200, Newport Beach, CA 92660.

The following annual healthcare trend rates were used in the valuation, assuming that there will not be any significant changes in the medical plan design:

**Annual CalPERS Medical Premium Rate
Trend Rate Assumption**

Plan Year Beginning	
January 1, 2012	7.6%
January 1, 2013	7.3%
January 1, 2014	7.0%
January 1, 2015	6.7%
January 1, 2016	6.4%
January 1, 2017	6.1%
January 1, 2018	5.8%
January 1, 2019 and thereafter	5.5%

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. This valuation is based on a closed 30-year amortization of the Unfunded Actuarial Accrued Liability as a level percentage of payroll; increasing each year as payroll increases.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 9 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Funding Progress and Funded Status

In fiscal year 2012, the Town made contributions toward the ARC and amortized its net OPEB obligation as presented below:

Annual required contribution (ARC) and Annual OPEB cost	\$613,854
Interest on the net OPEB obligation	77,400
Adjustment to annual required contribution	<u>(68,092)</u>
Annual OPEB Cost	<u>623,162</u>
Contributions made:	
Town's portion of current year premiums paid	<u>328,090</u>
Contributions less than the ARC	<u>295,072</u>
Net OPEB Obligation June 30, 2011	<u>1,290,008</u>
Net OPEB Obligation June 30, 2012	<u><u>\$1,585,080</u></u>

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2010	\$813,147	\$173,474	21%	\$639,673
6/30/2011	878,596	228,508	26%	1,290,008
6/30/2012	613,854	328,090	53%	1,585,080

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the January 1, 2009 and July 1, 2011 actuarial study is presented below:

Actuarial Valuation Date	Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio
January 1, 2009	\$0	\$7,599,453	(\$7,599,453)	0%
July 1, 2011	0	7,599,453	(7,599,453)	0%

<p>Town of Atherton Notes to Basic Financial Statements For the year ended June 30, 2012</p>

<p>NOTE 10 - RISK MANAGEMENT</p>

A. Coverage

The Town is a member of the Association of Bay Area Governments (ABAG), which provides general liability coverage of \$5,000,000 above the Town's deductible of \$25,000 per occurrence, risk property insurance of \$100,000 above the Town's deductible of \$10,000 for property damage and \$10,000 for auto / vehicle damage. ABAG is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

Audited financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

Alliant Insurance Services covers employment theft up to \$1,000,000 for each claim and in the aggregate and the Town's deductible is \$5,000 per claim.

The Cities Group covers workers' compensation claims up to \$1,000,000 each for miscellaneous employees, up to \$1,500,000 each for safety officers, and has coverage above that limit to a maximum of \$10,000,000. The Town has no deductible for the claims.

Audited financial statements may be obtained from Cities Group, address, P.O. Box 111, Burlingame, CA 94011-0111.

B. Uninsured Claims

The Town's liability for uninsured claims, including estimated claims incurred but not reported, was estimated by management based on prior years claims experience and was computed as follows as of June 30:

	2012	2011
Beginning balance	\$40,775	\$44,504
Net change in claims liabilities	72,232	27,016
Claims paid	(18,543)	(58,263)
Ending balance	\$50,000	\$40,775
Claims liabilities due within a year	\$50,000	\$40,775

For the years ended June 30, 2012, 2011, and 2010, the amount of settlements did not exceed insurance coverage.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 11 – JOINT POWERS AUTHORITIES

The Town participates in joint ventures discussed below through separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the Town's responsibility and the Town does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

A. *Town/County Association of Governments of San Mateo County (C/CAG)*

Town/County Association of Governments of San Mateo County was formed in 1990 between the various cities in San Mateo County to prepare, adopt, monitor and enforce state mandated plans for the management of traffic congestion, integrated solid waste, airport land use and hazardous waste. The Town's contribution to C/CAG was \$36,469 for the year ended June 30, 2012. Financial statements may be obtained by mailing a request to the City San Carlos, 600 Elm Street, San Carlos, CA 94070.

B. *South Bayside Waste Management Authority (Authority)*

The Authority is a joint powers agreement formed on October 13, 1999 for the purpose of joint ownership, financing and administration of the San Carlos Transfer Station and the San Mateo Recyclery; and the planning, administration, review, monitoring, enforcement and reporting of solid waste and recyclable material within the Authority service area. Members of Authority include 11 municipalities located on the mid and lower Peninsula as well as certain unincorporated areas within the County. The Authority is controlled by a 12-member board consisting of one representative from each community. Through the operation of franchise agreements, Recology San Mateo County provides refuse and recyclable materials collection and disposal services for the benefit of residents and business of each member agency.

C. *Alcohol Violation Temporary Housing Authority (AVTHA)*

AVTHA was established between the County and most of the cities and towns in the County to provide temporary housing and counseling to persons accused of alcohol related law violations. AVTHA contracts with an operator to provide such services. The costs of operating the temporary housing are allocated to each member based on alcohol related arrests occurring within each member's jurisdiction. Financial statements for AVTHA may be obtained by mailing a request to Redwood City, 801 Marshall Street, Suite 600, Redwood City, California 94063.

D. *Library Joint Powers Agreement*

In 1999, the Town joined with the County and ten other municipalities in the County to coordinate and expand library services throughout the County, including those in the Town.

Town of Atherton
Notes to Basic Financial Statements
For the year ended June 30, 2012

NOTE 11 – JOINT POWERS AUTHORITIES (Continued)

Property tax revenues in excess of the JPA's costs of maintaining the library are remitted to the Town and are deposited into the Library Special Revenue Fund. Expenditures of this fund are subject to the approval of the Library JPA.

NOTE 12 - CONTINGENT LIABILITIES

The Town is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

The Town participates in Federal and State grant programs. These programs have been audited by the Town's independent accountants in accordance with the provisions of the Federal Single Audit Act as amended in 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors, and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

COUNTY MEASURE A FUND accounts for funds received from the County of San Mateo Measure A funds for local transportation purposes.

GAS TAX FUND accounts for funds received from the State of California for road improvement.

SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND/COPS GRANT FUND accounts for grant funds for police services.

EVANS CREATIVE DESIGN FUND accounts for funds received from the Evans estate.

CAPITAL PROJECTS FUNDS

CAPITAL IMPROVEMENT FUND accounts for capital improvement construction costs and financing sources.

STORM DRAINAGE FUND accounts for the operation and maintenance costs of drainage systems in the Town.

CHANNEL DRAINAGE DISTRICT accounts for tax revenues collected and channel maintenance costs.

TOWN OF ATHERTON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

	SPECIAL REVENUE FUNDS			
	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design
ASSETS				
Cash and investment	\$233,626	\$137,561	\$8,759	\$79,550
Receivables:				
Taxes	28,794			
Total Assets	\$262,420	\$137,561	\$8,759	\$79,550
LIABILITIES				
Accounts payable	\$173,790	\$17,019		
Deferred revenue				
Total Liabilities	173,790	17,019		
FUND EQUITY				
Fund balances				
Restricted	88,630	120,542	\$8,759	\$79,550
Assigned				
Total Fund Balances	88,630	120,542	8,759	79,550
Total Liabilities and Fund Balances	\$262,420	\$137,561	\$8,759	\$79,550

CAPITAL PROJECT FUNDS

<u>Capital Improvement</u>	<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
\$228,886	\$29,375	\$75,754	\$793,511
		5,403	34,197
<u>\$228,886</u>	<u>\$29,375</u>	<u>\$81,157</u>	<u>\$827,708</u>
\$2,798			\$193,607
		\$5,257	5,257
<u>2,798</u>		<u>5,257</u>	<u>198,864</u>
226,088	\$29,375	75,900	373,381
			255,463
<u>226,088</u>	<u>29,375</u>	<u>75,900</u>	<u>628,844</u>
<u>\$228,886</u>	<u>\$29,375</u>	<u>\$81,157</u>	<u>\$827,708</u>

TOWN OF ATHERTON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS			
	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design
REVENUES				
Property taxes				
Measure A Grants	\$287,712			
From other agencies		\$220,198	\$109,315	
Use of money and property	1,101	1,495	565	\$547
Other revenues				148
Total Revenues	288,813	221,693	109,880	695
EXPENDITURES				
Current:				
Police			109,880	
Public Works	200,550	5,457		
Non-Departmental				16,974
Capital Outlay		236,241		
Total Expenditures	200,550	241,698	109,880	16,974
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	88,263	(20,005)		(16,279)
NET CHANGE IN FUND BALANCES	88,263	(20,005)		(16,279)
BEGINNING FUND BALANCES	367	140,547	8,759	95,829
ENDING FUND BALANCES	\$88,630	\$120,542	\$8,759	\$79,550

CAPITAL PROJECT FUNDS

<u>Capital Improvement</u>	<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
		\$80,232	\$80,232
			287,712
\$33,162			362,675
	\$194	502	4,404
			148
<u>33,162</u>	<u>194</u>	<u>80,734</u>	<u>735,171</u>
			109,880
		138,464	344,471
			16,974
<u>27,978</u>			<u>264,219</u>
<u>27,978</u>		<u>138,464</u>	<u>735,544</u>
<u>5,184</u>	<u>194</u>	<u>(57,730)</u>	<u>(373)</u>
5,184	194	(57,730)	(373)
<u>220,904</u>	<u>29,181</u>	<u>133,630</u>	<u>629,217</u>
<u>\$226,088</u>	<u>\$29,375</u>	<u>\$75,900</u>	<u>\$628,844</u>

TOWN OF ATHERTON
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS					
	County Measure A			Gas Tax		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Measure A grants	\$200,000	\$287,712	\$87,712			
From other agencies				\$211,166	\$220,198	\$9,032
Use of money and property		1,101	1,101		1,495	1,495
Other revenue						
Total Revenues	<u>200,000</u>	<u>288,813</u>	<u>88,813</u>	<u>211,166</u>	<u>221,693</u>	<u>10,527</u>
EXPENDITURES						
Current:						
Police						
Public Works	200,000	200,550	(550)	6,170	5,457	713
Non-departmental						
Capital Outlay				<u>317,896</u>	<u>236,241</u>	<u>81,655</u>
Total Expenditures	<u>200,000</u>	<u>200,550</u>	<u>(550)</u>	<u>324,066</u>	<u>241,698</u>	<u>82,368</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		<u>88,263</u>	<u>89,363</u>	<u>(112,900)</u>	<u>(20,005)</u>	<u>(71,841)</u>
NET CHANGE IN FUND BALANCES		<u>88,263</u>	<u>\$88,263</u>	<u>(\$112,900)</u>	<u>(20,005)</u>	<u>\$92,895</u>
BEGINNING FUND BALANCES		<u>367</u>			<u>140,547</u>	
ENDING FUND BALANCES		<u><u>\$88,630</u></u>			<u><u>\$120,542</u></u>	

SPECIAL REVENUE FUNDS

CAPITAL PROJECTS FUND

Supplemental Law Enforcement Services / COPS Grants			Evans Creative Design Fund			Capital Improvement		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$100,000	\$109,315 565	\$9,315 565	\$800 100	\$547 148	(\$253) 48	\$16,273	\$33,162	\$16,889
100,000	109,880	9,880	900	695	(205)	16,273	33,162	16,889
100,000	109,880	(9,880)						
			17,965	16,974	991	16,273	27,978	(11,705)
100,000	109,880	(9,880)	17,965	16,974	991	16,273	27,978	(11,705)
		19,760	(17,065)	(16,279)	(1,196)		5,184	28,594
		\$19,760	(\$17,065)	(16,279)	(\$1,196)		5,184	\$28,594
	8,759			95,829			220,904	
	<u>\$8,759</u>			<u>\$79,550</u>			<u>\$226,088</u>	

(Continued)

TOWN OF ATHERTON
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CAPITAL PROJECTS FUND

	Storm Drainage Fund			Channel Drainage District		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes				\$81,820	\$80,232	(\$1,588)
Measure A grants						
From other agencies						
Use of money and property		\$194	\$194		502	502
Other revenue						
Total Revenues		<u>194</u>	<u>194</u>	<u>81,820</u>	<u>80,734</u>	<u>(1,086)</u>
EXPENDITURES						
Current:						
Police						
Public Works				147,913	138,464	9,449
Non-departmental						
Capital Outlay						
Total Expenditures				<u>147,913</u>	<u>138,464</u>	<u>9,449</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		<u>194</u>	<u>194</u>	<u>(66,093)</u>	<u>(57,730)</u>	<u>(10,535)</u>
NET CHANGE IN FUND BALANCES		<u>194</u>	<u>\$194</u>	<u>(\$66,093)</u>	<u>(57,730)</u>	<u>(\$10,535)</u>
BEGINNING FUND BALANCES		<u>29,181</u>			<u>133,630</u>	
ENDING FUND BALANCES		<u><u>\$29,375</u></u>			<u><u>\$75,900</u></u>	

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund is eliminated by netting them against operations of the other Town departments, which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

EQUIPMENT REPLACEMENT FUND accounts for the financing of replacement equipment within the Town such as vehicles and computer software.

WORKERS' COMPENSATION INSURANCE FUND accounts for the financing of the Town's outstanding worker's compensation liability.

GENERAL LIABILITY FUND accounts for other liabilities including employment liabilities.

EMPLOYEE BENEFITS FUND accounts for financing the liabilities for compensated absences and other post-employment benefits other than pension for Town General Fund departments.

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF NET ASSETS
JUNE 30, 2012

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
ASSETS					
Current Assets:					
Cash and investments	\$416,326	\$302,365	\$219,688	\$2,063,830	\$3,002,209
Prepays			1,461		1,461
Total Current Assets	<u>416,326</u>	<u>302,365</u>	<u>221,149</u>	<u>2,063,830</u>	<u>3,003,670</u>
Non-Current Assets:					
Capital assets:					
Depreciable	1,028,884				1,028,884
Less: accumulated depreciation	(667,132)				(667,132)
Net Capital Asset	<u>361,752</u>				<u>361,752</u>
Total noncurrent assets	<u>361,752</u>				<u>361,752</u>
Total Assets	<u>778,078</u>	<u>302,365</u>	<u>221,149</u>	<u>2,063,830</u>	<u>3,365,422</u>
LIABILITIES					
Current liabilities					
Claims payable			50,000		50,000
Compensated absences				241,003	241,003
Long-term debt - due within one year	24,330	107,000			131,330
Total current liabilities	<u>24,330</u>	<u>107,000</u>	<u>50,000</u>	<u>241,003</u>	<u>422,333</u>
Noncurrent liabilities					
Compensated absences				159,274	159,274
Long-term debt		107,000			107,000
Net OPEB obligations				1,585,080	1,585,080
Total noncurrent liabilities		<u>107,000</u>		<u>1,744,354</u>	<u>1,851,354</u>
Total Liabilities	<u>24,330</u>	<u>214,000</u>	<u>50,000</u>	<u>1,985,357</u>	<u>2,273,687</u>
NET ASSETS					
Invested in capital assets	361,752				361,752
Unrestricted	391,996	88,365	171,149	78,473	729,983
Total Net Assets	<u>\$753,748</u>	<u>\$88,365</u>	<u>\$171,149</u>	<u>\$78,473</u>	<u>\$1,091,735</u>

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
OPERATING REVENUES					
Charges for services	\$79,810	\$57,218	\$269,384	\$1,134,749	\$1,541,161
Total Operating Revenues	79,810	57,218	269,384	1,134,749	1,541,161
OPERATING EXPENSES					
Insurance		56,210	185,455		241,665
OPEB expense				623,161	623,161
Supplies and maintenance	45,919				45,919
Employee benefits earned					
Depreciation	145,472				145,472
Total Operating Expenses	191,391	56,210	185,455	623,161	1,056,217
Operating Income (Loss)	(111,581)	1,008	83,929	511,588	484,944
NONOPERATING REVENUES (EXPENSES)					
Interest income	2,917	2,394	1,453	12,611	19,375
Total Nonoperating Revenues (Expenses)	2,917	2,394	1,453	12,611	19,375
Change in Net Assets	(108,664)	3,402	85,382	524,199	504,319
BEGINNING NET ASSETS (DEFICIT)	862,412	84,963	85,767	(445,726)	587,416
ENDING NET ASSETS	\$753,748	\$88,365	\$171,149	\$78,473	\$1,091,735

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from other funds	\$79,810	\$57,218	\$269,384	\$1,134,749	\$1,541,161
Payments to vendors	(45,919)	(56,210)	(181,909)	(596,456)	(880,494)
Cash Flows from Operating Activities	33,891	1,008	87,475	538,293	660,667
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets, net	(75,465)				(75,465)
Principal payments on long term debt	(24,330)	(107,000)			(131,330)
Cash Flows (used for) Capital and Related Financing Activities	(99,795)	(107,000)			(206,795)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	2,917	2,394	1,453	12,611	19,375
Cash Flows from Investing Activities	2,917	2,394	1,453	12,611	19,375
Net Cash Flows	(62,987)	(103,598)	88,928	550,904	473,247
Cash and investments at beginning of period	479,313	405,963	130,760	1,512,926	2,528,962
Cash and investments at end of period	<u>\$416,326</u>	<u>\$302,365</u>	<u>\$219,688</u>	<u>\$2,063,830</u>	<u>\$3,002,209</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income	(\$111,581)	\$1,008	\$83,929	\$511,588	\$484,944
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	145,472				145,472
Compensated absences				(266,735)	(266,735)
Change in assets and liabilities:					
Prepays			(1,461)		(1,461)
Accounts payable			(4,218)	(1,632)	(5,850)
Accrued liability			9,225		9,225
Net OPEB obligation				295,072	295,072
Cash Flows from Operating Activities	<u>\$33,891</u>	<u>\$1,008</u>	<u>\$87,475</u>	<u>\$538,293</u>	<u>\$660,667</u>

AGENCY FUNDS

Agency Funds account for assets held by a governmental unit in the capacity of agent for individuals, governmental entities, and non-public organizations.

The Agency Funds used to account for monies held by the Town in a fiduciary capacity are as follows:

H-P PARK IMPROVEMENT FUND – Fund donated for Holbrook-Palmer Park improvement.

TREE COMMITTEE – Fund maintained for the Tree Committee.

TOWN OF ATHERTON
 AGENCY FUNDS
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
<hr/>				
H-P Park Improvement Fund				
<hr/>				
ASSETS				
Cash and investments	\$5,919	\$39		\$5,958
Total assets	<u>\$5,919</u>	<u>\$39</u>		<u>\$5,958</u>
LIABILITIES				
Deposits payable	\$5,919	\$39		\$5,958
Total liabilities	<u>\$5,919</u>	<u>\$39</u>		<u>\$5,958</u>
<hr/>				
Tree Committee				
<hr/>				
ASSETS				
Cash and investments	\$24,463	\$163		\$24,626
Total assets	<u>\$24,463</u>	<u>\$163</u>		<u>\$24,626</u>
LIABILITIES				
Accounts payable				
Deposits payable	\$24,463	\$163		\$24,626
Total liabilities	<u>\$24,463</u>	<u>\$163</u>		<u>\$24,626</u>
<hr/>				
All Agency Funds				
<hr/>				
ASSET				
Cash and investments	\$30,382	\$202		\$30,584
Total assets	<u>\$30,382</u>	<u>\$202</u>		<u>\$30,584</u>
LIABILITIES				
Accounts payable				
Deposits payable	\$30,382	\$202		\$30,584
Total liabilities	<u>\$30,382</u>	<u>\$202</u>		<u>\$30,584</u>