

TOWN OF ATHERTON, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Prepared by
FINANCE DEPARTMENT

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TOWN OF ATHERTON
Basic Financial Statements
For the Year Ended June 30, 2016

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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), California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2016 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 Matter

Management adopted the provisions of the Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016 as discussed in Notes 1I and 3I to the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and not a required part 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
March 1, 2017

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, 2016. 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 \$54,788,838 (*net position*). Of this amount, \$6,911,900 (*unrestricted position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$6,151,046. This includes total revenues of \$20,117,088 over total expenditures of \$13,966,042. The increase is due to higher total revenues of \$1,076,094. The town however did receive higher property tax, and other taxes revenues of about \$340,768, an increase in charges for services of \$214,733, an increase in operating grants, capital grants and contributions of \$367,383, and an increase in investment earnings of \$110,683. There was an increase in total expenses of \$1,413,181 of which a majority was attributed to an additional recognized pension expense of \$594,051 and \$631,243 towards Workers' Compensation negative equity.
- The town recorded a net pension liability of \$10,674,089, as this is an increase of \$1,421,060. The Miscellaneous employee plan is \$2,901,033 and Safety is \$7,773,056.
- As of the close of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$35,034,268, an increase of \$4,428,807 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$11,017,130, or 103.8 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 decreased by \$394,266 compared to fiscal year 2014-2015. Key Contributing factors include transfer out of \$4,234,968 from the General Fund. This included \$680,684 allocation to pay down long term liabilities for OPEB, \$631,243 allocation towards Workers' compensation negative equity reserve, and \$614,000 for CIP projects in the fiscal year. It also included \$2,309,041 to the Capital Improvement program Fund 401 for future unidentified capital projects. There was a decrease in General Fund revenues of \$380,568 and a decrease of total expenditures of \$1,011,086 over year. The General Fund maintained excess revenues over expenditures of \$3,497,855. With the \$372,000 million transfer in from the Parcel Tax for Police Services, and the transfers out of \$4,234,968, culminated in a negative change in fund balance of \$365,113 for the fiscal year.

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 16-17 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 a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of

these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 20-26 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 32-34 of this report.

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

The basic fiduciary fund financial statements can be found on page 36 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-70 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 27-29 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 76-81 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 \$54,788,838 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 \$26,148,512 (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

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Current and other assets | \$ 45,504,970 | \$ 37,968,660 |
| Capital assets | 26,148,512 | 24,899,393 |
| Total assets | 71,653,482 | 62,868,053 |
| Deferred Outflow of Resources | 707,944 | 1,066,409 |
| Current liabilities | 4,906,954 | 2,861,872 |
| Noncurrent liabilities | 10,961,285 | 9,544,975 |
| Total liabilities | 15,868,239 | 12,406,847 |
| Deferred Inflow of Resources | 1,704,349 | 2,889,823 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 26,148,512 | 24,899,393 |
| Restricted | 21,728,426 | 16,934,506 |
| Unrestricted | 6,911,900 | 6,803,893 |
| Total net position | \$ 54,788,838 | \$ 48,637,792 |

An additional portion of the Town of Atherton net position \$21,728,426 (40 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$6,911,900 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 \$6,151,046. This includes the increase of recognized pension expense of \$594,051. Due to the implementation of GASB statements 68 and 71 last fiscal year, which required the recognition of pension liabilities, deferred outflows, and deferred inflows of resources for pensions, resulted in the amount of \$11,076,443. With the recognized pension expense of \$594,051, reflects a total adjustment of \$11,670,494 to the Total Net Position. The total Town Net Position is \$54,788,838. Without the recognition of pension liabilities the Town would have a total net position of \$66,459,332 for FY 2015-16. Total governmental activities had higher property taxes, sales tax, and other taxes for a combined total of \$340,768 in the fiscal year. The Town had an increase in charges for services of \$214,733, an increase in operating grants, capital grants and contributions of \$367,383, and an increase in investment earnings of \$110,683 over last year. The Town had an increase in expenditures of \$1,413,181 across major funds and other governmental funds due to additional pension expense, allocation toward Workers' Compensation negative equity, and increased asset cost additions. The Town continued the reduction of its Net OPEB

Obligation. During the fiscal year the Town contributed \$680,684 toward the OPEB trust for continued reduction of its unfunded liability. In prior year the Town contributed \$1.02 Million.

Town of Atherton's Changes in Net Position

| | 2016 | 2015 |
|------------------------------------|-------------------|-------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 3,320,020 | \$ 3,105,287 |
| Operating grants and contributions | 1,671,352 | 1,303,969 |
| General revenues: | | |
| Taxes | 14,640,480 | 14,299,712 |
| Investment earnings | 281,526 | 170,573 |
| Other revenues | 203,710 | 161,453 |
| Total revenues | 20,117,088 | 19,040,994 |
| Expenses: | | |
| General government | 1,891,614 | 3,124,009 |
| Public works | 3,834,708 | 3,175,505 |
| Police | 6,950,103 | 4,719,440 |
| Building | 1,081,260 | 1,308,035 |
| Planning | 208,357 | 225,872 |
| Total expenses | 13,966,042 | 12,552,861 |
| Change in Net Position | 6,151,046 | 6,488,133 |
| Transfers | | - |
| Net assets - Beginning | 48,637,792 | 42,149,659 |

- Charges for services increased by \$214,733 (6.9 percent) during the year. The increase was primarily due to the transfer from the General Fund of \$631,243 for contribution to the Worker's Compensation fund for payment of negative reserve. The Town saw a reduction in Public Works charge for services due to last fiscal year C&D deposit forfeiture of \$450,672 from building construction deposits that were forfeited. There was only \$4,200 in C&D forfeiture this fiscal year. The town received \$158,164 in Measure M funds from vehicle registrations. The Town received \$125,000 reimbursement from Menlo Park Fire District for its portion in construction of the Hybrid Beacon at Almedral and El Camino. The Town also received an increase of \$21,467 in Tennis revenue due to a full fiscal year of Tennis services contract and a \$15,000 contribution from the Tennis contractor for maintenance of the Tennis courts. Encroachments permit fees had an increase of \$43,448 than the previous year. Other fines and forfeitures had an increase of \$8,887 over last year and special service fee for police had an increase of \$14,860.
- Operating grants and contribution increased overall by \$367,383 during the year. The increase was primarily due to higher general government grants and donations. The town received \$20,215 of state mandated reimbursements for costs incurred over several years. This amount is \$54,236 less than in previous year. We received \$114,284

in Fed STP transportation funding for street projects. The Town received \$707,468 in donations from Atherton Now for the design development phase for the Civic Center project. We received \$8,085 less in Measure A sales tax transportation funds for street projects.

- Taxes increased by \$340,768 (2.3 percent) during the year. The increase was primarily due to \$670,623 of property tax. There was a decrease in sales tax by \$263,960. This was a result of last year the town received \$374,732 due to one-time sales transaction in the town. There was a total \$5,601 decrease in other taxes of franchise fees. Document transfer tax decreased by \$62,800.
- Investment earnings are higher than last year by \$110,683. This was due to no major fair market value adjustment to investments. Interest rates remain low however the Town continues to diversify its investments.
- Total Government Activities expenses increased by \$1,413,181 (11.2 percent) during the year. The Town had an increase in expenditures of \$1,413,181 across major funds and other governmental funds due to additional pension expense, allocation toward Workers' Compensation negative equity, and increased asset cost additions. The Town continued the reduction of its Net OPEB Obligation. During the fiscal year the Town contributed \$680,684 toward the OPEB trust for continued reduction of its unfunded liability.

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 56 through 63 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 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 \$11,017,130 while total fund balance reached \$13,305,842. As a measure of the general fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 103.8 percent of the total general fund expenditures of \$10,610,643, while total fund balance represents 125.4 percent of that same amount of total expenditures.

Town of Atherton's general fund balance decreased by \$365,113 during the current fiscal year. Key factors in the decrease are as follows:

- The Council authorized several allocations from the General fund for a total of \$4,234,968; this included \$680,684 allocation to pay down long term liabilities for OPEB, and \$631,243 allocation towards Workers' Compensation negative equity reserve. An allocation of \$614,000 for CIP projects in the fiscal year, and included an allocation of \$2,309,041 to the Capital Improvement Fund 401 for future unidentified capital projects.

-
- The General Fund Revenue decreased \$380,568 over prior year and there was \$1,011,086 decrease in General Fund operating expenditures.
 - The CalPERS employer contribution rate decreased as total expense was \$256,367 less than previous year. However, this was the first year CalPERS began collecting the unfunded liability as a dollar amount. The Town payment of the unfunded liability portion for the fiscal year was \$442,229. The total CalPERS expense for the Town increased \$185,862
 - The Town made a \$680,684 contribution to towards the OPEB trust as the Town continues to reduce its OPEB liabilities. In the previous year the Town contributed \$1.02 Million towards the trust.
 - Increase in property tax revenues in the amount of \$702,943. In the previous year property taxes increased \$629,518.
 - Decrease in other taxes (Franchise tax, Document Transfer Tax) in the amount of \$68,401, with majority attributed to Document Transfer Tax.
 - Decrease of sales tax in the amount of \$264,034. Last year the Town received \$374,732 in sales tax due to a one-time transaction in sales.
 - Decrease in Permits and Licenses (Business Licenses) in the amount of \$80,806 that was attributed to downward cycle in business activity.
 - Decrease in Service Charges in the amount of \$192,095. A result in a cyclical downward trend in building permit and planning review revenue for the year.
 - Decrease in fine and forfeitures in the amount of \$435,148. This was mainly due to last fiscal year the Town realized \$450,672 in one-time C&D forfeitures.

Special Tax Special Revenue Fund has a total fund balance of \$2,675,769, 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 \$1,680,201 as there were more capital outlay expenditures compared to last year. We continue to save and spend in the special tax fund we continue roll forward in our Town Capital Improvement Program projects. During this fiscal year we embarked on several major capital projects from the five year CIP program. The Town began repair of the Marsh Road retaining wall. We also began projects from the Bike Pedestrian master plan, improvements on El Camino, and began work on the installation of the Hybrid Beacon at El Camino and Almendral. The allocation of the Parcel Tax to the General Fund for Police Service was maintained at 80/20 as \$372,000 is allocated to the General Fund and \$1,488,000 to the parcel tax fund for future capital projects.

Library Special Revenue Fund has a total fund balance of \$10,816,699, all of which is reserved for the library operation. Revenue was lower than prior year by \$41,499 due to return of excess donor city funds received of \$1,234,287. As of 2012-2013 fiscal year, all donor funds are held in a separate trust for each city in the JPA. The town currently has \$4,966,014 in the SMCL Donor trust fund. Funds will be remitted to cities once they use up all existing funds. Current existing funds held by the Town are \$5,852,733. The Library fund is funding the new Library portion of the Town Civic Center.

General Fund Budgetary Highlights

During the year, the revenue budget increased by a total of \$595,860 at mid-year. The following are the main components of the increase:

- \$287,080 higher secured property tax
- \$20,000 higher SB813 supplement income
- \$38,664 higher property tax in lieu VLF
- \$133,042 lower ERAF revenue.
- \$24,950 higher property transfer tax
- \$138,859 higher total sales tax
- \$5,291 higher franchise tax
- \$12,000 higher zoning and planning fees
- \$4,381 higher business license revenue
- \$13,275 higher total police revenue
- \$40,093 higher park program revenue
- \$7,848 decrease of revenue in miscellaneous, intergovernmental, and DPW revenue categories

During the year there was also \$59,937 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- \$6,000 increase in the administration budget for new employee recognition program.
- \$15,500 increase in the police department expenditures for the installation of additional security cameras for Holbrook Palmer Park video monitoring system.
- \$38,437 increase in the Public Works department for additional expenditure for park maintenance repairs and park programs in Holbrook-Palmer Park. This included \$8,000 for the installation of a conduits and boxes at the Event Garden. \$11,200 to change out the restroom appliances at the Little League facility to address water efficiency requirements, and repair of an emergency gas leak. Needed an additional \$2,500 for an increase in credit card merchant system fees due to an increase in Park programming activity.

Capital Assets and Debt Administration

Capital assets. The Town of Atherton's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$26,148,512 (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 \$2,775,541. This is mainly due to continued projects in progress for the Marsh Retaining wall, the Civic Center design phase, ECR at Almendral Hybrid Beacon, Bike/Pedestrian, Park, and Drainage master plans.

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

| | Governmental activities | |
|-----------------------------|-------------------------|------------|
| | 2016 | 2015 |
| Land | 690,884 | 690,884 |
| Construction in progress | 3,926,313 | 1,150,772 |
| Building | 841,580 | 890,358 |
| Other Improvements | 332,043 | 359,530 |
| Vehicles | 219,699 | 314,386 |
| Computer Equipment/Software | 86,702 | 47,837 |
| Furniture & Fixture | (1) | (1) |
| Machinery & Equipment | 109,960 | 131,667 |
| Infrastructure | 19,941,332 | 21,313,960 |
| Total Fixed Assets | 26,148,512 | 24,899,393 |

Additional information about the Town's capital assets can be found in Note 5 on pages 50 through 53 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. In the FY 2016-2017 budget, the Council approved an appropriation of \$112,998 for the Workers' Compensation Equity Reserve replenishment. This was to mitigate the depletion of the reserves and any possibly offset any future additional assessments from Cities Group workers' compensation JPA.

Starting in Fiscal Year 2014-15, GASB 68 and 71 were implemented for Accounting and Financial Reporting for Pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The net pension liability increased \$1,421,060 over last fiscal year. As of FY 2015-16, the Town of Atherton reports a net pension liability of \$10,674,089 and is as follows;

Miscellaneous Employee Plan: \$2,901,033
Safety Employees Plan: \$7,773,056

The Town reported a deferred outflow of resources of \$707,944 and deferred inflow of \$1,704,349.

Additional information on the Town of Atherton's outstanding debt can be found in note 7 on page 63 of this report.

Economic Factors and Next Year's Budgets

Property taxes comprise 68% of the General Fund revenues. Property Taxes increased 7.8% from the previous year of \$8,899,708, clearly showing that property sales within the town continue to be on the rise. The Town experienced a Net Taxable Assessed Value increase of 8.21% for a total value of \$9.5 Billion as of FY 2016-2017. Expectations for FY 2016-17 property tax revenues should continue to show a slight growth as the housing market prices in the Town continue to increase. As of now financial assumptions includes an increase in property tax revenue projections at approximately 4.3 percent, building revenue was reduced by approximately 3 percent. All other revenue sources are budgeted between 1.5 to 2 percent. In certain revenues like park revenue, they were budgeted based on other percentages or based on bookings. We continue to monitor other Town revenues as they remain stable. The Town Parcel Tax revenue split was maintained at 80/20 percentage split

in FY 2015-16 and is contributing \$1.4 Million towards capital projects and \$372,000 towards police services. The allocation remains the same in FY 2016-17, as the Parcel Tax remains a viable source of revenue for the community for Capital Projects and Police Services. The Town received \$1,066,958 in ERAF for the Fiscal Year and earmarked it as a contribution towards Workers' Compensation Equity reserve replacement in FY 2016-17 in the amount of \$112,998, the CalPERS Town UAL payment of \$548,950, and as an allocation of \$405,010 toward Capital Project Fund 401. The Town continues to anticipate using ERAF for the paying down of long term liabilities, and/or contribution toward one-time capital projects.

The Town's General Fund Operating Budget relies on continued fiscal prudence, taking into account the need to adjust resources in order to meet any rising demands for Town services and capital improvements. Through its conservative fiscal policies, the Town continues to maintain a high-level of service to its residents. We continue to keep our expenditures in line with our revenues and carefully review our choices for programs and priorities closely monitoring and controlling any discretionary spending. Financial stability of the Town is always at the forefront in our fiscal strategies, whether is allocating ERAF funds towards capital improvement projects or operational expenditures; allocation of reserve funds to the CIP; or ensuring our Town operations meets the needs of the community. Over the past several years the Town has taken steps to paying of Employee portion of pension contribution by passing it on to the employee to contribute, and established caps in health care contribution. The Town no longer pays any portion of the employees' share of the CalPER's member contribution. Paying down long term liabilities is important to the Town's fiscal stability. During the fiscal year the Town made a \$680,684 million contribution into the OPEB trust for future OPEB liabilities and reducing our Net OPEB obligation. Total Town contribution to the Trust as of June 30, 2016 is \$5,000,000. The balance in the PARS Trust as of June 30, 2016 is \$5,405,489. A new OPEB actuarial study will be completed in FY 2016-17 to account for the contributions in the Trust and to prepare for GASB 75 that requires agencies to record their unfunded OPEB liabilities.

Starting in FY 2015/16, CalPERS required agencies to pay for their Unfunded Accrued Liabilities (UAL) as dollar amounts rather than a percentage of payroll. This is to recover gains and losses of funded status of plans. Every fiscal year CalPERS will invoice municipalities the unfunded portion of their liabilities. The Town paid \$116,323 for Miscellaneous Employees and \$325,906 for Public Safety, for a total of \$442,229 for the PERS unfunded accrued liability portion for FY 2015-16. The anticipated Town UAL portion for FY 2016-17 is \$402,865 for public safety and \$146,085 for miscellaneous employees. Analysis on future costs will continue to be a focus as we intend to meet long term obligations and Town operating expenditures. The Town now records its net pension liability, with FY 2014-15 being the first year the Town was required to do so. The net pension liability is based on contributions and investment earnings on the plan. Town pension liability increased by \$1.4 million. There is an anticipation that the CalPERS board will implement changes to the discount rates, with the discount rate being reduced from 7.5% to 7.375% beginning in FY 2018-19. There will be a gradual decrease to 7.0% by FY 2020-21. This means that plans will likely see increases in both the normal costs and the accrued liabilities, resulting in higher required employer contributions.

The goal is to continue to provide current level of services to the community and financial transparency. The Town has a capital improvement program that includes various Town infrastructure projects and requires various funding sources. The Town is entering an exciting stage as there are many CIP projects that are finally coming to fruition, such as the Marsh Road Retaining wall, ECR HAWK beacon, significant road improvements and bicycle and pedestrian improvements. These projects are in addition to the Civic Center Project now moving into the Design Development Phase and ultimately the Construction Drawings Phase

within the FY 2016-17 budget year. Funding sources of a robust Town Capital Improvement program are vital as the Town uses every source of revenue to carry out these projects while continuing to save funds for future capital project needs. The Special Parcel Tax has been a reliable and major source for the CIP. In the past fiscal year and again recommended in the current fiscal year, the General Fund will make a significant allocation to the CIP program. Paying down long term liabilities and providing funding for capital projects will continue to be a priority. The Town will always be looking to consider new operating revenue sources in future years to continue to meet the high standard of services and programs that the community has come to expect and deserve.

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*.

TOWN OF ATHERTON
STATEMENT OF NET POSITION
JUNE 30, 2016

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and investments (Note 3) | \$42,024,788 |
| Receivables: | |
| Taxes | 150,361 |
| Interest | 14,723 |
| Other | 33,176 |
| Net OPEB assets (Note 8) | 3,281,922 |
| Capital assets (Note 5): | |
| Non-depreciable | 4,617,197 |
| Depreciable, net | 21,531,315 |
| Total Capital assets | 26,148,512 |
| Total Assets | 71,653,482 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Related to pensions (Note 7) | 707,944 |
| LIABILITIES | |
| Accounts payable | 2,337,194 |
| Accrued liabilities | 223,206 |
| Deposits payable | 1,963,273 |
| Unearned revenue | 11,325 |
| Compensated absences (Note 1G) | |
| Due in less than one year | 340,920 |
| Due in more than one year | 287,196 |
| Claims Payable (Note 9) | |
| Due in less than one year | 31,036 |
| Net pension liability (Note 7) | 10,674,089 |
| Total Liabilities | 15,868,239 |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to pensions (Note 7) | 1,704,349 |
| NET POSITION (Note 6) | |
| Net investment in capital assets | 26,148,512 |
| Restricted for: | |
| Streets and drainage maintenance and police services | 2,675,769 |
| Library operations | 10,816,699 |
| Public facilities constructions | 2,218,694 |
| Special revenue projects | 2,596,743 |
| Capital projects | 3,420,521 |
| Unrestricted | 6,911,900 |
| Total Net Position | \$54,788,838 |

See accompanying notes to financial statements

TOWN OF ATHERTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

| Functions/Programs | Expenses | Program Revenues | | Net (Expenses) Revenue and Changes in Net Position |
|-------------------------------|---------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| | | | | Governmental Activities |
| Primary Government: | | | | |
| General government | \$1,891,614 | \$803,366 | \$25,311 | (\$1,062,937) |
| Public works | 3,834,708 | 705,468 | 490,259 | (1,624,241) |
| Police | 6,950,103 | 134,929 | 141,042 | (6,674,132) |
| Building | 1,081,260 | 1,430,428 | | 349,168 |
| Planning | 208,357 | 245,829 | | 37,472 |
| Total Governmental Activities | <u>\$13,966,042</u> | <u>\$3,320,020</u> | <u>\$656,612</u> | <u>\$1,014,740</u> |
| General revenues: | | | | |
| Taxes: | | | | |
| Property taxes | | | | 12,820,182 |
| Sales taxes | | | | 423,444 |
| Other taxes | | | | 1,396,854 |
| Total Taxes | | | | 14,640,480 |
| Investment earnings | | | | 281,526 |
| Miscellaneous | | | | 203,710 |
| Total General Revenues | | | | <u>15,125,716</u> |
| Change in Net Position | | | | 6,151,046 |
| Net Position-Beginning | | | | 48,637,792 |
| Net Position-Ending | | | | <u>\$54,788,838</u> |

See accompanying notes to financial statements

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| |
|---------------------------------|
| MAJOR GOVERNMENTAL FUNDS |
|---------------------------------|

The funds described below were determined to be Major Funds by the Town in fiscal 2016. 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.

CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND

Accounts for capital improvement construction costs and financing sources.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$3,314,080 | \$39,367,202 |
| 337 | 150,361 |
| | 14,723 |
| | 33,176 |
| <u>\$3,314,417</u> | <u>\$39,565,462</u> |
| | |
| \$259,471 | \$2,333,390 |
| | 223,206 |
| | 1,963,273 |
| | 11,325 |
| <u>259,471</u> | <u>4,531,194</u> |
| | |
| 3,024,574 | 16,517,042 |
| | 1,743,259 |
| 30,372 | 5,756,837 |
| | 11,017,130 |
| <u>3,054,946</u> | <u>35,034,268</u> |
| <u>\$3,314,417</u> | <u>\$39,565,462</u> |

TOWN OF ATHERTON
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances reported on the governmental funds balance sheet \$35,034,268

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. 25,832,403

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are not governmental funds. However they are 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 | 2,657,586 |
| Net OPEB asset | 3,281,922 |
| Capital assets, net | 316,109 |
| Accounts payable | (3,804) |
| Compensated absences | (628,116) |
| Claims payable | (31,036) |

DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

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

| | |
|---------------------------------------|-------------|
| Deferred outflows related to pensions | 707,944 |
| Deferred inflows related to pensions | (1,704,349) |

LONG-TERM LIABILITIES

The liability below is not due and payable in the current period and therefore is not reported in the Funds:

| | |
|-----------------------|---------------------|
| Net pension liability | <u>(10,674,089)</u> |
|-----------------------|---------------------|

| | |
|---|----------------------------|
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u><u>\$54,788,838</u></u> |
|---|----------------------------|

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, 2016

| | Major Funds | | | | |
|--|---------------------|---|------------------------------------|--|--|
| | General Fund | Special Tax Special Revenue Fund | Library Special Revenue Fund | Facilities Construction Capital Projects Fund | Capital Improvement Capital Projects Fund |
| REVENUES | | | | | |
| Property taxes | \$9,602,651 | | \$1,234,287 | | |
| Special assessments | | \$1,870,405 | | | |
| Sales taxes | 423,444 | | | | |
| Other taxes | 1,220,855 | | | | |
| Measure A grants | | | | | |
| From other governmental agencies | 42,053 | | | | \$141,498 |
| Permit and licenses | 175,999 | | | | |
| Fines and forfeitures | 82,255 | | | | |
| Service charges | 2,290,221 | | | | |
| Use of money and property | 242,770 | 21,413 | 71,817 | \$16,015 | |
| Miscellaneous | 28,250 | 125,000 | | 707,708 | |
| Total Revenues | 14,108,498 | 2,016,818 | 1,306,104 | 723,723 | 141,498 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 1,758,710 | 5,555 | | | |
| Planning | 208,357 | | | | |
| Building | 1,053,146 | | | | |
| Police | 5,961,598 | | | | |
| Public works | 1,433,983 | 20,135 | | 462,418 | |
| Non-departmental | | | 36,801 | | |
| Capital outlay | 194,849 | 1,897,423 | | 285,620 | 174,636 |
| Total Expenditures | 10,610,643 | 1,923,113 | 36,801 | 748,038 | 174,636 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 3,497,855 | 93,705 | 1,269,303 | (24,315) | (33,138) |
| Other Financing Sources (uses): | | | | | |
| Transfers in (Note 4) | 372,000 | | | 192,748 | 2,923,041 |
| Transfers (out) (Note 4) | (4,234,968) | (372,000) | (192,748) | | |
| Total Other Financing Sources (uses) | (3,862,968) | (372,000) | (192,748) | 192,748 | 2,923,041 |
| Net change in fund balances | (365,113) | (278,295) | 1,076,555 | 168,433 | 2,889,903 |
| BEGINNING FUND BALANCES | 13,670,955 | 2,954,064 | 9,740,144 | 2,050,261 | 72,415 |
| ENDING FUND BALANCES | \$13,305,842 | \$2,675,769 | \$10,816,699 | \$2,218,694 | \$2,962,318 |

See accompanying notes to financial statements

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$112,839 | \$10,949,777 |
| | 1,870,405 |
| | 423,444 |
| | 1,220,855 |
| 330,995 | 330,995 |
| 1,337,664 | 1,521,215 |
| | 175,999 |
| | 82,255 |
| | 2,290,221 |
| 20,579 | 372,594 |
| | <u>860,958</u> |
| <u>1,802,077</u> | <u>20,098,718</u> |
| | 1,764,265 |
| | 208,357 |
| | 1,053,146 |
| 124,300 | 6,085,898 |
| 26,497 | 1,943,033 |
| 16,845 | 53,646 |
| 697,111 | <u>3,249,639</u> |
| <u>864,753</u> | <u>14,357,984</u> |
| <u>937,324</u> | <u>5,740,734</u> |
| | 3,487,789 |
| | <u>(4,799,716)</u> |
| | <u>(1,311,927)</u> |
| 937,324 | 4,428,807 |
| <u>2,117,622</u> | <u>30,605,461</u> |
| <u>\$3,054,946</u> | <u>\$35,034,268</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, 2016

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, current liabilities and current deferred outflows/inflows of resources 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 \$4,428,807

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 2,833,285
 Depreciation expense is deducted from the fund balance (1,483,901)

ACCRUAL OF NON-CURRENT ITEMS

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

Net pension liabilities and pension-related deferred outflows/inflows of resources (594,051)

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 966,906

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$6,151,046

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, 2016

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-----------------------------|-----------------------------|---------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Property taxes | \$9,304,238 | \$9,534,430 | \$9,602,651 | \$68,221 |
| Sales taxes | 295,171 | 434,030 | 423,444 | (10,586) |
| Other taxes | 1,248,938 | 1,279,179 | 1,220,855 | (58,324) |
| Permits and licenses | 219,514 | 223,895 | 175,999 | (47,896) |
| Fines and forfeitures | 63,727 | 84,540 | 82,255 | (2,285) |
| From other governmental agencies | 53,905 | 66,351 | 42,053 | (24,298) |
| Service charges | 2,413,897 | 2,470,297 | 2,290,221 | (180,076) |
| Use of money and property | 252,576 | 229,697 | 242,770 | 13,073 |
| Other | 13,025 | 5,390 | 28,250 | 22,860 |
| Total Revenues | 13,864,991 | 14,327,809 | 14,108,498 | (219,311) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | | | | |
| City council | 49,356 | 49,356 | 31,957 | 17,399 |
| Administration | 703,757 | 710,970 | 682,580 | 28,390 |
| City attorney | 204,000 | 204,000 | 163,798 | 40,202 |
| Finance | 645,352 | 644,752 | 576,877 | 67,875 |
| Non-departmental | 516,937 | 516,937 | 303,498 | 213,439 |
| General government total | 2,119,402 | 2,126,015 | 1,758,710 | 367,305 |
| Planning | 211,300 | 211,300 | 208,357 | 2,943 |
| Building | 1,246,917 | 1,246,917 | 1,053,146 | 193,771 |
| Public works | 1,749,889 | 1,789,124 | 1,433,983 | 355,141 |
| Police | 6,312,422 | 6,294,422 | 5,961,598 | 332,824 |
| Capital outlay | 187,639 | 226,528 | 194,849 | 31,679 |
| Total Expenditures | 11,827,569 | 11,894,306 | 10,610,643 | 1,283,663 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 2,037,422 | 2,433,503 | 3,497,855 | 1,064,352 |
| OTHER FINANCING SOURCES USES | | | | |
| Transfer in (Note 4) | 372,000 | 372,000 | 372,000 | |
| Transfers (out) (Note 4) | (4,234,968) | (4,234,968) | (4,234,968) | |
| NET CHANGE IN FUND BALANCE | <u>(\$1,825,546)</u> | <u>(\$1,429,465)</u> | (365,113) | <u>\$1,064,352</u> |
| Fund balance, beginning of year | | | 13,670,955 | |
| Fund balance, end of year | | | <u>\$13,305,842</u> | |

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, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|--------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Special assessments | \$1,860,000 | \$1,860,000 | \$1,870,405 | \$10,405 |
| Use of money and property | | | 21,413 | 21,413 |
| Other revenue | | | 125,000 | 125,000 |
| Total Revenues | <u>1,860,000</u> | <u>1,860,000</u> | <u>2,016,818</u> | <u>156,818</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | | | 5,555 | (5,555) |
| Public works | | 23,401 | 20,135 | 3,266 |
| Capital outlay | 1,650,000 | 1,857,956 | 1,897,423 | (39,467) |
| Total Expenditures | <u>1,650,000</u> | <u>1,881,357</u> | <u>1,923,113</u> | <u>(41,756)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 210,000 | (21,357) | 93,705 | 115,062 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers (out) (Note 4) | (372,000) | (372,000) | (372,000) | |
| Total Other Financing Sources (Uses) | <u>(372,000)</u> | <u>(372,000)</u> | <u>(372,000)</u> | |
| Net change in fund balance | <u>(\$162,000)</u> | <u>(\$393,357)</u> | (278,295) | <u>\$115,062</u> |
| Fund Balance, beginning of year | | | <u>2,954,064</u> | |
| Fund Balance, end of year | | | <u>\$2,675,769</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, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Property taxes | \$1,215,345 | \$1,215,345 | \$1,234,287 | \$18,942 |
| Use of money and property | 50,000 | 50,000 | 71,817 | 21,817 |
| Total Revenues | <u>1,265,345</u> | <u>1,265,345</u> | <u>1,306,104</u> | <u>40,759</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Library Maintenance | 985,850 | 987,350 | 36,801 | 950,549 |
| Total Expenditures | <u>985,850</u> | <u>987,350</u> | <u>36,801</u> | <u>950,549</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 279,495 | 277,995 | 1,269,303 | 991,308 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers (out) (Note 4) | | | (192,748) | (192,748) |
| Total Other Financing Sources (Uses) | | | <u>(192,748)</u> | <u>(192,748)</u> |
| NET CHANGES IN FUND BALANCE | <u>\$279,495</u> | <u>\$277,995</u> | 1,076,555 | <u>\$798,560</u> |
| BEGINNING FUND BALANCE | | | <u>9,740,144</u> | |
| ENDING FUND BALANCE | | | <u>\$10,816,699</u> | |

See accompanying notes to financial statements

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PROPRIETARY FUNDS

INTERNAL SERVICE FUNDS

Internal Service Funds account for special activities and services performed by a designated Town department 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 revenue or expenses of the internal service fund is eliminated by netting them against the 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.

TOWN OF ATHERTON
 PROPRIETARY FUND
 STATEMENT OF NET POSITION
 JUNE 30, 2016

| | Governmental Activities - Internal Service Funds |
|----------------------------------|---|
| | |
| ASSETS | |
| Current assets | |
| Cash and investments (Note 3) | \$2,657,586 |
| Total current assets | 2,657,586 |
| Noncurrent Assets: | |
| Net OPEB asset (Note 8) | 3,281,922 |
| Capital assets (Note 5): | |
| Depreciable | 1,193,061 |
| Less accumulated depreciation | (876,952) |
| Total capital assets | 316,109 |
| Total noncurrent assets | 3,598,031 |
| Total Assets | 6,255,617 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 3,804 |
| Compensated absences (Note 1G) | 340,920 |
| Claims payable (Note 9) | 31,036 |
| Total current liabilities | 375,760 |
| Non-current liabilities: | |
| Compensated absences (Note 1G) | 287,196 |
| Total noncurrent liabilities | 287,196 |
| Total Liabilities | 662,956 |
| NET POSITION (Note 6) | |
| Net investment in capital assets | 316,109 |
| Unrestricted | 5,276,552 |
| Total Net Position | \$5,592,661 |

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, 2016

| | Governmental Activities- Internal Service Funds |
|----------------------------------|--|
| OPERATING REVENUES | |
| Charges for services | <u>\$1,098,383</u> |
| Total Operating Revenues | <u>1,098,383</u> |
| OPERATING EXPENSES | |
| Insurance | 843,857 |
| OPEB expense | 340,464 |
| Employee benefits earned | 121,687 |
| Depreciation | 120,065 |
| Supplies and maintenance | <u>35,701</u> |
| Total Operating Expenses | <u>1,461,774</u> |
| Operating Income (Loss) | <u>(363,391)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest income | <u>18,370</u> |
| Total Nonoperating Revenues | <u>18,370</u> |
| OTHER FINANCING SOURCES (USES) | |
| Transfers in (Note 4) | <u>1,311,927</u> |
| Total Other Financing Sources | <u>1,311,927</u> |
| Change in net position | 966,906 |
| BEGINNING NET POSITION | <u>4,625,755</u> |
| ENDING NET POSITION | <u><u>\$5,592,661</u></u> |

See accompanying notes to financial statements

TOWN OF ATHERTON
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2016

| | Governmental Activities- Internal Service Funds |
|---|--|
| | |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Interdepartmental charges | \$1,098,383 |
| Payments to employees for benefits | (775,274) |
| Payments to suppliers | (1,395,383) |
| Cash Flows from Operating Activities | (1,072,274) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers in | 1,311,927 |
| Cash Flow from Noncapital Financing Activities | 1,311,927 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of capital assets, net | (19,800) |
| Cash Flow from Capital and Related Financing Activities | (19,800) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | 18,370 |
| Cash Flow from Investing Activities | 18,370 |
| Net Cash Flows | 238,223 |
| Cash and investments at beginning of period | 2,419,363 |
| Cash and investment at end of period | \$2,657,586 |
| Reconciliation of Operating Income to Cash Flows from Operating Activities | |
| Operating income | (\$363,391) |
| Adjustments to reconcile operating income to cash flows from operating activities: | |
| Depreciation | 120,065 |
| Changes in assets and liabilities: | |
| Other assets | (775,274) |
| Accounts payable | (13,257) |
| | (43,964) |
| Compensated absences | 3,547 |
| Cash Flows from Operating Activities | (\$1,072,274) |

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, 2016

| | <u>Agency Funds</u> |
|-------------------------------|-------------------------|
| ASSETS | |
| Cash and investments (Note 3) | <u>\$31,620</u> |
| Total Assets | <u><u>\$31,620</u></u> |
| LIABILITIES | |
| Deposits payable | <u>\$31,620</u> |
| Total Liabilities | <u><u>\$31,620</u></u> |

See accompanying notes to financial statements

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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 accompanying basic financial statements present the financial activity of the Town of Atherton, which is the primary government presented, along with the financial activities of its blended component unit Atherton Channel District, which is financially accountable, controlled by and dependent on the Town. Although it is separate legal entity, the blended component unit is in substance part of the Town's operations and is therefore reported as an integral part of the Town's 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 Standards 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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

Capital Improvement Capital Projects Fund - Accounts for capital improvement construction costs and financing sources.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds (Continued)

The Town also reports the following fund types:

Internal Service Funds - 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.

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

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Deferred Outflows/Inflows of Resources

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

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

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, 2016

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 during fiscal year 2016 were as follows:

| | |
|-------------------|------------------|
| Beginning Balance | \$624,569 |
| Additions | 402,198 |
| Payments | <u>(398,651)</u> |
| Ending Balance | <u>\$628,116</u> |
| Current Portion | <u>\$340,920</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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fair Value Measurements

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

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

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

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

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

J. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

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

GASB Statement No. 72 – Fair Value Measurement and Application - The intention of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also enhances fair value application guidance and related disclosures.

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for States and Local Governments – The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The Statement is effective for periods beginning after June 15, 2015, or the 2015-2016 fiscal year.

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants – This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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 Town did not budget for the Storm Drainage Capital Project Fund.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Expenditures in Excess of Budget

The funds below incurred expenditures in excess of their budgets on departmental level in the amounts below for the year ended June 30, 2016:

| Fund Name | Amount |
|---|----------|
| Major Special Revenue Funds: | |
| Special Tax | |
| General Government | \$ 5,555 |
| Capital Outlay | 39,467 |
| Nonmajor Special Revenue Funds: | |
| Gas Tax | |
| Public Works | 5,538 |
| Supplemental Law Enforcement Services/COPS Grants | |
| Police | 24,300 |
| Evans Creative Design | |
| Non-departmental | 3,845 |
| Road Construction | |
| Capital Outlay | 146,643 |

Sufficient resources were available within the funds to finance these excesses.

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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

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 Position

| | |
|---|--------------|
| Cash and investments available for operations | \$42,024,788 |
|---|--------------|

Fiduciary Funds

| | |
|---|--------------|
| Cash and investments available for operations | 31,620 |
| Total Cash and Investments | \$42,056,408 |

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

| | |
|----------------------------|--------------|
| Cash on hand | \$886 |
| Cash in bank | 3,093,362 |
| Investments | 38,962,160 |
| Total Cash and Investments | \$42,056,408 |

Cash and investments are used in preparing the Proprietary Fund statement of cash flows since those funds participate in the Town-wide cash and investment pool. The fund 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, 2016

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:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|--|---------------------|------------------------------|---------------------------------------|--|
| U.S. Treasury Obligations | 5 years | N/A | No Limit | No Limit |
| U.S. Agency Securities | 5 years | N/A | 25% | No Limit |
| Repurchase Agreements | 30 days | A / A-1 | No Limit | No Limit |
| Medium-Term Corporate Notes | 5 years | AA | 30% | 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% | \$65M per account |
| Money Market Mutual Funds | N/A | AAA | 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, 2016

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 Notes | \$3,756,640 | \$1,507,835 | | \$5,264,475 |
| U.S. Agency Securities | 3,010,620 | 4,263,035 | \$512,775 | 7,786,430 |
| Corporate Notes | 2,123,536 | 3,549,990 | 504,940 | 6,178,466 |
| San Mateo County Investment Pool (SMCL Donor Trust Fund) | 4,966,014 | | | 4,966,014 |
| California Local Agency Investment Fund | 13,731,516 | | | 13,731,516 |
| Money Market Mutual Fund | 1,035,259 | | | 1,035,259 |
| Total Investments | <u>\$28,623,585</u> | <u>\$9,320,860</u> | <u>\$1,017,715</u> | 38,962,160 |
| Cash in Banks | | | | 3,093,362 |
| Petty Cash | | | | 886 |
| Total Cash | | | | <u>3,094,248</u> |
| Total Cash and Investments | | | | <u>\$42,056,408</u> |

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Standard and Poor's investment ratings as of June 30, 2016 are as follows:

| Investment Type | AAA | AAAm | AA | Not Rated | Exempt | Total |
|---|--------------------|--------------------|--------------------|---------------------|--------------------|---------------------|
| U.S. Treasury Notes | | | | | \$5,264,475 | \$5,264,475 |
| U.S. Agency Securities | \$7,786,430 | | | | | 7,786,430 |
| Corporate Notes | 500,650 | | \$5,677,816 | | | 6,178,466 |
| San Mateo County Investment Pool (SMCL Donor Trust Fund) | | | | \$4,966,014 | | 4,966,014 |
| California Local Agency Investment Fund | | | | 13,731,516 | | 13,731,516 |
| Money Market Mutual Fund | | \$1,035,259 | | | | 1,035,259 |
| Total Investments | <u>\$8,287,080</u> | <u>\$1,035,259</u> | <u>\$5,677,816</u> | <u>\$18,697,530</u> | <u>\$5,264,475</u> | <u>\$38,962,160</u> |

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment funds that represent 5% or more of total Entity-wide investments and General Fund investments are as follows at June 30, 2016:

| Issuer | Investment Type | Reported Amount |
|--|------------------------|-----------------|
| Federal Home Loan Bank | U.S. Agency Securities | \$2,510,350 |
| Federal National Mortgage Association | U.S. Agency Securities | 2,050,780 |
| Federal Home Loan Mortgage Corporation | U.S. Agency Securities | 2,712,210 |

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, 2016, these investments matured in an average of 167 days.

H. San Mateo County Investment Pool

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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

I. Fair Value Hierarchy

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

The following is a summary of the fair value hierarchy of the fair value of investments of the Town as of June 30, 2016:

| Investment Type | Level 1 | Level 2 | Total |
|--|--------------------|---------------------|---------------------|
| Investments by Fair Value Level: | | | |
| U.S. Treasury Notes | \$5,264,475 | | \$5,264,475 |
| U.S. Agency Securities | | \$7,786,430 | 7,786,430 |
| Corporate Notes | | 6,178,466 | 6,178,466 |
| San Mateo County Investment Pool | | 4,966,014 | 4,966,014 |
| California Local Agency Investment Fund | | 13,731,516 | 13,731,516 |
| Subtotal | <u>\$5,264,475</u> | <u>\$32,662,426</u> | <u>37,926,901</u> |
| Investments Measured at Amortized Cost: | | | |
| Money Market Mutual Funds | | | <u>1,035,259</u> |
| Total Investments | | | <u>\$38,962,160</u> |

U.S. Treasury Notes, classified in Level 1 of the fair value hierarchy, are valued using quoted prices in active markets. U.S. Agency Obligations and Corporate Notes, classified in Level 2 of the fair value hierarchy, are valued using quoted prices for a non-active market portfolio at fiscal year-end. These prices are obtained from various pricing sources by our custodian bank. The California Local Agency Investment Fund (LAIF) and San Mateo County Investment Pool, classified in Level 2 of the fair value hierarchy, are valued based on the fair value factor provided by the Treasurer of the State of California and County, respectively, which is calculated as the fair value divided by the amortized cost of the investment pools. Fair value is defined as the quoted market value on the last trading day of the period.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 4 - INTERFUND TRANSACTIONS

A. 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, 2016 were as follows:

| Fund Receiving Transfer | Fund Making Transfer | Amount Transferred | |
|---|----------------------------------|--------------------|-----|
| General Fund | Special Tax Special Revenue Fund | \$372,000 | (A) |
| Facilities Construction Capital Projects Fund | Library Special Revenue Fund | 192,748 | (B) |
| Capital Improvement Capital Projects Fund | General Fund | 2,923,041 | (C) |
| Internal Service Funds | General Fund | 1,311,927 | (D) |
| | | \$4,799,716 | |

(A) Transfer used to fund General Fund police services activities per Parcel Tax Ordinance No. 581

(B) Transfer used to fund capital projects

(C) Transfers used to fund capital improvement needs

(D) Transfers used to fund workers' compensation insurances and employees benefits

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 acquisition 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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 5 - CAPITAL ASSETS (Continued)

The Town has set the capitalization threshold at \$5,000 for capital assets, except for infrastructure at \$100,000, 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, 2016

NOTE 5 - CAPITAL ASSETS (Continued)

A. Current Year Capital Asset Activities

| <i>Governmental Funds</i> | Balance July 1, 2015 | Additions | Balance June 30, 2016 |
|---|-------------------------|--------------------|--------------------------|
| Capital assets not being depreciated: | | | |
| Land | \$690,884 | | \$690,884 |
| Construction in progress | 1,150,772 | \$2,775,541 | 3,926,313 |
| Total non-depreciable capital assets | <u>1,841,656</u> | <u>2,775,541</u> | <u>4,617,197</u> |
| Capital assets being depreciated: | | | |
| Buildings | 1,934,299 | | 1,934,299 |
| Other improvements | 1,125,668 | | 1,125,668 |
| Computer equipment and software | 268,853 | 57,744 | 326,597 |
| Furniture and fixtures | 34,798 | | 34,798 |
| Vehicles | 60,156 | | 60,156 |
| Machinery and equipment | 385,285 | | 385,285 |
| Infrastructure | 55,683,479 | | 55,683,479 |
| Total depreciable capital assets | <u>59,492,538</u> | <u>57,744</u> | <u>59,550,282</u> |
| Less accumulated depreciation for: | | | |
| Buildings | 1,043,941 | 48,778 | 1,092,719 |
| Other improvements | 766,138 | 27,487 | 793,625 |
| Computer equipment and software | 252,249 | 18,834 | 271,083 |
| Furniture and fixture | 34,799 | | 34,799 |
| Vehicles | 51,730 | 5,618 | 57,348 |
| Machinery and equipment | 332,799 | 10,556 | 343,355 |
| Infrastructure | 34,369,519 | 1,372,628 | 35,742,147 |
| Total accumulated depreciation | <u>36,851,175</u> | <u>1,483,901</u> | <u>38,335,076</u> |
| Depreciable capital assets, net | <u>22,641,363</u> | <u>(1,426,157)</u> | <u>21,215,206</u> |
| General capital assets, net | <u>24,483,019</u> | <u>1,349,384</u> | <u>25,832,403</u> |
| <i>Internal Service Funds</i> | | | |
| Depreciable capital assets: | | | |
| Vehicles | 807,585 | | 807,585 |
| Computer equipment | 241,499 | 19,800 | 261,299 |
| Other equipment | 124,177 | | 124,177 |
| Total depreciable capital assets | <u>1,173,261</u> | <u>19,800</u> | <u>1,193,061</u> |
| Less: accumulated depreciation for | | | |
| Vehicles | 501,625 | 89,069 | 590,694 |
| Computer equipment | 210,266 | 19,845 | 230,111 |
| Other equipment | 44,996 | 11,151 | 56,147 |
| Total accumulated depreciation | <u>756,887</u> | <u>120,065</u> | <u>876,952</u> |
| Internal Service Funds capital assets, net | <u>416,374</u> | <u>(100,265)</u> | <u>316,109</u> |
| Total governmental activities capital assets, net | <u>\$24,899,393</u> | <u>\$1,249,119</u> | <u>\$26,148,512</u> |

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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 | \$7,089 |
| Public works | 1,442,340 |
| Building | 9,767 |
| Police | <u>24,705</u> |
| Governmental activities subtotal | 1,483,901 |
| | |
| Internal Service Fund | <u>120,065</u> |
| Total | <u><u>\$1,603,966</u></u> |

NOTE 6 - 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. 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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - FUND BALANCES AND NET POSITIONS (Continued)

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 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. 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. Nonspendable amounts subject to Council commitments are included along with spendable resources.

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

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

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - FUND BALANCES AND NET POSITIONS (Continued)

B. Fund Balances (Continued)

Detailed classifications of the Town's Fund Balances, as of June 30, 2016, are below:

| | General Fund | Major Special Revenue Funds | | Major Capital Projects Funds | | Other Governmental Funds | Total |
|---|---------------------|--------------------------------|---------------------|---------------------------------|------------------------|--------------------------------|---------------------|
| | | Special Tax | Library | Facilities Construction | Capital Improvement | | |
| Restricted for: | | | | | | | |
| Street drainage and police services | | \$2,675,769 | | | | | \$2,675,769 |
| Library operations | | | \$10,816,699 | | | | 10,816,699 |
| Measure A | | | | | | \$784,718 | 784,718 |
| Gas tax | | | | | | 214,327 | 214,327 |
| Supplemental law enforcement services / COPS Grant | | | | | | 296 | 296 |
| Road impact fee | | | | | | 454,510 | 454,510 |
| Evans Creative Design | | | | | | 29,046 | 29,046 |
| Measure M | | | | | | 213,982 | 213,982 |
| Refuse Services | | | | | | 899,864 | 899,864 |
| Channel Drainage District | | | | | | 427,831 | 427,831 |
| Total Restricted | | 2,675,769 | 10,816,699 | | | 3,024,574 | 16,517,042 |
| Committed to: | | | | | | | |
| Emergency disaster | \$1,743,259 | | | | | | 1,743,259 |
| Total Committed | 1,743,259 | | | | | | 1,743,259 |
| Assigned to: | | | | | | | |
| Tennis program | 106,303 | | | | | | 106,303 |
| Building department operations | 434,296 | | | | | | 434,296 |
| Tree Committee | 4,854 | | | | | | 4,854 |
| Capital projects | | | | \$2,218,694 | \$2,962,318 | 30,372 | 5,211,384 |
| Total Assigned | 545,453 | | | 2,218,694 | 2,962,318 | 30,372 | 5,756,837 |
| Unassigned | 11,017,130 | | | | | | 11,017,130 |
| Total Unassigned | 11,017,130 | | | | | | 11,017,130 |
| Total Fund Balances | \$13,305,842 | \$2,675,769 | \$10,816,699 | \$2,218,694 | \$2,962,318 | \$3,054,946 | \$35,034,268 |

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - FUND BALANCES AND NET POSITIONS (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 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 balance 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 7 – PENSION PLAN

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

A. General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the Town's separate Safety and Miscellaneous (all other) Employee Pension Rate Plans. The Town's Safety and Miscellaneous Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by CalPERS. PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. Benefit provisions under the Plan are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

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 are responsible for 2% of 9% after the Town makes a 7% contribution for them. However, as of July 1, 2013, Miscellaneous Plan employees started to 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.

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

| | Miscellaneous | |
|---|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 2% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50-63 | 52-61 |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1% to 2.5% |
| Required employee contribution rates | 7% | 6.5% |
| Required employer contribution rates | 8.844% | 6.7% |
| | | |
| | Safety | |
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 3% @ 50 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 | 50-51 |
| Monthly benefits, as a % of eligible compensation | 3% | 2% to 2.7% |
| Required employee contribution rates | 9% | 12.25% |
| Required employer contribution rates | 20.230% | 11.93% |

Beginning in fiscal year 2016, CalPERS collects employer contributions for the cost-sharing plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The Town's required contribution for the unfunded liability was \$617,164 in fiscal year 2016.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

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

For the year ended June 30, 2016, the contributions to the Plan were as follows:

| | <u>Miscellaneous</u> | <u>Miscellaneous PEPRA</u> | <u>Safety</u> | <u>Safety PEPRA</u> |
|---|----------------------|--------------------------------|---------------|-------------------------|
| Contributions - employer | \$131,337 | \$19,279 | \$412,623 | \$53,925 |
| Contributions - employee (paid by employer) | 6,430 | | 21,161 | |

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the Town reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

| | <u>Proportionate Share of Net Pension Liability</u> |
|-----------------------------|---|
| Miscellaneous | \$2,901,369 |
| Miscellaneous - PEPRA | (336) |
| Safety | 7,773,204 |
| Safety - PEPRA | (148) |
| Total Net Pension Liability | <u>\$10,674,089</u> |

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

| | <u>Miscellaneous</u> | <u>Miscellaneous - PEPRA</u> | <u>Safety</u> | <u>Safety - PEPRA</u> |
|------------------------------|----------------------|------------------------------|---------------|-----------------------|
| Proportion - June 30, 2014 | 1.10991% | 0.00% | 0.17426% | 0.000% |
| Proportion - June 30, 2015 | 0.10576% | -0.000012% | 0.18865% | -0.00004% |
| Change - Increase (Decrease) | -1.00415% | 0.00% | 0.01439% | 0.00% |

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2016, the Town recognized pension expense of \$1,211,215. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$131,337 | |
| Differences between actual and expected experience | 10,779 | |
| Changes in assumptions | | (\$101,980) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | | (559,953) |
| Net differences between projected and actual earnings on plan investments | | (51,124) |
| Total | <u>\$142,116</u> | <u>(\$713,057)</u> |

Miscellaneous - PEPRA

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$19,279 | |
| Differences between actual and expected experience | 742 | |
| Changes in assumptions | | (\$7,022) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 21,457 | |
| Net differences between projected and actual earnings on plan investments | | (3,520) |
| Total | <u>\$41,478</u> | <u>(\$10,542)</u> |

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Safety

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| | <u> </u> | <u> </u> |
| Pension contributions subsequent to measurement date | \$412,623 | |
| Differences between actual and expected experience | | (\$79,114) |
| Changes in assumptions | | (363,876) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | | (308,610) |
| Net differences between projected and actual earnings on plan investments | | (184,415) |
| Total | <u>\$412,623</u> | <u>(\$936,015)</u> |

Safety - PEPRA

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| | <u> </u> | <u> </u> |
| Pension contributions subsequent to measurement date | \$53,925 | |
| Differences between actual and expected experience | | (\$5,641) |
| Changes in assumptions | | (25,945) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 57,802 | |
| Net differences between projected and actual earnings on plan investments | | (13,149) |
| Total | <u>\$111,727</u> | <u>(\$44,735)</u> |
| Total | <u>\$707,944</u> | <u>(\$1,704,349)</u> |

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

\$617,164 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June 30 | Summary of Deferred Outflow / Inflows | | | | |
|------------------------------|--|--|--|--|--|
| | <u>Miscellaneous</u> | <u>Miscellaneous - PEPR</u> | <u>Safety</u> | <u>Safety - PEPR</u> | <u>TOTAL</u> |
| | Increase (Decrease) in Pension Expense |
| 2017 | (\$235,698) | \$4,112 | (\$293,521) | \$6,076 | (\$519,031) |
| 2018 | (241,094) | 4,351 | (305,287) | 6,076 | (535,954) |
| 2019 | (212,705) | 4,074 | (291,104) | 4,203 | (495,532) |
| 2020 | (12,781) | (880) | (46,103) | (3,288) | (63,052) |
| | <u>(\$702,278)</u> | <u>\$11,657</u> | <u>(\$936,015)</u> | <u>\$13,067</u> | <u>(\$1,613,569)</u> |

Actuarial Assumptions – The total pension liability as of June 30, 2015 was determined using the following actuarial assumptions:

| | |
|-------------------------------|--|
| Valuation Date | June 30, 2014 |
| Measurement Date | June 30, 2015 |
| Actuarial Cost Method | Entry-Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.0% |
| Projected Salary Increase | 3.3% - 14.2% (1) |
| Investment Rate of Return | 7.5% (2) |
| Mortality | Derived using CalPERS Membership Data for all Funds (3) |

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experiences study report

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Change of Assumptions – GASB 68, paragraph 68, states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

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

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

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

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

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | -0.55% | -1.05% |
| Total | <u>100%</u> | | |

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Town’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | <u>Miscellaneous</u> | <u>Miscellaneous - PEPRA</u> | <u>Safety</u> | <u>Safety - PEPRA</u> |
|-----------------------|----------------------|----------------------------------|---------------|---------------------------|
| 1% Decrease | 6.65% | 6.65% | 6.65% | 6.65% |
| Net Pension Liability | \$4,866,002 | (\$552) | \$12,463,139 | (\$2,643) |
| Current Discount Rate | 7.65% | 7.65% | 7.65% | 7.65% |
| Net Pension Liability | \$2,901,369 | (\$336) | \$7,773,204 | (\$148) |
| 1% Increase | 8.65% | 8.65% | 8.65% | 8.65% |
| Net Pension Liability | \$1,279,558 | (\$145) | \$3,927,570 | (\$833) |

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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 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 \$125 per month as of 2016.

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 which is assumed to not 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. Minimum contributions for calendar year 2015 and 2016 were \$122 and \$125, respectively. 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, 2016

NOTE 8 - 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 the Kaiser premium.

APOA Police Officers, hired on or after October 1, 2013 - The Town pays up to a maximum of the PEMHCA Minimum (\$122 in 2015, \$125 in 2016).

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, 2016

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

A. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2014 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 5.0% to 6.4% 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, 2016 | 6.4% |
| January 1, 2017 | 6.1% |
| January 1, 2018 | 5.8% |
| January 1, 2019 | 5.5% |
| January 1, 2020 | 5.2% |
| January 1, 2021 and thereafter | 5.0% |

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, 2016

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Funding Progress and Funded Status

In fiscal year 2016, the Town made contributions toward the ARC and amortized its net OPEB obligation as presented below:

| | |
|--|-------------|
| Annual required contribution (ARC) and Annual OPEB cost | \$340,464 |
| Interest on the net OPEB Asset | (126,502) |
| Adjustment to annual required contribution | 126,502 |
| Annual OPEB Cost | 340,464 |
| Contributions made to: | |
| PARS irrevocable trust | 680,684 |
| Town's portion of current year benefits paid | 435,054 |
| Total contributions | 1,115,738 |
| Net OPEB Asset June 30, 2015 | 2,506,648 |
| Net OPEB Asset June 30, 2016 | \$3,281,922 |
| Remaining amortization period | 24 years |

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) |
|-------------|---------------------|------------------------|-------------------------------------|-----------------------------------|
| 6/30/2014 | \$531,980 | \$2,441,721 | 459% | \$1,471,369 |
| 6/30/2015 | 409,084 | 1,444,363 | 353% | 2,506,648 |
| 6/30/2016 | 340,464 | 1,115,738 | 328% | 3,281,922 |

Funded Status and Funding Progress – As of July 1, 2014, the most recent actuarial valuation date, the plan was 46% funded. The Actuarial Accrued Liability (AAL) for benefits was \$7,594,463 and the Actuarial Value of Plan Assets was \$3,513,466 resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$4,080,997. For fiscal year 2016, the covered payroll (annual payroll of active employees covered by the plan) was \$4,261,242 and the ratio of UAAL to the covered payroll was 96% percent.

The schedule of funding progress presented immediately following the financial statements as required supplementary information, 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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 9 - 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 \$5,000 for property damage and \$5,000 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:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-----------------|-----------------|
| Beginning balance | \$75,000 | \$39,503 |
| Net change in claims liabilities | (5,451) | 91,347 |
| Claims paid | <u>(33,887)</u> | <u>(55,850)</u> |
| Ending balance | <u>\$35,662</u> | <u>\$75,000</u> |
| Claims liabilities due within a year | <u>\$35,662</u> | <u>\$75,000</u> |

For the years ended June 30, 2016, 2015, and 2014, the amount of settlements did not exceed insurance coverage.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 - 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, 2016 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 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 \$23,078 for the year ended June 30, 2016. Financial statements may be obtained by mailing a request to the City of 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, 2016

NOTE 10 - JOINT POWERS AUTHORITIES (Continued)

D. Library Joint Powers Agreement (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 11 - 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.

REQUIRED SUPPLEMENTARY INFORMATION

| |
|---|
| REQUIRED SUPPLEMENTARY INFORMATION |
|---|

COST-SHARING MULTIPLE-EMPLOYER DEFINED PENSION PLAN – LAST 10 YEARS*

SCHEDULE OF PLAN’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

| | Miscellaneous | Miscellaneous |
|---|------------------|------------------|
| Measurement Date | 6/30/2014 | 6/30/2015 |
| Plan's proportion of the Net Pension Liability (Asset) | 0.04366% | 0.10574% |
| Plan's proportion share of the Net Pension Liability (Asset) | \$2,716,530 | \$2,901,033 |
| Plan's Covered Employee Payroll | \$1,473,083 | \$1,195,361 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | 192.64% | 243.00% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 83.44% | 82.52% |
| | | |
| | Safety | Safety |
| Measurement Date | 6/30/2014 | 6/30/2015 |
| Plan's proportion of the Net Pension Liability (Asset) | 0.10505% | 0.18865% |
| Plan's proportion share of the Net Pension Liability (Asset) | \$6,536,499 | \$7,773,056 |
| Plan's Covered Employee Payroll | \$2,030,918 | \$2,053,613 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | 321.85% | 379.00% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 81.42% | 79.54% |

* - Fiscal year 2015 was the 1st year of implementation.

| |
|---|
| REQUIRED SUPPLEMENTARY INFORMATION |
|---|

COST-SHARING MULTIPLE-EMPLOYER DEFINED PENSION PLAN – LAST 10 YEARS*

SCHEDULE OF CONTRIBUTIONS

| | Miscellaneous | Miscellaneous |
|--|-----------------|-----------------|
| Fiscal Year Ended June 30 | 2015 | 2016 |
| Actuarially determined contribution | \$179,934 | \$150,616 |
| Contributions in relation to the actuarially determined contributions | (179,934) | (150,616) |
| Contribution deficiency (excess) | \$0 | \$0 |
| Covered-employee payroll | \$1,595,884 | \$1,772,771 |
| Contributions as a percentage of covered-employee payroll | 11.27% | 8.50% |
| | Safety | Safety |
| Fiscal Year Ended June 30 | 2015 | 2016 |
| Actuarially determined contribution | \$646,174 | \$466,548 |
| Contributions in relation to the actuarially determined contributions | (646,174) | (466,548) |
| Contribution deficiency (excess) | \$0 | \$0 |
| Covered-employee payroll | \$2,391,765 | \$2,488,471 |
| Contributions as a percentage of covered- employee payroll | 27.02% | 18.75% |

* Fiscal year 2015 was the 1st year of implementation.

| |
|---|
| REQUIRED SUPPLEMENTARY INFORMATION |
|---|

**Town of Atherton
Other Post-Employment Retirement Benefits
For the Fiscal Year Ended June 30, 2016
Schedule of Funding Progress**

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Liability (UAAL) | Funded Ratio |
|--------------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------|
| July 1, 2011 | \$0 | \$7,599,453 | (\$7,599,453) | 0% |
| March 1, 2013 | 0 | 7,724,868 | (7,724,868) | 0% |
| July 1, 2014 | 3,513,466 | 7,594,463 | (4,080,997) | 46% |

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.

REFUSE RATE STABILIZATION FUND accounts for the surplus of refuse fees.

CAPITAL PROJECTS FUNDS

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, 2016

SPECIAL REVENUE FUNDS

| | County Measure A | Gas Tax | Supplemental Law Enforcement Services/ COPS Grant | Evans Creative Design | Measure M | Road Construction | Refuse Rate Stabilization |
|-------------------------------------|---------------------|------------------|---|-----------------------------|------------------|----------------------|---------------------------------|
| ASSETS | | | | | | | |
| Cash and investment | \$848,061 | \$263,812 | \$296 | \$29,046 | \$213,982 | \$601,153 | \$899,864 |
| Receivables: | | | | | | | |
| Taxes | | | | | | | |
| Total Assets | <u>\$848,061</u> | <u>\$263,812</u> | <u>\$296</u> | <u>\$29,046</u> | <u>\$213,982</u> | <u>\$601,153</u> | <u>\$899,864</u> |
| LIABILITIES | | | | | | | |
| Accounts payable | \$63,343 | \$49,485 | | | | \$146,643 | |
| Total Liabilities | <u>63,343</u> | <u>49,485</u> | | | | <u>146,643</u> | |
| FUND EQUITY | | | | | | | |
| Fund balances | | | | | | | |
| Restricted | 784,718 | 214,327 | \$296 | \$29,046 | \$213,982 | 454,510 | \$899,864 |
| Assigned | | | | | | | |
| Total Fund Balances | <u>784,718</u> | <u>214,327</u> | <u>296</u> | <u>29,046</u> | <u>213,982</u> | <u>454,510</u> | <u>899,864</u> |
| Total Liabilities and Fund Balances | <u>\$848,061</u> | <u>\$263,812</u> | <u>\$296</u> | <u>\$29,046</u> | <u>\$213,982</u> | <u>\$601,153</u> | <u>\$899,864</u> |

CAPITAL PROJECT FUNDS

| <u>Storm Drainage</u> | <u>Channel Drainage District</u> | <u>Total Nonmajor Governmental Funds</u> |
|---------------------------|--|--|
| \$30,372 | \$427,494 | \$3,314,080 |
| | 337 | 337 |
| <u>\$30,372</u> | <u>\$427,831</u> | <u>\$3,314,417</u> |
| | | \$259,471 |
| | | 259,471 |
| \$30,372 | \$427,831 | 3,024,574 |
| | | 30,372 |
| <u>30,372</u> | <u>427,831</u> | <u>3,054,946</u> |
| <u>\$30,372</u> | <u>\$427,831</u> | <u>\$3,314,417</u> |

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

| SPECIAL REVENUE FUNDS | | | | | | | |
|-----------------------------|---------------------|-----------|--|-----------------------------|-----------|----------------------|---------------------------------|
| | County Measure A | Gas Tax | Supplemental Law Enforcement Services/ COPS Grant | Evans Creative Design | Measure M | Road Construction | Refuse Rate Stabilization |
| REVENUES | | | | | | | |
| Property taxes | | | | | | | |
| Measure A Grants | \$330,995 | | | | | | |
| From other agencies | | \$159,264 | \$124,300 | | \$158,164 | | \$895,936 |
| Use of money and property | 5,979 | 1,892 | 146 | \$205 | 1,083 | \$4,255 | 3,928 |
| Total Revenues | 336,974 | 161,156 | 124,446 | 205 | 159,247 | 4,255 | 899,864 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| Police | | | 124,300 | | | | |
| Public Works | 17,948 | 5,538 | | | | | |
| Non-Departmental | | | | 16,845 | | | |
| Capital Outlay | 315,487 | 211,678 | | | | 146,643 | |
| Total Expenditures | 333,435 | 217,216 | 124,300 | 16,845 | | 146,643 | |
| NET CHANGE IN FUND BALANCES | 3,539 | (56,060) | 146 | (16,640) | 159,247 | (142,388) | 899,864 |
| BEGINNING FUND BALANCES | 781,179 | 270,387 | 150 | 45,686 | 54,735 | 596,898 | |
| ENDING FUND BALANCES | \$784,718 | \$214,327 | \$296 | \$29,046 | \$213,982 | \$454,510 | \$899,864 |

CAPITAL PROJECTS FUNDS

| <u>Storm Drainage</u> | <u>Channel Drainage District</u> | <u>Total Nonmajor Governmental Funds</u> |
|---------------------------|--|--|
| | \$112,839 | \$112,839 |
| | | 330,995 |
| | | 1,337,664 |
| <u>\$216</u> | <u>2,875</u> | <u>20,579</u> |
| <u>216</u> | <u>115,714</u> | <u>1,802,077</u> |
| | | 124,300 |
| | 3,011 | 26,497 |
| | | 16,845 |
| | <u>23,303</u> | <u>697,111</u> |
| | <u>26,314</u> | <u>864,753</u> |
| 216 | 89,400 | 937,324 |
| <u>30,156</u> | <u>338,431</u> | <u>2,117,622</u> |
| <u>\$30,372</u> | <u>\$427,831</u> | <u>\$3,054,946</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, 2016

SPECIAL REVENUE FUNDS

| | County Measure A | | | Gas Tax | | |
|-----------------------------|--------------------|------------------|------------------------------------|--------------------|------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Property taxes | | | | | | |
| Measure A grants | \$305,000 | \$330,995 | \$25,995 | | | |
| From other agencies | | | | \$225,000 | \$159,264 | (\$65,736) |
| Use of money and property | | 5,979 | 5,979 | | 1,892 | 1,892 |
| Total Revenues | 305,000 | 336,974 | 31,974 | 225,000 | 161,156 | (63,844) |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Police | | | | | | |
| Public Works | 24,845 | 17,948 | 6,897 | | 5,538 | (5,538) |
| Non-departmental | | | | | | |
| Capital Outlay | 911,703 | 315,487 | 596,216 | 511,678 | 211,678 | 300,000 |
| Total Expenditures | 936,548 | 333,435 | 603,113 | 511,678 | 217,216 | 294,462 |
| NET CHANGE IN FUND BALANCES | <u>(\$631,548)</u> | <u>3,539</u> | <u>\$635,087</u> | <u>(\$286,678)</u> | <u>(56,060)</u> | <u>\$230,618</u> |
| BEGINNING FUND BALANCES | | <u>781,179</u> | | | <u>270,387</u> | |
| ENDING FUND BALANCES | | <u>\$784,718</u> | | | <u>\$214,327</u> | |

SPECIAL REVENUE FUNDS

| Supplemental Law Enforcement Services / COPS Grants | | | Evans Creative Design Fund | | | Measure M | | |
|--|-----------|------------------------------------|----------------------------|----------|------------------------------------|------------|-----------|------------------------------------|
| Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| \$100,000 | \$124,300 | \$24,300 | | | | \$75,000 | \$158,164 | \$83,164 |
| | 146 | 146 | \$500 | \$205 | (\$295) | 1,083 | 1,083 | |
| 100,000 | 124,446 | 24,446 | 500 | 205 | (295) | 76,083 | 159,247 | 83,164 |
| 100,000 | 124,300 | (24,300) | 462,418 | | 462,418 | | | |
| | | | 13,000 | 16,845 | (3,845) | 100,000 | | 100,000 |
| 100,000 | 124,300 | (24,300) | 475,418 | 16,845 | 458,573 | 100,000 | | 100,000 |
| | 146 | \$146 | (\$474,918) | (16,640) | \$458,278 | (\$23,917) | 159,247 | \$183,164 |
| | 150 | | | 45,686 | | | 54,735 | |
| | \$296 | | | \$29,046 | | | \$213,982 | |

(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, 2016

| SPECIAL REVENUE FUNDS | | | | | | |
|-----------------------------|-------------------|-----------|------------------------------------|---------------------------|-----------|------------------------------------|
| | Road Construction | | | Refuse Rate Stabilization | | |
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Property taxes | | | | | | |
| Measure A grants | | | | | | |
| From other agencies | | | | | \$895,936 | \$895,936 |
| Use of money and property | | \$4,255 | \$4,255 | | 3,928 | 3,928 |
| | | 4,255 | 4,255 | | 899,864 | 899,864 |
| Total Revenues | | 4,255 | 4,255 | | 899,864 | 899,864 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Police | | | | | | |
| Public Works | | | | | | |
| Non-departmental | | | | | | |
| Capital Outlay | | 146,643 | (146,643) | | | |
| | | 146,643 | (146,643) | | | |
| Total Expenditures | | 146,643 | (146,643) | | | |
| NET CHANGE IN FUND BALANCES | | (142,388) | (\$142,388) | | 899,864 | \$899,864 |
| BEGINNING FUND BALANCES | | 596,898 | | | | |
| ENDING FUND BALANCES | | \$454,510 | | | \$899,864 | |

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, 2016

| | Equipment Replacement | Workers' Compensation Insurance | General Liability | Employee Benefits | Total |
|----------------------------------|--------------------------|---------------------------------------|----------------------|----------------------|--------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and investments | \$345,837 | \$332,606 | \$510,371 | \$1,468,772 | \$2,657,586 |
| Total Current Assets | <u>345,837</u> | <u>332,606</u> | <u>510,371</u> | <u>1,468,772</u> | <u>2,657,586</u> |
| Non-Current Assets: | | | | | |
| Net OPEB asset | | | | 3,281,922 | 3,281,922 |
| Capital assets: | | | | | |
| Depreciable | 1,193,061 | | | | 1,193,061 |
| Less: accumulated depreciation | <u>(876,952)</u> | | | | <u>(876,952)</u> |
| Net Capital Asset | <u>316,109</u> | | | | <u>316,109</u> |
| Total noncurrent assets | <u>316,109</u> | | | <u>3,281,922</u> | <u>3,598,031</u> |
| Total Assets | <u>661,946</u> | <u>332,606</u> | <u>510,371</u> | <u>4,750,694</u> | <u>6,255,617</u> |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Accounts payable | | | 3,804 | | 3,804 |
| Claims payable | | | 31,036 | | 31,036 |
| Compensated absences | | | | 340,920 | 340,920 |
| Total current liabilities | | | <u>34,840</u> | <u>340,920</u> | <u>375,760</u> |
| Noncurrent liabilities | | | | | |
| Compensated absences | | | | 287,196 | 287,196 |
| Total noncurrent liabilities | | | | <u>287,196</u> | <u>287,196</u> |
| Total Liabilities | | | <u>34,840</u> | <u>628,116</u> | <u>662,956</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | 316,109 | | | | 316,109 |
| Unrestricted | <u>345,837</u> | <u>332,606</u> | <u>475,531</u> | <u>4,122,578</u> | <u>5,276,552</u> |
| Total Net Position | <u>\$661,946</u> | <u>\$332,606</u> | <u>\$475,531</u> | <u>\$4,122,578</u> | <u>\$5,592,661</u> |

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

| | Equipment Replacement | Workers' Compensation Insurance | General Liability | Employee Benefits | Total |
|--|--------------------------|---------------------------------------|----------------------|----------------------|-------------|
| OPERATING REVENUES | | | | | |
| Charges for services | \$119,243 | \$286,608 | \$124,079 | \$568,453 | \$1,098,383 |
| Total Operating Revenues | 119,243 | 286,608 | 124,079 | 568,453 | 1,098,383 |
| OPERATING EXPENSES | | | | | |
| Insurance | | 746,854 | 97,003 | | 843,857 |
| OPEB expense | | | | 340,464 | 340,464 |
| Employee benefits earned | | | | 121,687 | 121,687 |
| Depreciation | 120,065 | | | | 120,065 |
| Supplies and maintenance | 35,701 | | | | 35,701 |
| Total Operating Expenses | 155,766 | 746,854 | 97,003 | 462,151 | 1,461,774 |
| Operating Income (Loss) | (36,523) | (460,246) | 27,076 | 106,302 | (363,391) |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Interest income | 2,267 | 2,049 | 3,632 | 10,422 | 18,370 |
| Total Nonoperating Revenues (Expenses) | 2,267 | 2,049 | 3,632 | 10,422 | 18,370 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | | 631,243 | | 680,684 | 1,311,927 |
| Total Other Financing Sources (Uses) | | 631,243 | | 680,684 | 1,311,927 |
| Change in Net Position | (34,256) | 173,046 | 30,708 | 797,408 | 966,906 |
| BEGINNING NET POSITION | 696,202 | 159,560 | 444,823 | 3,325,170 | 4,625,755 |
| ENDING NET POSITION | \$661,946 | \$332,606 | \$475,531 | \$4,122,578 | \$5,592,661 |

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

| | Equipment Replacement | Workers' Compensation Insurance | General Liability | Employee Benefits | Total |
|---|--------------------------|---------------------------------------|----------------------|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from other funds | \$119,243 | \$286,608 | \$124,079 | \$568,453 | \$1,098,383 |
| Payments to employees for benefits | | | | (775,274) | (775,274) |
| Payments to vendors | (50,158) | (746,854) | (138,866) | (459,505) | (1,395,383) |
| Cash Flows from Operating Activities | 69,085 | (460,246) | (14,787) | (666,326) | (1,072,274) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfers in | | 631,243 | | 680,684 | 1,311,927 |
| Cash Flows from Noncapital Financing Activities | | 631,243 | | 680,684 | 1,311,927 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition of capital assets, net | (19,800) | | | | (19,800) |
| Cash Flows (used for) Capital and Related Financing Activities | (19,800) | | | | (19,800) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest received | 2,267 | 2,049 | 3,632 | 10,422 | 18,370 |
| Cash Flows from Investing Activities | 2,267 | 2,049 | 3,632 | 10,422 | 18,370 |
| Net Cash Flows | 51,552 | 173,046 | (11,155) | 24,780 | 238,223 |
| Cash and investments at beginning of period | 294,285 | 159,560 | 521,526 | 1,443,992 | 2,419,363 |
| Cash and investments at end of period | \$345,837 | \$332,606 | \$510,371 | \$1,468,772 | \$2,657,586 |
| Reconciliation of operating income (loss) to net cash flows from operating activities: | | | | | |
| Operating income | (\$36,523) | (\$460,246) | \$27,076 | \$106,302 | (\$363,391) |
| Adjustments to reconcile operating income to net cash flows from operating activities: | | | | | |
| Depreciation | 120,065 | | | | 120,065 |
| Compensated absences | | | | 3,547 | 3,547 |
| Change in assets and liabilities: | | | | | |
| Other assets | | | | (775,274) | (775,274) |
| Accounts payable | (14,457) | | 2,101 | (901) | (13,257) |
| Claims payable | | | (43,964) | | (43,964) |
| Cash Flows from Operating Activities | \$69,085 | (\$460,246) | (\$14,787) | (\$666,326) | (\$1,072,274) |

| |
|---------------------|
| 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, 2016

| | Balance June 30, 2015 | Additions | Deductions | Balance June 30, 2016 |
|--|--------------------------|--------------|------------|--------------------------|
| <hr/> <u>H-P Park Improvement Fund</u> <hr/> | | | | |
| ASSETS | | | | |
| Cash and investments | \$6,116 | \$44 | | \$6,160 |
| Total assets | <u>\$6,116</u> | <u>\$44</u> | | <u>\$6,160</u> |
| LIABILITIES | | | | |
| Deposits payable | \$6,116 | \$44 | | \$6,160 |
| Total liabilities | <u>\$6,116</u> | <u>\$44</u> | | <u>\$6,160</u> |
| <hr/> <u>Tree Committee</u> <hr/> | | | | |
| ASSETS | | | | |
| Cash and investments | \$25,280 | \$180 | | \$25,460 |
| Total assets | <u>\$25,280</u> | <u>\$180</u> | | <u>\$25,460</u> |
| LIABILITIES | | | | |
| Deposits payable | \$25,280 | \$180 | | \$25,460 |
| Total liabilities | <u>\$25,280</u> | <u>\$180</u> | | <u>\$25,460</u> |
| <hr/> <u>All Agency Funds</u> <hr/> | | | | |
| ASSET | | | | |
| Cash and investments | \$31,396 | \$224 | | \$31,620 |
| Total assets | <u>\$31,396</u> | <u>\$224</u> | | <u>\$31,620</u> |
| LIABILITIES | | | | |
| Deposits payable | \$31,396 | \$224 | | \$31,620 |
| Total liabilities | <u>\$31,396</u> | <u>\$224</u> | | <u>\$31,620</u> |

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Town of Atherton, California, as of and for the year ended June 30, 2016, and have issued our report thereon dated March 1, 2017. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are listed as findings 2016-1 and 2016-2 in our separately issued Memorandum on Internal Control dated March 1, 2017 which is an integral part of our audit and should be read in conjunction with this report.

Town's Response to Findings

The Town's response to the findings identified in our audit is described in our separately issued Memorandum on Internal Control dated March 1, 2017, which is an integral part of our audits and should be read in conjunction with this report. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
March 7, 2017