

TOWN OF ATHERTON, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Prepared by
FINANCE DEPARTMENT

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TOWN OF ATHERTON
Basic Financial Statements
For the Year Ended June 30, 2014

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Basic Financial Statements
For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Member of the City Council
Town of Atherton, California

Report on Financial Statements

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014 that affected the format and nomenclature of the financial statements:

Statement 65 – *Items Previously Reported as Assets and Liabilities*. See Note 1E to the financial statements for relevant disclosures.

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The Supplemental Information as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Pleasant Hill, California
December 19, 2014

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, 2014. 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 \$53,772,626 (*net position*). Of this amount, \$13,522,539 (*unrestricted position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$4,652,993. The increase is due to higher property tax, and other taxes revenues of about \$1,153,112 and decrease in total expenses of \$526,729.
- As of the close of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$24,974,078, an increase of \$3,700,941 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$8,230,418, or 69.9 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. The General Fund is the chief operating fund of the Town.
- The unassigned General Fund balance increased by \$2,344,712 compared to fiscal year 2012-2013. Key Contributing factors include increase in general fund revenues of approximately \$1.1 million and the \$1million transfer in from the Parcel Tax for Police Services.

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 Position* presents information on all of the Town of Atherton's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator 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 15-16 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 nine 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 18-27 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 30-32 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 statement can be found on page 34 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-61 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, and Library Special Revenue Fund. Required supplementary information can be found on pages 25-27 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 64-78 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position 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 \$53,772,626 at the close of the most recent fiscal year.

By far the largest portion of the Town of Atherton's net position (48 percent) reflects its investment in capital assets of \$25,683,350 (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 of Atherton Net Position

	Governmental activities	
	2014	2013
Current and other assets	\$ 30,655,601	\$ 25,196,360
Capital assets	25,683,350	26,844,553
Total assets	56,338,951	52,040,913
Current liabilities	2,320,555	2,256,584
Noncurrent liabilities	245,770	664,696
Total liabilities	2,566,325	2,921,280
Net Assets:		
Invested in capital assets, net of related debt	25,683,350	26,844,553
Restricted	14,542,460	12,897,247
Unrestricted	13,546,816	9,377,833
Total net position	\$ 53,772,626	\$ 49,119,633

An additional portion of the Town of Atherton net position \$14,542,460 (27 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$13,546,816 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 \$4,652,993. The increase was due to higher property tax, other taxes, and investment earnings. The Net Asset increase was also due to reduction in expenditures of \$526,729 across major funds and other government funds. This was specifically due to the reduction of the Net OPEB obligation and the establishment of a Net OPEB asset of \$1,471,369. The Town contributed \$2 Million toward the OPEB trust, in an effort to reduce its unfunded liability. The payment of the CalPERS Miscellaneous side fund decreased employer contribution rates in the fiscal year.

Town of Atherton's Changes in Net Position

	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 2,393,945	\$ 2,181,472
Operating grants and contributions	797,531	715,797
General revenues:		
Taxes	13,209,504	12,056,392
Investment earnings	308,907	58,235
Other revenues	168,453	510,309
Total revenues	16,878,340	15,522,205
Expenses:		
General government	3,415,919	2,567,984
Public works	3,311,300	3,560,351
Police	4,029,458	5,198,013
Building	1,224,190	1,202,246
Planning	244,480	223,482
Total expenses	12,225,347	12,752,076
Change in Net Position	4,652,993	2,770,129
Transfers		-
Net assets - Beginning	49,119,633	46,349,504
Net assets - Ending	53,772,626	49,119,633

- Charges for services increased by \$212,473 (9.7 percent) during the year. The increase was primarily due to continued building construction activity as building department revenues were \$331,285 higher than previous year. Zoning and planning fees increased \$63,295 over last year.
- Operating grants and contribution increased overall by \$81,734 during the year. The increase was primarily due to higher general government grants. We received \$43,290 more in C/CAG AB 1546 grant money. This amount is for Traffic Congestion Management which is a program under C/CAG. San Mateo County has a congestion management program that is derived from the vehicle registration fee (VRF) \$4. We get this grant money for street related projects. We received \$50,611 in Gas Tax funds for street related projects.
- Taxes increased by \$1,153,112 (9.5 percent) during the year. The increase was primarily due to \$977,920 of property tax, a decrease \$46,277 in sales tax, and \$221,469 increase in other taxes which included franchise fees, document transfer tax, and business licenses.
- Investment earnings are higher than last year by \$250,672. There was no major fair market value adjustment to investments. Interest rates remain low, however the Town updated its investment policy to allow for greater investment diversity. Miscellaneous revenue is lower by \$3341,856 mainly due to one-time revenues received in Fiscal Year 12/13 from Facebook in the amount of \$350,000 for mitigation.

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- Total Government Activities expenses decreased by \$526,729(4.3percent) during the year. The decrease was primarily due a decrease in overall operational expenditures and continued prudent fiscal management. Another reason for the decreased expense was the OPEB contribution of \$2Million which reduced the Town Net OPEB obligation. The Town now has a net OPEB asset of \$1,471,369. The Town also experiences savings from its payment of the Miscellaneous side fund in FY 12/13, a result of decreased employer PERS contribution rate by approximately 4 percent.

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 49-51 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 \$8,230,418 while total fund balance reached \$10,431,618. 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 69.9 percent of the total general fund expenditures while total fund balance represents 88.6 percent of that same amount.

The fund balance of the Town of Atherton's general fund increased by \$2,055,728 during the current fiscal year. Key factors in the increase are as follows:

- With the payment of the CalPERS side funds for Public Safety and Miscellaneous employees reduced the employer retirement contribution rate in recent years. In the fiscal year this reduction yielded a combined expense savings of \$626,247 compared to last fiscal year.
- There was \$1,292,304 increase General Fund operating expenditures, however this was due to a \$2Million contribution towards the OPEB trust. It is in an effort to reduce OPEB liabilities. Without the contribution the general fund expenditures for the year would have been \$707,696 less than last fiscal year. With the paying down of OPEB liabilities there is a projected reduction in OPEB expense by \$217,000.
- Increase in property tax revenues in the amount of \$815,526.
- Increase in other taxes (Franchise tax, Document Transfer Tax) in the amount of \$171,356.
- Increase in Permits and Licenses (Business Licenses) in the amount of \$50,113.
- Increase in Service Charges in the amount of \$494,264
- Increase in the Use of money and property of \$188,144

Special Tax Special Revenue Fund has a total fund balance of \$1,680,260, all of which is reserved for street and drainage facility maintenance and police services. Revenue in the fund showed no significant variation from prior year. Expenditures increased by \$395,609. There was more capital outlay expenditures compared to last year as we begin to ramp up with the implementation of Town Capital Improvement Program.

Library Special Revenue Fund has a total fund balance of \$8,592,376, all of which is reserved for the library operation. Revenue was higher than prior year by \$193,065 due to return of excess donor city funds of \$1,280,690. During the 2012-2013 fiscal year, the San Mateo County JPA changed how they remit funds to the cities. All donor funds will be held in a separate trust for each city in the JPA. Funds will be remitted to cities once they use up all existing funds. Current existing funds held by the Town are \$6,190,540.

General Fund Budgetary Highlights

During the year, the revenue budget increased by \$1,338,254. The following are the main components of the increase:

- \$547,037 higher secured property tax
- \$47,335 lower unsecured tax
- \$28,500 higher SB813 supplement income
- \$44,891 higher property tax in lieu VLF
- \$320,085 higher ERAF revenue.
- \$18,085 higher property transfer tax
- \$26,927 lower total sales tax
- \$18,600 lower franchise tax PG & E
- \$47,790 higher business license fee
- \$17,589 higher zoning and planning fees
- \$302,706 higher building department revenue
- \$12,275 higher total police revenue
- \$12,119 higher park program revenue
- \$80,039 higher revenue in miscellaneous and DPW revenue categories

During the year there was also \$424,351 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

\$36,000 increase in code enforcement budget for more inspections and code violation administration.

\$10,000 increase in expenditures for disaster preparedness.

\$141,664 overall increase in public work department expenditures.

\$166,389 increase in building department budget due to increase in building revenue-midyear budget adjusted.

\$70,298 increase in overall police department expenditure-midyear budget

Council approved \$2,000,000 contribution toward OPEB liability and \$105,600 transfer from general fund to facilities construction fund.

Capital Assets and Debt Administration

Capital assets. The Town of Atherton's investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$25,683,350 (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 increased by \$339,802. This is mainly due to Marsh Retaining wall, Civic Center, Bike/Pedestrian, Park, and Drainage master plans.

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

	Governmental activities	
	2014	2013
Land	690,884	690,884
Construction in progress	413,485	73,683
Building	940,922	991,487
Other Improvements	387,017	414,504
Vehicles	326,717	297,456
Computer Equipment/Software	86,532	35,256
Furniture & Fixture	1,481	4,446
Machinery & Equipment	95,537	128,332
Infrastructure	22,740,775	24,208,505
Total Fixed Assets	25,683,350	26,844,553

Additional information about the Town's capital assets can be found in Note 5 on pages 46-48 in the financial statements.

Long-term debt. At the end of the current fiscal year, the Town of Atherton has no total debt outstanding. The Town paid off its assessment due to The Cities Group to cover negative workers' compensation reserve. There could be in future years an additional assessment for Cities Group workers' compensation reserve.

Town of Atherton's Outstanding Debt

	Governmental activities	
	2014	2013
Software capital lease	0	0
Workers' compensation assessment	0	107,000
Total Debt	0	107,000

The Town of Atherton's reported \$0 of total debt during the current fiscal year.

Additional information on the Town of Atherton's outstanding debt can be found in note 6 on page 48 of this report.

Economic Factors and Next Year's Budgets

Property taxes comprise 64.6% of the General Fund revenues. Property Taxes increased 10.9% from the previous year, clearly showing that property sales within the town are slightly on the rise. Atherton is showing an anticipated recovery in the housing market, and is gaining insight on property tax revenue expectations. The Town experienced a Net Taxable Assessed Value increase of 9.019%. Expectations for FY 2014/2015 should continue to show a growth in net assessed value but not as high as this fiscal year. As of now financial assumptions includes an increase in property tax revenue projections at 4 percent, Building revenues budgeted at a slight increase of 2% and other charges for services at 2%. We continue to monitor other Town revenues as they remain stable. The Town received \$1,020,085 in ERAF for the Fiscal Year and earmarked it as a contribution towards OPEB Liability in Fiscal Year 2014-15. There are only 3 counties in California that have Excess ERAF, and San Mateo County is one of them. There is anticipation that the Governor's upcoming budgets will reduce the excess ERAF to local agencies leading to changes in new school funding formula. The Town is aware and will budget ERAF revenues flat at \$700,000 and continue to monitor the situation. In Fiscal Year 2014-15, the Town anticipates using ERAF or a portion of it to make an additional contribution toward OPEB liabilities.

The Town of Atherton continues to monitor short term and long term expenditures. The Town continues to be fiscally prudent and budgets revenues and expenditures conservatively. Throughout the year we continually evaluate operational needs to provide consistent services throughout the community. The Town's continued financial stability is always at the forefront of discussion and evaluation. As a result a new salary and benefit resolution for unrepresented staff was effective July 1, 2013. Employee pension member contribution of 7 percent was picked up by the employee. New caps in health care contributions were implemented for employees. A new Police MOU was adopted on October 1, 2013. Effective on January 1, 2014, the Town's payment of the employee share of the mandatory member contribution for the CalPERS retirement benefit shall be 5 percent. Effective January 1, 2015, the Town's payment of the employee share of the mandatory member contribution shall be reduced to 2.5 percent. Effective January 1, 2016, the Town shall cease paying any portion of the employees' share, and the employees shall pay 100% of the employee share of the mandatory member contribution, presently 9% for sworn and 7% for civilian. Paying down long term liabilities is important to the Town's fiscal stability. During the fiscal year the Town made a \$2 million contribution into the OPEB trust for future OPEB liabilities and reducing our Net OPEB obligation. Total contributed to the Trust as of June 30, 2014 is \$3,299,316. The balance in the PARS Trust as of June 30, 2014 is \$3,513,466. A new OPEB actuarial study is to be completed in Fiscal Year 2014-15 and anticipated to decrease our annual required contribution by approximately \$200,000. CalPERS also will begin new amortization and rate smoothing policies Starting in Fiscal Year 2015-16 to recover gains and losses of funded status of plans. 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 and financial transparency.

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.

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TOWN OF ATHERTON

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position 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 of 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 Position 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 Position 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 position, by subtracting total liabilities and deferred inflow of resources from total assets and deferred outflow of resources.

The Statement of Net Position summarizes the financial position of all of the Town's Governmental Activities in a single column, and the financial position of all of 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 position. 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 Position is computed and reconciled with the Statement of Net Position.

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

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TOWN OF ATHERTON
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 3)	\$28,955,422
Receivables:	
Taxes	122,928
Grants	13,127
Interest	6,666
Other	85,681
Prepaid expenses	408
Net OPEB assets (Note 9)	1,471,369
Capital assets (Note 5):	
Non-depreciable	1,104,369
Depreciable, net	<u>24,578,981</u>
Total Capital assets	<u>25,683,350</u>
Total Assets	<u>56,338,951</u>
LIABILITIES	
Accounts payable	521,275
Accrued liabilities	185,949
Deposits payable	1,324,295
Unearned revenue	5,257
Compensated absences (Note 1G)	
Due in less than one year	283,779
Due in more than one year	<u>245,770</u>
Total Liabilities	<u>2,566,325</u>
NET POSITION (Note 7)	
Net investment in capital assets	25,683,350
Restricted for:	
Streets and drainage maintenance and police services	1,680,260
Library operations	8,592,376
Public facilities constructions	2,195,182
Special revenue projects	1,568,141
Capital projects	506,501
Unrestricted	<u>13,546,816</u>
Total Net Position	<u><u>\$53,772,626</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
General government	\$3,415,919	\$900	\$4,531	(\$3,410,488)
Public works	3,311,300	399,985	601,923	(2,309,392)
Police	4,029,458	85,241	191,077	(3,753,140)
Building	1,224,190	1,648,027		423,837
Planning	244,480	259,792		15,312
Total Governmental Activities	<u>\$12,225,347</u>	<u>\$2,393,945</u>	<u>\$797,531</u>	<u>(9,033,871)</u>
General revenues:				
Taxes:				
Property taxes				11,517,278
Sales taxes				156,098
Other taxes				<u>1,536,128</u>
Total Taxes				13,209,504
Investment earnings				308,907
Miscellaneous				<u>168,453</u>
Total General Revenues				<u>13,686,864</u>
Change in Net Position				4,652,993
Net Position-Beginning				<u>49,119,633</u>
Net Position-Ending				<u><u>\$53,772,626</u></u>

See accompanying notes to financial statements

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the Town in fiscal 2014. 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.

FACILITIES CONSTRUCTION CAPITAL PROJECTS FUND

Accounts for the funds dedicated to facilities construction.

TOWN OF ATHERTON
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	Major Funds			
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Facilities Construction Capital Projects Fund
ASSETS				
Cash and investments (Note 3)	\$11,917,289	\$1,947,352	\$8,595,238	\$2,195,182
Receivables:				
Taxes	117,369			
Grants	5,000			
Interest	6,666			
Other	83,181			
Due from other funds (Note 4)	7,976			
Prepays	408			
Total Assets	<u>\$12,137,889</u>	<u>\$1,947,352</u>	<u>\$8,595,238</u>	<u>\$2,195,182</u>
LIABILITIES				
Accounts payable	\$245,345	\$256,827	\$2,862	
Accrued liabilities	146,896			
Deposits payable	1,314,030	\$10,265		
Due to other funds (Note 4)				
Unearned revenue				
Total Liabilities	<u>1,706,271</u>	<u>267,092</u>	<u>2,862</u>	
FUND BALANCES				
Fund balance (Note 7):				
Nonspendable	408			
Restricted		1,680,260	8,592,376	
Committed	1,766,496			
Assigned	434,296			\$2,195,182
Unassigned	8,230,418			
Total Fund Balances	<u>10,431,618</u>	<u>1,680,260</u>	<u>8,592,376</u>	<u>2,195,182</u>
Total Liabilities and Fund Balances	<u>\$12,137,889</u>	<u>\$1,947,352</u>	<u>\$8,595,238</u>	<u>\$2,195,182</u>

See accompanying notes to financial statements

Other Governmental Funds	Total Governmental Funds
\$2,078,863	\$26,733,924
5,559	122,928
8,127	13,127
	6,666
	83,181
	7,976
	408
<u>\$2,092,549</u>	<u>\$26,968,210</u>
\$4,674	\$509,708
	146,896
	1,324,295
7,976	7,976
<u>5,257</u>	<u>5,257</u>
<u>17,907</u>	<u>1,994,132</u>
1,809,139	408
	12,081,775
	1,766,496
265,503	2,894,981
	<u>8,230,418</u>
<u>2,074,642</u>	<u>24,974,078</u>
<u>\$2,092,549</u>	<u>\$26,968,210</u>

TOWN OF ATHERTON
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances reported on the governmental funds balance sheet	\$24,974,078
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Amounts reported for Governmental Activities in the Statement of Net Position 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.	25,266,985
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ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

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 Position.

Cash and investments	2,221,498
Other assets	2,500
Net OPEB assets	1,471,369
Capital assets, net	416,365
Accounts payable	(11,567)
Compensated absences	(529,549)
Claims payable	(39,053)
	2,221,498

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$53,772,626
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See accompanying notes to financial statements

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

	Major Funds			
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Facilities Construction Capital Projects Fund
REVENUES				
Property taxes	\$8,270,190		\$1,280,690	
Special assessments		\$1,870,300		
Sales taxes	234,574			
Other taxes	1,315,035			
Measure A grants				
From other governmental agencies	76,158			
Permit and licenses	221,093			
Fines and forfeitures	54,496			
Service charges	2,300,669			
Use of money and property	279,735	15,658	77,107	\$25,483
Miscellaneous	70,016			
Total Revenues	<u>12,821,966</u>	<u>1,885,958</u>	<u>1,357,797</u>	<u>25,483</u>
EXPENDITURES				
Current:				
General government	3,836,369	5,279		
Planning	244,480			
Building	1,308,353			
Police	5,112,218			
Public works	1,216,740	206,812		126,387
Non-departmental			106,824	
Capital outlay	<u>58,478</u>	<u>349,252</u>		
Total Expenditures	<u>11,776,638</u>	<u>561,343</u>	<u>106,824</u>	<u>126,387</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,045,328</u>	<u>1,324,615</u>	<u>1,250,973</u>	<u>(100,904)</u>
Other Financing Sources (uses):				
Transfer in (Note 4)	1,116,000			105,600
Transfer (out) (Note 4)	<u>(105,600)</u>	<u>(1,116,000)</u>		
Total Other Financing Sources (uses)	<u>1,010,400</u>	<u>(1,116,000)</u>		<u>105,600</u>
Net change in fund balances	2,055,728	208,615	1,250,973	4,696
BEGINNING FUND BALANCES	<u>8,375,890</u>	<u>1,471,645</u>	<u>7,341,403</u>	<u>2,190,486</u>
ENDING FUND BALANCES	<u>\$10,431,618</u>	<u>\$1,680,260</u>	<u>\$8,592,376</u>	<u>\$2,195,182</u>

See accompanying notes to financial statements

Other Governmental Funds	Total Governmental Funds
\$96,098	\$9,646,978
	1,870,300
	234,574
	1,315,035
314,942	314,942
331,022	407,180
	221,093
	54,496
	2,300,669
19,170	417,153
	70,016
<u>761,232</u>	<u>16,852,436</u>
	3,841,648
	244,480
	1,308,353
91,299	5,203,517
228,156	1,778,095
12,165	118,989
<u>248,683</u>	<u>656,413</u>
<u>580,303</u>	<u>13,151,495</u>
<u>180,929</u>	<u>3,700,941</u>
	1,221,600
	<u>(1,221,600)</u>
<u>180,929</u>	<u>3,700,941</u>
<u>1,893,713</u>	<u>21,273,137</u>
<u>\$2,074,642</u>	<u>\$24,974,078</u>

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, 2014

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 Position 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	\$3,700,941
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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 capitalized expenditures are therefore added back to fund balance	361,070
Depreciation expense is deducted from the fund balance	(1,604,171)
Capital asset retirement is subtracted from fund balance	

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 Position - All Internal Service Funds	2,195,153
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$4,652,993
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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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$7,307,839	\$8,201,650	\$8,270,190	\$68,540
Sales taxes	240,108	213,181	234,574	21,393
Other taxes	1,084,603	1,084,088	1,315,035	230,947
Permits and licenses	163,200	210,990	221,093	10,103
Fines and forfeitures	56,100	56,948	54,496	(2,452)
From other governmental agencies	35,710	31,999	76,158	44,159
Service charges	1,665,702	2,060,220	2,300,669	240,449
Use of money and property	195,618	266,870	279,735	12,865
Other	55,840	35,184	70,016	34,832
Total Revenues	10,804,720	12,161,130	12,821,966	660,836
EXPENDITURES:				
Current:				
General government				
City council	83,598	83,598	58,479	25,119
Administration	642,007	642,007	598,955	43,052
City attorney	204,100	204,100	153,600	50,500
Finance	608,658	611,258	589,645	21,613
Non-departmental	454,221	2,466,221	2,435,690	30,531
General government total	1,992,584	4,007,184	3,836,369	170,815
Planning	275,600	275,600	244,480	31,120
Building	1,109,160	1,311,548	1,308,353	3,195
Public works	1,387,405	1,529,069	1,216,740	312,329
Police	5,552,774	5,623,072	5,112,218	510,854
Capital outlay	159,400	166,316	58,478	107,838
Total Expenditures	10,476,923	12,912,789	11,776,638	965,336
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	327,797	(751,659)	1,045,328	1,796,987
OTHER FINANCING SOURCES USES				
Transfer in (Note 4)	1,116,000	1,116,000	1,116,000	
Transfer (out) (Note 4)		(105,600)	(105,600)	
NET CHANGE IN FUND BALANCE	\$1,443,797	\$258,741	2,055,728	\$1,796,987
Fund balance, beginning of year			8,375,890	
Fund balance, end of year			\$10,431,618	

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$1,860,000	\$1,860,000	\$1,870,300	\$10,300
Use of money and property	5,000	5,000	15,658	10,658
Total Revenues	<u>1,865,000</u>	<u>1,865,000</u>	<u>1,885,958</u>	<u>20,958</u>
EXPENDITURES:				
Current:				
General government	1,500	1,500	5,279	(3,779)
Public works	350,000	350,000	206,812	143,188
Capital outlay	<u>643,255</u>	<u>651,549</u>	<u>349,252</u>	<u>302,297</u>
Total Expenditures	<u>994,755</u>	<u>1,003,049</u>	<u>561,343</u>	<u>441,706</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4)	<u>(1,116,000)</u>	<u>(1,116,000)</u>	<u>(1,116,000)</u>	
Total Other Financing Sources (Uses)	<u>(1,116,000)</u>	<u>(1,116,000)</u>	<u>(1,116,000)</u>	
Net change in fund balance	<u>(\$245,755)</u>	<u>(\$254,049)</u>	208,615	<u>\$462,664</u>
Fund Balance, beginning of year			<u>1,471,645</u>	
Fund Balance, end of year			<u>\$1,680,260</u>	

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, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES:				
Property taxes	\$900,000	\$900,000	\$1,280,690	\$380,690
Use of money and property	<u>33,000</u>	<u>33,000</u>	<u>77,107</u>	<u>44,107</u>
Total Revenues	<u>933,000</u>	<u>933,000</u>	<u>1,357,797</u>	<u>424,797</u>
EXPENDITURES:				
Library Maintenance	<u>206,400</u>	<u>273,600</u>	<u>106,824</u>	<u>166,776</u>
Total Expenditures	<u>206,400</u>	<u>273,600</u>	<u>106,824</u>	<u>166,776</u>
NET CHANGES IN FUND BALANCE	<u>\$726,600</u>	<u>\$659,400</u>	<u>1,250,973</u>	<u>\$591,573</u>
BEGINNING FUND BALANCE			<u>7,341,403</u>	
ENDING FUND BALANCE			<u>\$8,592,376</u>	

See accompanying notes to financial statements

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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 POSITION
 JUNE 30, 2014

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets	
Cash and investments (Note 3)	\$2,221,498
Other assets	<u>2,500</u>
Total current assets	<u>2,223,998</u>
Noncurrent Assets:	
Net OPEB assets (Note 9)	<u>1,471,369</u>
Capital assets (Note 5):	
Depreciable	1,067,829
Less accumulated depreciation	<u>(651,464)</u>
Total capital assets	<u>416,365</u>
Total noncurrent assets	<u>1,887,734</u>
Total Assets	<u>4,111,732</u>
LIABILITIES	
Current liabilities:	
Accounts payable	11,567
Compensated absences (Note 1G)	<u>283,779</u>
Total current liabilities	<u>295,346</u>
Non-current liabilities:	
Compensated absences (Note 1G)	245,770
Claims payable (Note 10)	<u>39,053</u>
Total noncurrent liabilities	<u>284,823</u>
Total Liabilities	<u>580,169</u>
NET POSITION (Note 7)	
Net investment in capital assets	416,365
Unrestricted	<u>3,115,198</u>
Total Net Position	<u><u>\$3,531,563</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Activities- Internal Service Funds
OPERATING REVENUES	
Charges for services	<u>\$3,266,164</u>
Total Operating Revenues	<u>3,266,164</u>
OPERATING EXPENSES	
Insurance	218,412
OPEB expense	531,981
Employee benefits earned	177,640
Depreciation	112,435
Supplies and Maintenance	<u>56,447</u>
Total Operating Expenses	<u>1,096,915</u>
Operating Income	<u>2,169,249</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>25,904</u>
Total Nonoperating Revenues	<u>25,904</u>
Change in net position	2,195,153
BEGINNING NET POSITION	<u>1,336,410</u>
ENDING NET POSITION	<u><u>\$3,531,563</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Interdepartmental charges	\$3,356,423
Payments to suppliers	(1,102,549)
OPEB Trust contribution	(2,000,000)
	<u>253,874</u>
Cash Flows from Operating Activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets, net	(194,333)
Principal payments on long-term debt	(107,000)
	<u>(301,333)</u>
Cash Flow from Capital and Related Financing Activities	
CASH FLOWS FORM INVESTING ACTIVITIES	
Interest Income	25,904
	<u>25,904</u>
Cash Flow from Investing Activities	
Net Cash Flow	(21,555)
Cash and investments at beginning of period	2,243,053
Cash and investment at end of period	<u><u>\$2,221,498</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities	
Operating income	\$2,169,249
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	112,435
Changes in assets and liabilities:	
Other assets	(1,912,241)
Accounts payable	(37,010)
Accrued liabilities	(120,928)
Compensated absences	42,369
	<u>42,369</u>
Cash Flows from Operating Activities	<u><u>\$253,874</u></u>

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 NET POSITION
JUNE 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 3)	<u>\$31,148</u>
Total Assets	<u><u>\$31,148</u></u>
LIABILITIES	
Deposits payable	<u>\$31,148</u>
Total Liabilities	<u><u>\$31,148</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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 property taxes 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 Position 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, 2014

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.

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, 2014

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 position 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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

F. *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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *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 Position.

The changes of the compensated absences were as follows:

Beginning Balance	\$487,180
Additions	393,957
Payments	<u>(351,588)</u>
Ending Balance	<u>\$529,549</u>
Current Portion	<u>\$283,779</u>

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

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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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 Town 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 Town Manager is authorized to transfer budget appropriations within the same department 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. Budgeted amounts shown are as originally adopted, or as amended by the Town Council during the year.
- 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 funds were not budgeted: Facilities Construction Capital Projects Fund, Storm Drainage Capital Project Fund.

B. *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, 2014:

Fund Name	Amount
Special Tax Special Revenue Fund	\$3,779
County Measure A Special Revenue Fund	1,440

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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.

B. Classification

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

Statement of Net Assets

Cash and investments available for operations	\$28,955,422
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Fiduciary Funds

Cash and investments available for operations	<u>31,148</u>
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Total Cash and Investments	<u><u>\$28,986,570</u></u>
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Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$886
Cash in bank	917,895
Investments	<u>28,067,789</u>
Total Cash and Investments	<u><u>\$28,986,570</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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	N/A	No Limit	No Limit
U.S. Agency Securities	5 years	N/A	25%	No Limit
Repurchase Agreements	30 days	A / A-1	No Limit	No Limit
Medium-Term Corporate Notes	5 years	AA	10%	5%
Commercial Paper	270 days	A / A-1	25%	5%
Medium-term Notes	5 years	AA	5%	No Limit
Local Agency Investment Fund	N/A	N/A	50%	No Limit
Money Market Mutual Funds	N/A	AAAm	20%	No Limit
Negotiable and Non-Negotiable Certificate of Deposits	5 years	A-1+	10%	\$250,000

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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	25 to 60 Months	Total
U.S. Treasury Obligations			\$2,016,210	\$2,016,210
U.S. Agency Securities	\$802,304	\$1,278,303	4,737,018	6,817,625
Corporate Notes		1,271,823	2,672,564	3,944,387
San Mateo County Investment Pool (SMCL Donor Trust Fun	2,408,904			2,408,904
California Local Agency Investment Fund	12,011,431			12,011,431
Money Market Mutual Fund	560,247			560,247
Commercial Paper	308,985			308,985
Total Investments	<u>\$16,091,871</u>	<u>\$2,550,126</u>	<u>\$9,425,792</u>	<u>28,067,789</u>
Cash in Banks				917,895
Petty Cash				886
Total Cash				<u>918,781</u>
Total Cash and Investments				<u>\$28,986,570</u>

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Standard and Poor's investment ratings as of June 30, 2014 are as follows:

Investment Type	AAA	AAAm	AA	A-1	Not Rated	Exempt	Total
U.S. Agency Securities	\$6,817,625						\$6,817,625
U.S. Treasury Obligations						\$2,016,210	2,016,210
Corporate Notes	753,768		\$3,190,619				3,944,387
San Mateo County Investment Pool (SMCL Donor Trust Fund)					\$2,408,904		2,408,904
California Local Agency Investment Fund					12,011,431		12,011,431
Money Market Mutual Fund		\$560,247					560,247
Commercial Paper				\$308,985			308,985
Total Investments	<u>\$7,571,393</u>	<u>\$560,247</u>	<u>\$3,190,619</u>	<u>\$308,985</u>	<u>\$14,420,335</u>	<u>\$2,016,210</u>	<u>\$28,067,789</u>

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, 2014:

Major Fund	Issuer	Investment Type	Reported Amount
General Fund	Federal Home Loan Bank	U.S. Agency Securities	\$2,810,438
General Fund	Federal Home Loan Mortgage Corporation	U.S. Agency Securities	2,705,303

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, 2014, these investments matured in an average of 232 days.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

H. San Mateo County Investment Fund

The Town's investment held under San Mateo Library Donor Trust Fund was invested by the San Mateo Library (Library) in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The Town reports its investment in SMCIF at the fair value amount provided by the Library. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The Town reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share.

NOTE 4 - INTERFUND TRANSACTIONS

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Interfund balances as of June 30, 2014, are as follows:

<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Amount</u>
General Fund	Supplemental Law Enforcement Services/ COPS Grant Special Revenue Fund	\$ 7,976

B. 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, 2014 were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>	
General Fund	Special Tax Special Revenue Fund	\$1,116,000	(A)
Facilities Construction Capital Projects Fund	General Fund	105,600	(B)
		<u>\$1,221,600</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, 2014

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
Computer Equipment and Software	3 years
Furniture and fixtures	10 years
Vehicles	5 to 10 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, 2014

NOTE 5 - CAPITAL ASSETS (Continued)

A. Current Year Capital Asset Activities

<i>Governmental Funds</i>	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$690,884			\$690,884
Construction in progress	73,683	\$339,802		413,485
Total non-depreciable capital assets	764,567	339,802		1,104,369
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	21,268		268,853
Furniture and fixtures	34,798			34,798
Vehicle	60,156			60,156
Machinery and equipment	352,024			352,024
Infrastructure	55,683,479			55,683,479
Total capital assets being depreciated	59,438,009	21,268		59,459,277
Less accumulated depreciation for:				
Buildings	942,812	50,565		993,377
Other improvements	711,164	27,487		738,651
Computer equipment and software	215,026	17,291		232,317
Furniture and fixture	30,352	2,965		33,317
Vehicles	30,873	12,032		42,905
Machinery and equipment	287,289	26,101		313,390
Infrastructure	31,474,974	1,467,730		32,942,704
Total accumulated depreciation	33,692,490	1,604,171		35,296,661
Net capital assets being depreciated	25,745,519	(1,582,903)		24,162,616
General capital assets, net	\$26,510,086	(\$1,243,101)		\$25,266,985
<i>Internal Service Funds</i>				
Depreciable capital assets:				
Vehicles	\$665,790	\$136,304	(\$68,738)	\$733,356
Computer equipment	183,470	58,029		241,499
Other equipment	92,974			92,974
Total depreciable capital assets	942,234	194,333	(68,738)	1,067,829
Less: accumulated depreciation for				
Vehicles	397,617	95,011	(68,738)	423,890
Computer equipment	180,773	10,730		191,503
Other equipment	29,377	6,694		36,071
Total accumulated depreciation	607,767	112,435	(68,738)	651,464
Internal Service Funds capital assets, net	334,467	81,898		416,365
Governmental capital assets, net	\$26,844,553	(\$1,161,203)		\$25,683,350

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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	\$7,079
Public works	1,539,237
Building	3,545
Police	<u>54,310</u>
Governmental activities subtotal	1,604,171
Internal Service Fund	<u>112,435</u>
Total	<u><u>\$1,716,606</u></u>

NOTE 6 - LONG TERM OBLIGATIONS

A. Governmental Activity

	Balance June 30, 2013	Retirements	Balance June 30, 2014
Workers' compensation assessment	<u>\$107,000</u>	<u>\$107,000</u>	<u> </u>
Total	<u><u>\$107,000</u></u>	<u><u>\$107,000</u></u>	<u><u> </u></u>

B. Workers' Compensation Assessment

During fiscal year 2010, the Town was informed that its workers' compensation insurance reserve with the Cities Group Joint Powers Authority was drawn to a negative. As a result, the Town had agreed to a special assessment in which the Town would make payments over the next four fiscal years to replenish the reserve. As of June 30, 2014, the obligation had been repaid in full.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 7 - FUND BALANCES AND NET POSITION

A. Net Position

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

Net Investment in Capital Assets describes the portion of Net Position 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 Position 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 Position 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:

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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 7 - FUND BALANCES AND NET POSITIONS (Continued)

B. Fund Balances (Continued)

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.

Detailed classifications of the Town's Fund Balances, as of June 30, 2014, are below:

	General Fund	Major Special Revenue Funds Special Tax	Library	Facilities Construction Capital Projects Fund	Other Governmental Funds	Total
Fund balances:						
Nonspendable:						
Prepays	\$408					\$408
Total Nonspendable	408					408
Restricted for:						
Special tax special revenue fund		\$1,680,260				1,680,260
Library operations			\$8,592,376			8,592,376
Measure A					\$659,430	659,430
Gas tax					212,464	212,464
Supplemental law enforcement services / COPS Grant					151	151
Road impact fee					592,210	592,210
Traffic Congestion Relief						
Evans Creative Design					58,069	58,069
Measure M					45,817	45,817
Channel Drainage District					240,998	240,998
Total Restricted		1,680,260	8,592,376		1,809,139	12,081,775
Committed to:						
Emergency disaster	1,766,496					1,766,496
Total Committed	1,766,496					1,766,496
Assigned to:						
Tennis program	17,640					17,640
Building department operations	411,802					411,802
Tree Committee	4,854					4,854
Capital projects				\$2,195,182	265,503	2,460,685
Total Assigned	434,296			2,195,182	265,503	2,894,981
Unassigned	8,230,418					8,230,418
Total Unassigned	8,230,418					8,230,418
Total Fund Balances	\$10,431,618	\$1,680,260	\$8,592,376	\$2,195,182	\$2,074,642	\$24,974,078

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 7 - FUND BALANCES AND NET POSITION (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 be less than 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, 2014 are summarized below:

	Safety (Police)	Miscellaneous
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	27.877%	11.104%

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. However, as of July 1, 2014, Miscellaneous Plan employees will pay their own portion of the required employee contribution rate of 7%. The Town and the Atherton Police Officers Association (APOA) adopted a new MOU on October 1, 2013. Effective on January 1, 2014, the Town's payment of the employee share of the mandatory member contribution for the CalPERS retirement benefit shall be 5%. Effective January 1, 2015, the Town's payment of the employee share of the mandatory member contribution shall be reduced to 2.5%. Effective January 1, 2016, the Town shall cease paying any portion of the employees' share, and the employees shall pay 100% of the employee share of the mandatory member contribution, presently 9% for sworn and 7% for civilian.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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, 2012	\$1,191,680	100%	\$0
June 30, 2013	981,473	100%	0
June 30, 2014	1,042,458	100%	0

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.50% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service, and annual retirement benefit increases are assumed to be 3.00%.

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 Safety Plan's Side Fund liability of \$1,224,321 was paid off in fiscal 2012. The balance of the Miscellaneous Plan's Side Fund liability of \$647,650 was paid off during fiscal 2013.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 8 - PENSION PLAN (Continued)

A. CalPERS Safety and Miscellaneous Employees Plans (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						Unfunded
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as % of Payroll
2010	\$10,165,475,166	\$8,470,235,152	\$1,695,240,014	83.3%	\$955,980,815	177.3%
2011	10,951,745,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%
2012	11,724,021,480	9,854,787,710	1,869,233,770	84.1%	947,734,809	197.2%

The Town's Safety Plan represents approximately 0.18%, 0.18%, and 0.19%, of the State-wide pool for the years ended June 30, 2012, 2011, and 2010, respectively, based on covered projected payroll of \$2,122,153, \$2,046,298, and \$2,053,560 for those years.

State-Wide Miscellaneous Plan:

Actuarial						Unfunded
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as % of Payroll
2010	\$3,309,064,934	\$2,946,408,106	\$362,656,828	89.0%	\$748,401,352	48.5%
2011	3,619,835,876	3,203,214,899	416,620,977	88.5%	759,263,518	54.9%
2012	4,175,139,166	3,686,598,343	488,540,823	88.3%	757,045,663	64.5%

The Town's Miscellaneous Plan represents approximately 0.05%, 0.08%, and 0.08%, of the State-wide pool for the years ended June 30, 2012, 2011, and 2010, respectively, based on covered projected payroll of \$2,292,568, \$3,098,116, and \$2,943,836 for those years.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 8 - PENSION PLAN (Continued)

The Town's Safety and Miscellaneous Plans funding status is as follows as of June 30, 2012:

	Safety	Miscellaneous
Present Value of Projected Benefits	\$36,030,592	\$15,482,197
Entry Age Normal Accrued Liability	30,999,471	14,084,104
Plan's Actuarial Value of Assets (AVA)	27,288,739	12,200,917
Unfunded Liability (AVA Basis) [(2) - (3)]	3,710,732	1,883,187
Funded Ratio (AVA Basis) [(3) / (2)]	88.0%	86.6%
Plan's Market Value of Assets (MVA)	22,860,016	10,326,106
Unfunded Liability (MVA Basis) [(2) - (6)]	8,139,455	3,757,998
Funded Ratio	73.7%	73.3%

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

B. *Public Employees' Pension Reform Act (PEPRA)*

Assembly Bill (AB) 340 pension reform created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA.

The Table below provides information on the benefit formula compensation information on the benefit formula, final compensation period and the employer and member contribution rates effective January 1, 2013 for any safety and miscellaneous employees that meet the definition of a new member under PEPRA.

Benefit Formula	Safety 2.7% at Age 57	Miscellaneous 2% at Age 62
Final Compensation Period	3 Year Final Compensation	3 Year Final Compensation
Employer Contribution Rate as a percentage payroll	12.25% of Reportable Compensation	6.70% of Reportable Compensation
Member Contribution Rate as a percentage of payroll	12.25% of Reportable Compensation	6.50% of Reportable Compensation

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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 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 are eligible to receive the benefit described below. This benefit continues throughout the life of the retiree, surviving spouse.

Management employees (non-represented), hired before July 1, 2009 - The Town pays 100% of premiums for any medical coverage and any family status.

Management employees (non-represented), hired between July 1, 2009 and June 30, 2013 – The Town pays up to a maximum of the single employee Kaiser premium regardless of family status. A spouse or dependent is only covered if the employee's premium is less than this maximum. After age 65, the Town pays up to a maximum of the reduced post age 65 single employee Kaiser premium.

Management employees (non-represented), hired on or after July 1, 2013 – The Town pays the minimum benefit, which is \$115 per month as of 2014.

APOA 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 which is assumed to no increase in the future. Any increase will be subject to Town Council approval.

Members of the APOA Police Officers, hired before October 1, 2013 but retired or will retire after October 1, 2013 - The Town pays up to a maximum of 90% of the Kaiser premium for any family status. This cap is assumed to increase at half the excess of the assumed rate of increase over 3% each year, with a minimum of 0%. Employees retiring from the Town and CalPERS concurrently with at least 5 years of service will receive the basic Public Employees Medical and Hospital Care Act (PEMHCA) minimum contribution by law. For calendar year 2014 it is \$119, \$122 in 2015. If they have 10 or more years of service, they are subject to a vesting schedule:

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 9 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

<u>Credit Years of Service</u>	<u>% of Town Contribution</u>
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

APOA employees retiring on disability from employment of the Town while in a job classification covered by this MOU and said disability arising from employment with the Town, shall receive the Town contribution 90% of Kaiser.

APOA Police Officers, hired on or after October 1, 2013 - The Town pays up to a maximum of the PEMHCA Minimum (\$119 in 2014, \$122 in 2015).

Teamsters and Confidential employees- (non-management, miscellaneous) hired before January 19, 2011 - The Town pays up to a maximum benefit of 95% of Blue Shield Access Plus basic/supplemental Bay Area/Sacramento HMO premiums. This applies to any medical coverage and any family status. After age 65, the Town pays only 95% of the reduced post age 65 premiums.

Teamsters and Confidential employees (non-management, miscellaneous) hired after January 19, 2011 - The Town pays up to a maximum of the single employee Kaiser premium regardless of family status. A spouse or dependent is only covered if the employee's premium is less than this maximum. After age 65, the Town pays up to a maximum of the reduced post age 65 single employee Kaiser premiums. If they have 10 or more years of service, they are subject to a vesting schedule

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 9 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

A. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a March 1, 2013 actuarial valuation using the entry age normal 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 7.3% 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 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	
<u>Beginning</u>	
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, 2014

NOTE 9 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Funding Progress and Funded Status

In fiscal year 2014, the Town made contributions toward the ARC and amortized its net OPEB obligation as presented below:

Annual required contribution (ARC) and Annual OPEB cost	\$529,954
Interest on the net OPEB obligation	27,282
Adjustment to annual required contribution	<u>(25,256)</u>
Annual OPEB Cost	<u>531,980</u>
Contributions made to:	
PARS irrevocable trust	2,000,000
Town's portion of current year premiums paid	<u>441,721</u>
Total contributions	<u>2,441,721</u>
Net OPEB (Obligation) June 30, 2013	<u>(438,372)</u>
Net OPEB Asset June 30, 2014	<u><u>\$1,471,369</u></u>
Remaining amortization period	<u><u>26 years</u></u>

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

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of ARC Contributed	Net OPEB Asset (Obligation)
6/30/2012	\$623,162	\$328,090	53%	(\$1,585,008)
6/30/2013	582,525	1,729,233	297%	(438,372)
6/30/2014	531,980	2,441,721	459%	1,471,369

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, July 1, 2011 and March 1, 2013 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%
March 1, 2013	0	7,724,868	(7,724,868)	0%

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 10 - RISK MANAGEMENT

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:

	2014	2013
Beginning balance	\$159,981	\$50,000
Net change in claims liabilities	(24,555)	240,792
Claims paid	(95,923)	(130,811)
Ending balance	<u>\$39,503</u>	<u>\$159,981</u>
Claims liabilities due within a year	<u>\$39,503</u>	<u>\$159,981</u>

For the years ended June 30, 2014, 2013, and 2012, the amount of settlements did not exceed insurance coverage.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2014

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. The Joint Powers Agreement is effective for the year ended June 30, 2014 and continues on a year to year basis until the parties agree to terminate the agreement or if a majority of the parties have withdrawn from the Cable Joint Powers pursuant to Section 6 of the agreement.

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 \$30,962 for the year ended June 30, 2014. 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, 2014

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 Town 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. When required, these programs are audited in accordance with the provisions of the Federal Single Audit Act as amended and applicable State requirements. These programs are also subjected 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.

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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.

MEASURE M FUND accounts for funds received from the Congestion Management Agency for San Mateo County.

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

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 SHEET
JUNE 30, 2014

SPECIAL REVENUE FUNDS						
	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design	Measure M	Road Construction
ASSETS						
Cash and investment	\$659,430	\$213,914		\$58,069	\$45,817	\$592,210
Receivables:						
Taxes						
Grants			\$8,127			
Total Assets	<u>\$659,430</u>	<u>\$213,914</u>	<u>\$8,127</u>	<u>\$58,069</u>	<u>\$45,817</u>	<u>\$592,210</u>
LIABILITIES						
Accounts payable		\$1,450				
Due to other funds			\$7,976			
Unearned revenue						
Total Liabilities		<u>1,450</u>	<u>7,976</u>			
FUND EQUITY						
Fund balances						
Restricted	\$659,430	212,464	151	\$58,069	\$45,817	\$592,210
Assigned						
Total Fund Balances	<u>659,430</u>	<u>212,464</u>	<u>151</u>	<u>58,069</u>	<u>45,817</u>	<u>592,210</u>
Total Liabilities and Fund Balances	<u>\$659,430</u>	<u>\$213,914</u>	<u>\$8,127</u>	<u>\$58,069</u>	<u>\$45,817</u>	<u>\$592,210</u>

CAPITAL PROJECT FUNDS

<u>Capital Improvement</u>	<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
\$238,810	\$29,917	\$240,696	\$2,078,863
		5,559	5,559
			8,127
<u>\$238,810</u>	<u>\$29,917</u>	<u>\$246,255</u>	<u>\$2,092,549</u>
\$3,224			\$4,674
			7,976
		\$5,257	5,257
<u>3,224</u>		<u>5,257</u>	<u>17,907</u>
235,586	\$29,917	240,998	1,809,139
			265,503
<u>235,586</u>	<u>29,917</u>	<u>240,998</u>	<u>2,074,642</u>
<u>\$238,810</u>	<u>\$29,917</u>	<u>\$246,255</u>	<u>\$2,092,549</u>

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

	SPECIAL REVENUE FUNDS					
	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design	Measure M	Road Construction
REVENUES						
Property taxes						
Measure A Grants	\$314,942					
From other agencies		\$236,989	\$90,966			
Use of money and property	5,172	1,727	333	\$651	\$798	\$8,203
Total Revenues	320,114	238,716	91,299	651	798	8,203
EXPENDITURES						
Current:						
Police			91,299			
Public Works	26,285	5,181				190,033
Non-Departmental				12,165		
Capital Outlay	3,870	161,678		250	32,900	
Total Expenditures	30,155	166,859	91,299	12,415	32,900	190,033
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	289,959	71,857		(11,764)	(32,102)	(181,830)
NET CHANGE IN FUND BALANCES	289,959	71,857		(11,764)	(32,102)	(181,830)
BEGINNING FUND BALANCES	369,471	140,607	151	69,833	77,919	774,040
ENDING FUND BALANCES	\$659,430	\$212,464	\$151	\$58,069	\$45,817	\$592,210

CAPITAL PROJECT FUNDS

<u>Capital Improvement</u>	<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
		\$96,098	\$96,098
			314,942
\$3,067			331,022
	\$335	1,951	19,170
<u>3,067</u>	<u>335</u>	<u>98,049</u>	<u>761,232</u>
			91,299
		6,657	228,156
			12,165
49,985			248,683
<u>49,985</u>		<u>6,657</u>	<u>580,303</u>
<u>(46,918)</u>	<u>335</u>	<u>91,392</u>	<u>180,929</u>
(46,918)	335	91,392	180,929
<u>282,504</u>	<u>29,582</u>	<u>149,606</u>	<u>1,893,713</u>
<u>\$235,586</u>	<u>\$29,917</u>	<u>\$240,998</u>	<u>\$2,074,642</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, 2014

SPECIAL REVENUE FUNDS						
	County Measure A			Gas Tax		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Measure A grants	\$250,000	\$314,942	\$64,942			
From other agencies				\$200,000	\$236,989	\$36,989
Use of money and property		5,172	5,172		1,727	1,727
Total Revenues	250,000	320,114	70,114	200,000	238,716	38,716
EXPENDITURES						
Current:						
Police						
Public Works	24,845	26,285	(1,440)	6,170	5,181	989
Non-departmental						
Capital Outlay	60,000	3,870	56,130	161,678	161,678	
Total Expenditures	84,845	30,155	54,690	167,848	166,859	989
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	165,155	289,959	124,804	32,152	71,857	39,705
Other Financing Sources (uses):						
Transfer in						
Total Other Financing Sources (uses)						
NET CHANGE IN FUND BALANCES	<u>\$165,155</u>	<u>289,959</u>	<u>\$124,804</u>	<u>\$32,152</u>	<u>71,857</u>	<u>\$39,705</u>
BEGINNING FUND BALANCES		<u>369,471</u>			<u>140,607</u>	
ENDING FUND BALANCES		<u>\$659,430</u>			<u>\$212,464</u>	

SPECIAL REVENUE FUNDS

<u>Supplemental Law</u>			<u>Evans Creative Design Fund</u>			<u>Measure M</u>		
<u>Enforcement Services / COPS Grants</u>								
<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
\$100,000	\$90,966	(\$9,034)				\$75,000		(\$75,000)
	333	333	\$310	\$651	\$341	798	\$798	
100,000	91,299	(8,701)	310	651	341	75,798	798	(75,000)
100,000	91,299	8,701						
			126,387		126,387			
			12,165	12,165				
			250	250		35,000	32,900	\$2,100
100,000	91,299	8,701	138,802	12,415	126,387	35,000	32,900	2,100
			(138,492)	(11,764)	126,728	40,798	(32,102)	(72,900)
			(\$138,492)	(11,764)	\$126,728	\$40,798	(32,102)	(\$72,900)
	151			69,833			77,919	
	\$151			\$58,069			\$45,817	

(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, 2014

	SPECIAL REVENUE FUND			CAPITAL PROJECTS FUND		
	Road Construction			Capital Improvement		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Measure A grants						
From other agencies				\$350,000	\$3,067	(\$346,933)
Use of money and property	\$3,300	\$8,203	\$4,903			
Total Revenues	3,300	8,203	4,903	350,000	3,067	(346,933)
EXPENDITURES						
Current:						
Police						
Public Works	340,033	190,033	150,000			
Non-departmental						
Capital Outlay				502,500	49,985	452,515
Total Expenditures	340,033	190,033	150,000	502,500	49,985	452,515
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(336,733)	(181,830)	154,903	(152,500)	(46,918)	105,582
Other Financing Sources (uses):						
Transfer in				(70,000)		70,000
Total Other Financing Sources (uses)				(70,000)		70,000
NET CHANGE IN FUND BALANCES	<u>(\$336,733)</u>	<u>(181,830)</u>	<u>\$154,903</u>	<u>(\$222,500)</u>	<u>(46,918)</u>	<u>\$175,582</u>
BEGINNING FUND BALANCES		774,040			282,504	
ENDING FUND BALANCES		<u>\$592,210</u>			<u>\$235,586</u>	

CAPITAL PROJECTS FUNDS

<u>Storm Drainage</u>			<u>Channel Drainage District</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
			\$82,000	\$96,098	\$14,098
	\$335	\$335		1,951	1,951
	335	335	82,000	98,049	16,049
			10,000	6,657	3,343
			10,000	6,657	3,343
	335	335	72,000	91,392	19,392
	335	\$335	\$72,000	91,392	\$19,392
	29,582			149,606	
	\$29,917			\$240,998	

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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 Position.

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 and hosts the insurance costs for liability claims and property losses. The activities for this fund provides for costs to general liability insurance, employment practice insurance, and self-insured retention claim expense.

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 POSITION
JUNE 30, 2014

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
ASSETS					
Current Assets:					
Cash and investments	\$324,426	\$111,193	\$390,716	\$1,395,163	\$2,221,498
Other	2,500				2,500
Total Current Assets	326,926	111,193	390,716	1,395,163	2,223,998
Non-Current Assets:					
Net OPEB assets (Note 9)				1,471,369	1,471,369
Capital assets:					
Depreciable	1,067,829				1,067,829
Less: accumulated depreciation	(651,464)				(651,464)
Net Capital Asset	416,365				416,365
Total noncurrent assets	416,365			1,471,369	1,887,734
Total Assets	743,291	111,193	390,716	2,866,532	4,111,732
LIABILITIES					
Current liabilities					
Accounts payable	4,953			6,614	11,567
Claims payable			39,053		39,053
Compensated absences				283,779	283,779
Total current liabilities	4,953		39,053	290,393	334,399
Noncurrent liabilities					
Compensated absences				245,770	245,770
Total noncurrent liabilities				245,770	245,770
Total Liabilities	4,953		39,053	536,163	580,169
NET POSITION					
Net investment in capital assets	416,365				416,365
Unrestricted	321,973	111,193	351,663	2,330,369	3,115,198
Total Net Position	\$738,338	\$111,193	\$351,663	\$2,330,369	\$3,531,563

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
OPERATING REVENUES					
Charges for services	\$142,095	\$114,438	\$333,076	\$2,676,555	\$3,266,164
Total Operating Revenues	142,095	114,438	333,076	2,676,555	3,266,164
OPERATING EXPENSES					
Insurance		88,909	129,503		218,412
OPEB expense				531,981	531,981
Employee benefits earned				177,640	177,640
Depreciation	112,435				112,435
Supplies and Maintenance	56,447				56,447
Total Operating Expenses	168,882	88,909	129,503	709,621	1,096,915
Operating Income (Loss)	(26,787)	25,529	203,573	1,966,934	2,169,249
NONOPERATING REVENUES (EXPENSES)					
Interest income	4,358	2,044	4,287	15,215	25,904
Total Nonoperating Revenues (Expenses)	4,358	2,044	4,287	15,215	25,904
Change in Net Position	(22,429)	27,573	207,860	1,982,149	2,195,153
BEGINNING NET POSITION	760,767	83,620	143,803	348,220	1,336,410
ENDING NET POSITION	\$738,338	\$111,193	\$351,663	\$2,330,369	\$3,531,563

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from other funds	\$142,095	\$114,438	\$333,076	\$2,766,814	\$3,356,423
Payments to vendors	(93,617)	(88,909)	(259,385)	(660,638)	(1,102,549)
OPEB Trust contribution				(2,000,000)	(2,000,000)
Cash Flows from Operating Activities	<u>48,478</u>	<u>25,529</u>	<u>73,691</u>	<u>106,176</u>	<u>253,874</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets, net	(194,333)				(194,333)
Principal payments on long term debt		(107,000)			(107,000)
Cash Flows (used for) Capital and Related Financing Activities	<u>(194,333)</u>	<u>(107,000)</u>			<u>(301,333)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	<u>4,358</u>	<u>2,044</u>	<u>4,287</u>	<u>15,215</u>	<u>25,904</u>
Cash Flows from Investing Activities	<u>4,358</u>	<u>2,044</u>	<u>4,287</u>	<u>15,215</u>	<u>25,904</u>
Net Cash Flows	(141,497)	(79,427)	77,978	121,391	(21,555)
Cash and investments at beginning of period	<u>465,923</u>	<u>190,620</u>	<u>312,738</u>	<u>1,273,772</u>	<u>2,243,053</u>
Cash and investments at end of period	<u><u>\$324,426</u></u>	<u><u>\$111,193</u></u>	<u><u>\$390,716</u></u>	<u><u>\$1,395,163</u></u>	<u><u>\$2,221,498</u></u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income	(\$26,787)	\$25,529	\$203,573	\$1,966,934	\$2,169,249
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	112,435				112,435
Compensated absences				42,369	42,369
Change in assets and liabilities:					
Other assets	(2,500)			(\$1,909,741)	(1,912,241)
Accounts payable	(34,670)		(8,954)	6,614	(37,010)
Accrued liability			(120,928)		(120,928)
Cash Flows from Operating Activities	<u><u>\$48,478</u></u>	<u><u>\$25,529</u></u>	<u><u>\$73,691</u></u>	<u><u>\$106,176</u></u>	<u><u>\$253,874</u></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, 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
H-P Park Improvement Fund				
ASSETS				
Cash and investments	\$6,000	\$68		\$6,068
Total assets	<u>\$6,000</u>	<u>\$68</u>		<u>\$6,068</u>
LIABILITIES				
Deposits payable	\$6,000	\$68		\$6,068
Total liabilities	<u>\$6,000</u>	<u>\$68</u>		<u>\$6,068</u>
Tree Committee				
ASSETS				
Cash and investments	\$24,799	\$281		\$25,080
Total assets	<u>\$24,799</u>	<u>\$281</u>		<u>\$25,080</u>
LIABILITIES				
Deposits payable	\$24,799	\$281		\$25,080
Total liabilities	<u>\$24,799</u>	<u>\$281</u>		<u>\$25,080</u>
All Agency Funds				
ASSET				
Cash and investments	\$30,799	\$349		\$31,148
Total assets	<u>\$30,799</u>	<u>\$349</u>		<u>\$31,148</u>
LIABILITIES				
Deposits payable	\$30,799	\$349		\$31,148
Total liabilities	<u>\$30,799</u>	<u>\$349</u>		<u>\$31,148</u>