

TOWN OF ATHERTON, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Prepared by
FINANCE DEPARTMENT

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TOWN OF ATHERTON
Basic Financial Statements
For the Year Ended June 30, 2018

Table of Contents

FINANCIAL SECTION:

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	5
 <i>Basic Financial Statements</i>	
Government-wide Financial Statements:	
Statement of Net Position.....	18
Statement of Activities.....	19
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	22
Reconciliation of the Governmental Funds – Balance Sheet with the Statement of Net Position.....	24
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	26
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities.....	28
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
General Fund.....	29
Special Tax Special Revenue Fund.....	30
Library Special Revenue Fund.....	31
Proprietary Funds:	
Statement of Net Position.....	34
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	35
Statement of Cash Flows.....	36

TOWN OF ATHERTON
Basic Financial Statements
For the Year Ended June 30, 2018

FINANCIAL SECTION (Continued):

Fiduciary Fund:

Statement of Net Position	38
Statement of Changes in Fiduciary Net Position.....	39

Notes to Basic Financial Statements	41
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Required Supplemental Information:

Schedule of Plan’s Proportionate Share of the Net Pension Liability	76
Schedule of Contributions - Pension	77
Schedule of Changes in Net OPEB Liability and Related Rations.....	78
Schedule of Employer Contributions - OPEB	79
Schedule of Investment Returns - OPEB	80

Supplemental Information:

Non-Major Governmental Funds:

Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	84
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual	86

Internal Service Funds:

Combining Statement of Net Position.....	90
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	91
Combining Statement of Cash Flows.....	92

Fiduciary Funds:

Statements of Changes in Assets and Liabilities – Agency Funds	94
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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	95
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members 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, California (Town), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2018 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which became effective during the year ended June 30, 2018 and required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Note 6E.

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 the 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. The Introductory Section and Supplemental Information listed in the Table of Contents are presented for purposes of additional analysis and are 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
December 23, 2018

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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, 2018. 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 \$57,365,905 (*net position*). There was a prior period adjustment to the net position in governmental activities and employee benefits fund for a total of \$9,738,515 and is reflected as new total beginning net position of \$50,810,658 in the fiscal year. This restatement is due to the implementation of OPEB liabilities on the financial statements.
- The government's total net position increased by \$6,555,247. This includes total revenues of \$21,804,451 over total expenditures of \$15,249,204. The increase is due to higher total revenues of \$1,058,331. The town received higher property tax, and other taxes revenues of about \$830,984, and an increase in charges for services of \$447,697. There was a decrease in operating grants of \$496,327, and an increase in investment earnings of \$254,854. There was an increase in total expenses of \$263,419 of which a majority was attributed to an additional recognized pension expense of \$648,410, reduction in Net OPEB expense of \$208,565, as well as additional capital expenditure outlays and contributions towards Workers' Compensation negative equity.
- The town recorded a net pension liability of \$16,121,566, as this is an increase of \$2,140,058. The Miscellaneous employee plan is \$4,542,046 and Safety is \$11,579,520.
- During the Fiscal Year GASB 75 was implemented and this called for the Town recording its Net OPEB Liability. As a result, the Town recorded a net OPEB liability of \$4,010,576.
- As of the close of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$40,249,386, an increase of \$3,875,347 in comparison with the prior year.
- The General Fund is the chief operating account of the Town. At the end of the current fiscal year, the unassigned fund balance for the general fund was \$14,924,195, or 124 percent of total general fund expenditures. The Town has a fund balance policy of not dropping the unassigned fund balance below 20% of the actual annual operating expenditures and the Town balance well exceeds this amount.
- The unassigned General Fund balance increased by \$4,244,446 compared to fiscal year 2016-2017. Key Contributing factors included a reduced transfers out compare to prior year. Transfers out were only \$614,258 compared to last fiscal year transfer out of \$4,536,136 from the General Fund. This fiscal year transfers out included \$357,140 allocation towards Workers' compensation negative equity reserve, \$92,118 toward OPEB required contribution. It also included \$165,000 transfer out to capital improvement fund for San Mateo County loan for the Bay Front Canal study. There was an increase in General Fund revenues of \$1,345,310 and an increase of total expenditures of \$628,483 over year. The General Fund maintained excess revenues over expenditures of \$4,582,046. This fiscal year was the last of the \$372,000 million transfer in from the Parcel Tax for Police Services as this was the last year collection of Parcel Tax. With the inclusion of the transfers out of \$614,258, this culminated in a positive change in fund balance of \$4,339,788 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will 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 18-19 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 22-31 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 34-36 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 38-39 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 41-73 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary Information*. Required supplementary information can be found on pages 76-80 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 82-94 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 \$57,365,905 at the close of the most recent fiscal year.

By far the largest portion of the Town of Atherton's net position (59 percent) reflects its investment in capital assets of \$33,854,084 (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 net investment in 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

	2018	2017
Current and other assets	\$ 49,138,280	\$ 47,268,138
Capital assets	33,854,084	31,108,351
Total assets	82,992,364	78,376,489
Deferred Outflow of Resources	4,720,336	3,409,875
Current liabilities	6,069,000	5,381,971
Noncurrent liabilities	20,417,237	14,271,027
Total liabilities	26,486,237	19,652,998
Deferred Inflow of Resources	3,860,558	1,584,193
Net Position:		
Net Investment in capital assets	33,854,084	31,108,351
Restricted	22,902,673	23,367,114
Unrestricted	609,148	6,073,708
Change due to Implementation of GASB 75 (See Note 6E)		(9,738,515)
Total net position	\$ 57,365,905	\$ 50,810,658

An additional portion of the Town of Atherton net position \$22,902,673 (39.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$609,148 may be used to meet the government's ongoing obligations. It is important to note that due to GASB 75 implementation during the fiscal year, requires the recognition of the entire net OPEB liability. There was a prior period adjustment to the net position in governmental activities and employee benefits fund for a total of \$9,738,515 and is reflected in the unrestricted net position balance in the government wide statement.

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

Governmental activities Governmental activities increased the Town of Atherton's net position by \$6,555,247. Without the prior period adjustment for GASB 75 OPEB, the Town's net position would have been \$67,104,420. With the \$9,738,515 adjustment to prior year, governmental activities net position is \$57,365,905, a decrease of \$3,183,268. This includes the increase of recognized pension expense of \$648,410. Due to the implementation of GASB statements 68 and 71 fiscal year 14/15, which required the recognition of pension liabilities, deferred outflows, and deferred inflows of resources for pensions, resulted in the amount of \$12,155,826. With the recognized pension expense of \$648,410, reflects a total adjustment of \$12,804,236 to the Total Net Position. With the addition of the OPEB pension liability, deferred outflows, and deferred inflows of resources for OPEB, resulted in a total adjustment amount of \$6,468,128. The total Town Net Position is \$57,365,905. Without the recognition of pension and OPEB liabilities the Town would have a total net position of \$76,638,269 for FY 2017-18. Total governmental activities had higher property taxes, sales tax, and other taxes for a combined total of \$842,098 in the fiscal year. The Town had an increase in charges for services of \$447,697, a decrease in operating grants of \$496,327, and increase in investment earnings of \$254,854 over last year. The Town had an increase in expenditures of \$263,419 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 made \$92,118 contribution toward its Net OPEB Obligation. The Town has contributed a combined \$1,792,802 during the previous three fiscal years toward the OPEB trust for continued reduction of its unfunded liability.

Town of Atherton's Changes in Net Position

	2018	2017
Revenues:		
Program revenues:		
Charges for services	\$ 3,770,782	\$ 3,323,085
Operating grants and contributions	929,513	1,425,840
General revenues:		
Taxes	16,475,744	15,633,646
Investment earnings	464,822	209,968
Other revenues	163,590	153,581
Total revenues	21,804,451	20,746,120
Expenses:		
General government	2,109,173	2,140,715
Public works	4,103,198	4,287,566
Police	7,471,420	7,107,716
Building	1,283,885	1,221,536
Planning	281,528	228,252
Total expenses	15,249,204	14,985,785
Change in Net Position	6,555,247	5,760,335
Net position - Beginning	50,810,658	54,788,838
Change due to Implementation of GASB 75 (See Note 6E)		(9,738,515)
Net position - Ending	\$ 57,365,905	\$ 50,810,658

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- Charges for services increased by \$447,697 during the year. The increase was primarily due to Public Works, Police, and Building department charges for services. The Town saw an increase in Public Works charge for services of \$350,253. This was due to C&D deposit forfeiture of \$268,113 from building construction deposits that were forfeited. There was \$104,600 in C&D forfeiture last fiscal year. The Town received \$35,700 for highway maintenance reimbursement. This is a decrease of \$35,700 compared to last year's fee of \$71,400 received for two years of highway maintenance reimbursement fees. Town encroachment permit fees had an increase of \$106,315 than previous year for an amount of \$437,971. Park fees had an overall decrease of \$3,729 from the \$224,795 received in previous year. The Town had an increase of \$61,548 in refuse rate stabilization fund revenues over last fiscal year amount of \$279,189. Charges for Police Services had an increase of \$29,567. Muni/Vehicle Code fines had an increase of \$6,977 over last year and special service fee for police had an increase of \$6,231. There was an increase of administrative citations of \$13,200 over previous year. Building Department revenue saw an increase of \$109,212 in building permit, and building plan check fees and tree removal plan check fees over the previous year for a total of \$1,857,686. Zoning and planning fees saw a decrease of \$17,575.
 - Operating grants and contribution decrease overall by \$496,327 during the year. A majority of the decrease was primarily due to a reduction in Civic Center donations. The Town received \$66,938 in donations from Atherton Now for the design development and construction document phases for the Civic Center project. In the previous year we received \$783,026 in donations, this is a reduction of \$716,088 in donations. The town received \$5,000 in operating grants for Cal-Recycle Grant. This amount is \$6,910 less in operating grants for Cal-Recycle and DUI Grant compared to prior year, The Town received \$39,884 more in Gas Tax and \$26,852 in Measure A transportation tax funding for street projects. The Town also received an increase in capital grant funds of \$119,884 from CalTrans for a Town water capture facility project.
 - Taxes increased by \$842,098 (5.4 percent) during the year. The increase was primarily due to \$830,984 of property tax. There was a decrease in sales tax by \$26,919 over previous year. There was a total \$38,035 increase in other taxes which included \$834 increase in franchise fees for a total of \$833,760, and \$37,870 increase in Document transfer tax to \$447,096 for the year. Business license fees decreased by \$669
 - Investment earnings are higher than last year by \$254,854. This was due to increase in interest rates and there was no major fair market value adjustment to investments in the fiscal year. The Town continues to diversify its investments.
 - Total Government Activities expenses increased by \$263,419 (1.8 percent) during the year. The Town had an increase in expenditures of \$263,419 across major funds and other governmental funds due to additional pension expense, allocation toward Workers' Compensation negative equity, increase in capital projects outlay expense and increased asset cost additions.

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 59 through 65 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 \$14,924,195 while total fund balance reached \$17,346,713. 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 124 percent of the total general fund expenditures of \$12,065,022, while total fund balance represents 143.7 percent of that same amount of total expenditures.

Town of Atherton's general fund balance increased by \$4,339,788 during the current fiscal year. Key factors in the increase are as follows:

- The Council authorized a couple allocations from the General fund for a total of \$614,258; this included \$357,140 allocation towards Workers' Compensation negative equity reserve. Also included an allocation of \$92,118 toward OPEB Trust for annual required contribution and \$165,000 allocation for Town's portion of the Bayfront Canal water front analysis study. The Town received a loan from the County for the initial study. The previous year total allocations from the General Fund were \$4,536,136, of which included an allocation of \$4,423,138 to the Capital Improvement Fund 401 for future unidentified capital projects.
- The General Fund Revenue increased \$1,345,310 over prior year and there was \$628,483 increase in General Fund operating expenditures. The increase in expenditures due to increase in unfunded CalPERS liability, equipment purchases, increase in operational expenses within Police, Building, Public Works and General government departments. There was an MOU salary increase for the Police Department and increase for unrepresented miscellaneous employees.
- The CalPERS employer contribution rate had a net decrease as total expense was \$29,568 less than previous year. This is due to police officers picking up an additional 1% of the employer contribution share. CalPERS continues to collect the unfunded liability as a dollar amount. The Town payment of the unfunded liability portion for the fiscal year increased \$128,324 to \$657,860. The total CalPERS expense for the Town increased \$98,756.
- Increase in property tax revenues in the amount of \$863,264. In the previous year property taxes increased \$726,058. Secured property taxes increased \$565,241. Property Tax in Lieu of VLF had an increase of \$75,933 and ERAF revenue had an increase of \$176,987
- Increase in other taxes (Franchise tax) in the amount of \$38,704. A majority of the increase was in Document Transfer Tax of \$37,870 from previous year for a total amount of \$447,096.
- Decrease of sales tax in the amount of \$26,919 compared to previous year for a total of \$313,155
- Increase in Service Charges in the amount of \$214,569. A majority of the increase is attributed to building, encroachment, and planning review permits. This is due to continuous trend in building and construction during the year.
- Increase in fine and forfeitures in the amount of \$161,408. This was mainly due to C&D forfeiture deposit of \$163,513 realized in the year.

Special Tax Special Revenue Fund has a total fund balance of \$2,043,139, 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. The Town received grant revenue from the County MTC in the amount of \$124,200 for completion of the Oak Grove intersection street project. The Parcel Tax appropriated funding to this project. Expenditures decreased by \$245,386 as Marsh Road Wall project was completed last fiscal year. The special Parcel tax was not renewed past fiscal year 2017-18, and therefore the Town will not be collecting the tax. It was a vital component of the Town capital improvement fund as it provided approximately \$1.48 Million toward the capital projects and \$372,000 toward police services. The Town approach was to save and spend monies in the special tax fund within our Town Capital Improvement Program projects. During this fiscal year we continued with several major capital projects from the five year CIP program. The Town began work on the Series Street light project. This project total estimated cost was \$840,000 and majority of funding was from the Special Tax. The Town continued to work on Bike Pedestrian master plan projects such as the Middlefield Class II Bike lane. The Town worked on drainage projects as plans and designs for drainage facility repair projects were completed, The Town removed and replaced failed pipe within the storm drainage system along Stockbridge and Polhemus Avenues and Camino Al Lago. During the year, the Town began the Stockbridge Valley gutter replacement project. Plans and designs for drainage facilities repairs of the Euclid/Parker ditch project should be completed in the Fiscal 2018-19.

Library Special Revenue Fund has a total fund balance of \$12,628,503, all of which is reserved for the library operation. Revenue was lower than prior year by \$40,558 as return of excess donor city funds received was \$1,450,400. 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 \$8,045,604 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 \$4,586,335. The Library fund is funding the new Library design and construction portion of the Town Civic Center as the Town anticipates using all funds toward the project. The Town is expecting to withdrawal from the SMCL donor trust fund once the Library construction begins.

General Fund Budgetary Highlights

During the year, the revenue budget increased by a total of \$1,096,851 at mid-year. The following are the main components of the increase:

- \$508,338 higher secured property tax
- \$38,276 higher unsecure property tax
- \$6,708 higher SB813 supplement income
- \$31,015 higher property tax in lieu VLF
- \$213,214 higher ERAF revenue.
- \$11,299 higher total sales tax
- \$12,373 higher franchise tax
- \$5,500 higher zoning and planning fees
- \$178,923 higher building revenue
- \$9,119 higher total police revenue
- \$9,936 higher park program revenue
- \$72,150 increase of revenue in miscellaneous, intergovernmental, and DPW revenue categories

During the year there was also \$157,444 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- \$52,238 increase in the city council budget for November 2017 special elections, an increase due to being an off year election and County Clerk's office not using temporary help
- \$98,407 increase in the building department expenditures for building services contract. This was due to projected growth in building revenue as contract is based on building revenue.
- \$6,799 increase in Public Works due to increase in park program costs, facility repairs and maintenance and park event services contract. The park event services expense is tied to projected increase in rental fee revenue.

Capital Assets and Debt Administration

Capital assets. The Town of Atherton's investment in capital assets for its governmental activities as of June 30, 2018, amounts to \$33,854,084 (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 \$3,575,870. This is mainly due to continued projects in progress for the Civic Center design and construction document phase, Series Street Light Project, Bike/Pedestrian Middlefield Class II lane, Water Capture Facility, Park, and Drainage master plans project repairs.

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

	Governmental activities	
	2018	2017
Land	690,884	690,884
Construction in progress	9,152,683	5,576,813
Building	752,190	796,119
Other Improvements	277,069	304,556
Vehicles	282,178	228,232
Computer Equipment/Software	103,061	90,498
Furniture & Fixture	(1)	(1)
Machinery & Equipment	101,667	124,836
Infrastructure	22,494,353	23,296,414
Total Capital Assets	33,854,084	31,108,351

Additional information about the Town's capital assets can be found in Note 5 on pages 54 through 56 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 had an assessment of \$357,140 due to The Cities Group to cover negative workers' compensation reserve for fiscal year 2017. In the FY 2017-2018 budget, the Council approved an appropriation of \$357,140 for the Workers' Compensation Equity Reserve replenishment. This was to mitigate the depletion of the reserves and also possibly offset any future additional assessments from Cities Group workers' compensation JPA.

In Fiscal Year 2014-15, GASB 68 and 71 were implemented for Accounting and Financial Reporting for Pensions. This established standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures.

The net pension liability increased \$2,140,058 over last fiscal year. As of FY 2017-18, the Town of Atherton reports a net pension liability of \$16,121,566 and is as follows;

Miscellaneous Employee Plan: \$4,542,046
Safety Employees Plan: \$11,579,520

The Town reported a deferred outflow of resources of \$4,698,726 and deferred inflow of resources \$1,381,396.

In Fiscal Year 2017-18, GASB 74 and 75 were implemented for the Accounting and Financial Reporting for Postemployment Benefits Other than pensions. This establishes accounting and financial reporting requirements for governments whose employees are provided with OPEB benefits. It also includes requirements similar to pension reporting to address financial reporting for assets accumulated for purposes of providing OPEB benefits. The Town with the implementation of GASB 75 had a prior period adjustment to the beginning net position of Governmental Activities in the amount \$9,738,515. As of FY 2017-18, the Town of Atherton reports a net OPEB liability of \$4,010,576.

The Town reported a deferred outflow of resources of \$2,479,162 and deferred inflow of resources \$21,610 for OPEB.

Economic Factors and Next Year's Budgets

Property taxes are still the major revenue source for the Town and comprise 68% of the General Fund revenues. Property Taxes increased 7.6% from the previous year of \$10,382,709, an indication that property sales within the town continues. As of FY 2018-19, the Town experienced a Net Taxable Assessed Value increase of 7.06% for a total value of \$10.94 Billion. Expectations for FY 2018-19 property tax revenues should continue to show a slight growth as the housing market prices in the Town continue to increase. The Town in future years will be on the conservative assumption on property tax increases. For the current budget, financial assumptions includes an increase in property tax revenue projections at approximately 5 percent, and building revenue was increased by approximately 2 percent. All other revenue sources are budgeted between 1 to 2 percent. In certain revenues like park revenue, they were budgeted based on other percentages or based on bookings history from previous year. We continue to monitor other Town revenues as they remain stable. Sales tax has remained static around \$315,000 since the elimination of the In Lieu Sales Tax Triple Flip. The Town Parcel Tax revenue split was maintained at 80/20 percentage split in FY 2017-18 and contributed \$1.4 Million towards capital projects and \$372,000 towards police services. The FY 2017-18 was the last year for collection of the Tax. It was a vital source of revenue for capital project funding in the community. Beginning FY 2018-19, the Town will no longer receive Parcel Tax for Capital Projects and Police Services. The five year capital improvement programs were adjusted in the FY 2018-19 budget adoption. The Town is now in "save and spend" mode for priority capital projects. The Town received \$1,280,172 in ERAF for the Fiscal Year. ERAF was not specifically earmarked in the FY 2018-19 budget however. As the Town anticipates using ERAF as a contribution toward one-time capital projects such as the new civic center project.

The Town's General Fund operating budget presents a plan for accomplishing the goals and objectives of the City Council within existing resources and core strategy of financial stability in mind. We continue to be fiscally prudent with our resources but are mindful of operational and infrastructure needs. With anticipated commitment of the General Fund unallocated reserves to the Civic Center project, certain CIP projects will be on hold until additional funding is identified and/or when the Civic Center project is completed. The Town is heavily reliant on property taxes. There is no certainty that the growth will continue at the same pace in recent years, and as such the Town continues to explore revenue alternatives to the General Fund. Town staff will continue to work efficiently and creatively to maximize available revenues by seeking outside grants, forging community and regional partnerships, and drawing upon the imagination and commitment of our community and staff. 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 especially at a time with the Town embarking on its biggest capital project in recent memory with the new Civic Center.

The Town was successful in partnering with CalTrans to construct a Water Capture Facility in the Town. The Town CIP program was heavily reliant on the Special Parcel Tax, it is important that we seek to maximize available revenues, seek additional grants, and adjust priority projects within our Capital Improvement Program.

Paying down long term liabilities is important to the Town's fiscal stability. During fiscal year 2018-19 the Town will make an additional \$198,151 contribution into the OPEB trust to satisfy the minimum annual required contribution for future OPEB liabilities. Total Town contribution to the Trust as of June 30, 2018 is \$5,092,118. The balance in the PARS Trust as of June 30, 2018 is \$6,259,170. A new OPEB actuarial refresh was completed to account for the contributions in the Trust and prepare for GASB 75 recording of unfunded OPEB liabilities.

In FY 2015/16, CalPERS started requiring agencies to pay for their Unfunded Accrued Liabilities (UAL) as dollar amounts rather than a percentage of payroll. This was implemented to recover gains and losses of funded status of plans. Every fiscal year CalPERS invoices municipalities the unfunded portion of their liabilities. The Town paid \$177,126 for Miscellaneous Employees and \$480,734 for Public Safety, for a total of \$657,860 for the PERS unfunded accrued liability portion for FY 2017-18. The anticipated Town UAL portion for FY 2018-19 is \$629,688 for public safety and \$230,536 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, and is based on contributions and investment earnings on the plan. Town pension liability increased by \$2.1 million. The CalPERS board implemented changes to the discount rates, with the discount rate being reduced to 7.375% beginning in FY 2018-19. There will be a gradual decrease to 7.0% by FY 2020-21. Agency plans will likely see increases in both the normal costs and the accrued liabilities, resulting in higher required employer contributions. OPEB liabilities were included in the financials for the first time and the Town has a liability of \$4 million.

The Town capital improvement program includes various Town infrastructure projects and requires various funding sources. These projects are in addition to the Civic Center Project now moving into construction possibly at the end of FY 2018-19. With reduction on funding for future capital projects, the Town will move into the save mode for future capital needs. The Town will look to prioritize projects within its capital improvement program until additional funding becomes available. In the coming years, the Civic Center project will be at the forefront of the Town capital projects and funding. Over the last couple fiscal years the General Fund made a significant allocation to the CIP program. A majority of it will be used to fund the Civic Center project. Paying down long term liabilities and providing funding for capital projects will continue to be a priority. The Town will always strive 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.

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, 2018

	Governmental Activities
ASSETS	
Cash and investments (Note 3)	\$48,804,202
Receivables:	
Taxes	168,434
Interest	95,884
Other	11,360
Prepaid expenses	58,400
Capital assets (Note 5):	
Non-depreciable	9,843,567
Depreciable, net	24,010,517
Total Capital Assets	33,854,084
Total Assets	82,992,364
DEFERRED OUTFLOWS OF RESOURCES	
Related to OPEB (Note 8)	21,610
Related to pensions (Note 7)	4,698,726
Total Deferred Outflows of Resources	4,720,336
LIABILITIES	
Accounts payable	1,602,201
Accrued liabilities	288,327
Deposits payable	3,601,685
Unearned revenue	59,120
Claims payable (Note 9)	
Due in less than one year	4,510
Note payable	156,495
Compensated absences (Note 1G)	
Due in less than one year	356,662
Due in more than one year	285,095
Net pension liability, due in more than one year (Note 7)	16,121,566
Net OPEB liability, due in more than one year (Note 8)	4,010,576
Total Liabilities	26,486,237
DEFERRED INFLOWS OF RESOURCES	
Related to OPEB (Note 8)	2,479,162
Related to pensions (Note 7)	1,381,396
Total Deferred Inflows of Resources	3,860,558
NET POSITION (Note 6):	
Net investment in capital assets	33,854,084
Restricted for:	
Streets and drainage maintenance and police services	2,043,139
Library operations	12,628,503
Public facilities constructions	141,679
Special revenue projects	2,320,059
Capital projects	5,769,293
Unrestricted	609,148
Total Net Position	\$57,365,905

See accompanying notes to financial statements

TOWN OF ATHERTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Primary Government:					
General government	\$2,109,173	\$394,530	\$5,000		(\$1,709,643)
Public works	4,103,198	1,168,840	555,882	\$186,822	(2,191,654)
Police	7,471,420	118,997	181,809		(7,170,614)
Building	1,283,885	1,857,686			573,801
Planning	281,528	230,729			(50,799)
Total Governmental Activities	<u>\$15,249,204</u>	<u>\$3,770,782</u>	<u>\$742,691</u>	<u>\$186,822</u>	<u>(10,548,909)</u>
General revenues:					
Taxes:					
Property taxes					14,641,702
Sales taxes					313,155
Other taxes					<u>1,520,887</u>
Total Taxes					16,475,744
Investment earnings					464,822
Miscellaneous					<u>163,590</u>
Total General Revenues					<u>17,104,156</u>
Change in Net Position					6,555,247
Net Position-Beginning, As Restated (Note 6E)					<u>50,810,658</u>
Net Position-Ending					<u>\$57,365,905</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 2018. 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.

TOWN OF ATHERTON
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	Major Funds				
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Facilities Construction Capital Projects Fund	Capital Improvement Capital Projects Fund
ASSETS					
Cash and investments (Note 3)	\$21,671,331	\$2,755,868	\$12,631,939	\$327,666	\$5,488,064
Receivables:					
Taxes	135,739				
Interest	95,884				
Other	11,360				
Prepays	58,400				
Due from other funds (Note 4)	7,032				
Total Assets	\$21,979,746	\$2,755,868	\$12,631,939	\$327,666	\$5,488,064
LIABILITIES					
Accounts payable	\$527,406	\$712,729	\$3,436	\$185,987	\$29,200
Accrued liabilities	288,327				
Due to other funds (Note 4)					
Unearned revenue	59,120				
Deposits payable	3,601,685				
Note payable	156,495				
Total Liabilities	4,633,033	712,729	3,436	185,987	29,200
FUND BALANCES					
Fund balance (Note 6):					
Nonspendable	58,400				
Restricted		2,043,139	12,628,503		
Committed	1,809,753				
Assigned	620,859			141,679	5,458,864
Unassigned	14,857,701				
Total Fund Balances	17,346,713	2,043,139	12,628,503	141,679	5,458,864
Total Liabilities and Fund Balances	\$21,979,746	\$2,755,868	\$12,631,939	\$327,666	\$5,488,064

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$2,738,331	\$45,613,199
32,695	168,434
	95,884
	11,360
	58,400
	<u>7,032</u>
<u>\$2,771,026</u>	<u>\$45,954,309</u>

\$133,506	\$1,592,264
	288,327
7,032	7,032
	59,120
	3,601,685
	<u>156,495</u>
<u>140,538</u>	<u>5,704,923</u>

	58,400
2,628,770	17,300,412
	1,809,753
30,829	6,252,231
<u>(29,111)</u>	<u>14,828,590</u>
<u>2,630,488</u>	<u>40,249,386</u>
<u>\$2,771,026</u>	<u>\$45,954,309</u>

TOWN OF ATHERTON
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET POSITION
 JUNE 30, 2018

Total fund balances reported on the governmental funds balance sheet \$40,249,386

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. 33,460,390

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	3,191,003
Capital assets, net	393,694
Accounts payable	(9,937)
Compensated absences	(641,757)
Claims payable	(4,510)

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	4,698,726
Deferred inflows related to pensions	(1,381,396)
Deferred outflows related to OPEB	21,610
Deferred inflows related to OPEB	(2,479,162)

LONG-TERM LIABILITIES

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

Net OPEB liability	(4,010,576)
Net pension liability	(16,121,566)

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$57,365,905
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See accompanying notes to financial statements

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

	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	\$11,191,973		\$1,450,400		
Special assessments		\$1,870,015			
Sales taxes	313,155				
Other taxes	1,280,856				
Measure A grants					
From other governmental agencies	17,218				\$172,047
Permit and licenses	240,031				4,892
Fines and forfeitures	329,646				
Service charges	2,890,472				
Use of money and property	337,627	26,194	134,589	\$3,114	
Miscellaneous	46,090	124,200		66,939	
Total Revenues	16,647,068	2,020,409	1,584,989	70,053	176,939
EXPENDITURES					
Current:					
General government	2,119,621	5,674			
Planning	281,528				
Building	1,274,728				
Police	6,762,763				
Public works	1,517,689	400,000		702,971	
Non-departmental			51,218		
Capital outlay	108,693	1,367,568		785,798	1,206,583
Total Expenditures	12,065,022	1,773,242	51,218	1,488,769	1,206,583
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,582,046	247,167	1,533,771	(1,418,716)	(1,029,644)
Other Financing Sources (uses):					
Transfers in (Note 4)	372,000			547,883	165,000
Transfers (out) (Note 4)	(614,258)	(372,000)	(547,883)		
Total Other Financing Sources (uses)	(242,258)	(372,000)	(547,883)	547,883	165,000
Net change in fund balances	4,339,788	(124,833)	985,888	(870,833)	(864,644)
BEGINNING FUND BALANCES	13,006,925	2,167,972	11,642,615	1,012,512	6,323,508
ENDING FUND BALANCES	\$17,346,713	\$2,043,139	\$12,628,503	\$141,679	\$5,458,864

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$129,314	\$12,771,687
	1,870,015
	313,155
	1,280,856
371,372	371,372
739,826	929,091
	244,923
	329,646
	2,890,472
26,027	527,551
8,125	245,354
<u>1,274,664</u>	<u>21,774,122</u>
	2,125,295
	281,528
	1,274,728
169,591	6,932,354
30,497	2,651,157
11,120	62,338
653,475	4,122,117
<u>864,683</u>	<u>17,449,517</u>
<u>409,981</u>	<u>4,324,605</u>
	1,084,883
	(1,534,141)
	<u>(449,258)</u>
409,981	3,875,347
<u>2,220,507</u>	<u>36,374,039</u>
<u>\$2,630,488</u>	<u>\$40,249,386</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, 2018

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	\$3,875,347
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

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

The capitalized expenditures are therefore added back to fund balance	4,195,295
Depreciation expense is deducted from the fund balance	(1,518,868)

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 OPEB liabilities and OPEB-related deferred outflows/inflows of resources	208,565
Net pension liabilities and pension-related deferred outflows/inflows of resources	(648,410)

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	443,318
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$6,555,247
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See accompanying notes to financial statements

TOWN OF ATHERTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$10,686,450	\$11,482,221	\$11,191,973	(\$290,248)
Sales taxes	257,328	268,627	313,155	44,528
Other taxes	1,222,177	1,234,550	1,280,856	46,306
Permits and licenses	242,993	242,993	240,031	(2,962)
Fines and forfeitures	74,515	107,395	329,646	222,251
From other governmental agencies	22,726	28,892	17,218	(11,674)
Service charges	2,563,566	2,895,791	2,890,472	(5,319)
Use of money and property	223,643	224,193	337,627	113,434
Other	40,537	40,224	46,090	5,866
Total Revenues	15,333,935	16,524,886	16,647,068	122,182
EXPENDITURES:				
Current:				
General government				
City council	60,829	113,067	110,774	2,293
Administration	322,882	803,412	770,715	32,697
City attorney	204,000	204,000	167,712	36,288
Finance	680,748	680,748	663,668	17,080
Non-departmental	484,151	484,151	406,752	77,399
General government total	1,752,610	2,285,378	2,119,621	165,757
Planning	279,750	279,750	281,528	(1,778)
Building	1,274,840	1,373,247	1,274,728	98,519
Public works	1,966,197	1,984,865	1,517,689	467,176
Police	7,174,120	7,175,704	6,762,763	412,941
Capital outlay	236,631	239,052	108,693	130,359
Total Expenditures	12,684,148	13,337,996	12,065,022	1,272,974
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,649,787	3,186,890	4,582,046	1,395,156
OTHER FINANCING SOURCES USES				
Transfer in (Note 4)	372,000	372,000	372,000	
Transfers (out) (Note 4)	(449,258)	(449,258)	(614,258)	165,000
NET CHANGE IN FUND BALANCE	\$2,572,529	\$3,109,632	4,339,788	\$1,230,156
Fund balance, beginning of year			13,006,925	
Fund balance, end of year			\$17,346,713	

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Special assessments	\$1,860,000	\$1,860,000	\$1,870,015	\$10,015
Use of money and property			26,194	26,194
Total Revenues	<u>1,860,000</u>	<u>1,860,000</u>	<u>2,020,409</u>	<u>160,409</u>
EXPENDITURES:				
Current:				
General government			5,674	(5,674)
Public works	650,000	650,000	400,000	250,000
Capital outlay	<u>2,080,000</u>	<u>3,374,781</u>	<u>1,367,568</u>	<u>2,007,213</u>
Total Expenditures	<u>2,730,000</u>	<u>4,024,781</u>	<u>1,773,242</u>	<u>2,251,539</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(870,000)</u>	<u>(2,164,781)</u>	<u>247,167</u>	<u>2,411,948</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4)	<u>(372,000)</u>	<u>(372,000)</u>	<u>(372,000)</u>	
Total Other Financing Sources (Uses)	<u>(372,000)</u>	<u>(372,000)</u>	<u>(372,000)</u>	
Net change in fund balance	<u>(\$1,242,000)</u>	<u>(\$2,536,781)</u>	(124,833)	<u>\$2,411,948</u>
Fund Balance, beginning of year			<u>2,167,972</u>	
Fund Balance, end of year			<u>\$2,043,139</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$1,245,000	\$1,245,000	\$1,450,400	\$205,400
Use of money and property	50,000	50,000	134,589	84,589
Total Revenues	<u>1,295,000</u>	<u>1,295,000</u>	<u>1,584,989</u>	<u>289,989</u>
EXPENDITURES:				
Current:				
Library Maintenance	3,473,600	3,473,600	51,218	3,422,382
Total Expenditures	<u>3,473,600</u>	<u>3,473,600</u>	<u>51,218</u>	<u>3,422,382</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,178,600)</u>	<u>(2,178,600)</u>	<u>1,533,771</u>	<u>3,712,371</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4)			(547,883)	(547,883)
Total Other Financing Sources (Uses)			<u>(547,883)</u>	<u>(547,883)</u>
NET CHANGES IN FUND BALANCE	<u>(\$2,178,600)</u>	<u>(\$2,178,600)</u>	985,888	<u>\$3,164,488</u>
BEGINNING FUND BALANCE			<u>11,642,615</u>	
ENDING FUND BALANCE			<u>\$12,628,503</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, 2018

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets	
Cash and investments (Note 3)	\$3,191,003
Total current assets	3,191,003
Noncurrent Assets:	
Capital assets (Note 5):	
Depreciable	1,382,644
Less accumulated depreciation	(988,950)
Total capital assets	393,694
Total noncurrent assets	393,694
Total Assets	3,584,697
LIABILITIES	
Current liabilities:	
Accounts payable	9,937
Compensated absences (Note 1G)	356,662
Claims payable (Note 9)	4,510
Total current liabilities	371,109
Non-current liabilities:	
Compensated absences (Note 1G)	285,095
Total noncurrent liabilities	285,095
Total Liabilities	656,204
NET POSITION (Note 6):	
Net investment in capital assets	393,694
Unrestricted	2,534,799
Total Net Position	\$2,928,493

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, 2018

	Governmental Activities- Internal Service Funds
OPERATING REVENUES	
Charges for services	<u>\$1,504,545</u>
Total Operating Revenues	<u>1,504,545</u>
OPERATING EXPENSES	
Insurance	619,644
OPEB expense	554,746
Employee benefits earned	199,361
Depreciation	127,431
Supplies and maintenance	<u>39,632</u>
Total Operating Expenses	<u>1,540,814</u>
Operating Income (Loss)	<u>(36,269)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>30,329</u>
Total Nonoperating Revenues	<u>30,329</u>
OTHER FINANCING SOURCES (USES)	
Transfers in (Note 4)	<u>449,258</u>
Total Other Financing Sources	<u>449,258</u>
Change in net position	443,318
BEGINNING NET POSITION, AS RESTATED (Note 6E)	<u>2,485,175</u>
ENDING NET POSITION	<u><u>\$2,928,493</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Interdepartmental charges	\$1,504,545
Payments to employees for benefits	(756,414)
Payments to suppliers	(806,105)
Cash Flows from Operating Activities	(57,974)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	449,258
Cash Flow from Noncapital Financing Activities	449,258
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets, net	(196,737)
Cash Flow from Capital and Related Financing Activities	(196,737)
CASH FLOWS FORM INVESTING ACTIVITIES	
Interest received	30,329
Cash Flow from Investing Activities	30,329
Net Cash Flows	224,876
Cash and investments at beginning of period	2,966,127
Cash and investment at end of period	\$3,191,003
Reconciliation of Operating Income to Cash Flows from Operating Activities	
Operating income	(\$36,269)
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	127,431
Changes in assets and liabilities:	
Accounts payable	(103,061)
Claims payable	(41,371)
Compensated absences	(4,704)
Cash Flows from Operating Activities	(\$57,974)

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

OPEB Trust Fund is used to account for assets held in an irrevocable trust and related activities. This trust is administered by Public Agency Retirement Services (PARS) for the purpose of funding postemployment health care benefits provided by the Town.

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, 2018

	OPEB Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	\$6,259,170	\$32,097
Total Assets	\$6,259,170	\$32,097
 LIABILITIES		
Deposits payable		\$32,097
Total Liabilities		\$32,097
 NET POSITION		
Restricted for OPEB benefits	\$6,259,170	
Total Net Position	\$6,259,170	

See accompanying notes to financial statements

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

	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment income:	
Interest	\$346,177
Less: investment expenses	(34,760)
Employer contributions	<u>493,288</u>
Total additions	<u>804,705</u>
DEDUCTIONS	
OPEB expense	<u>401,170</u>
Total deductions	<u>401,170</u>
Change in net position	403,535
BEGINNING NET POSITION	<u>5,855,635</u>
ENDING NET POSITION	<u><u>\$6,259,170</u></u>

See accompanying notes to financial statements

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TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018

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, 2018

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 - OPEB Trust Fund is used to account for assets held in an irrevocable trust and related activities. This trust is administered by Public Agency Retirement Services (PARS) for the purpose of funding postemployment health care benefits provided by the Town. 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, 2018

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, 2018

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 2018 were as follows:

Beginning Balance	\$646,461
Additions	469,730
Payments	<u>(474,434)</u>
Ending Balance	<u>\$641,757</u>
Current Portion	<u>\$356,662</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.

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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

K. *Implementation of Governmental Accounting Standards Board (GASB) Pronouncements*

The following Governmental Accounting Standards Board (GASB) pronouncements that were effective in fiscal year 2017-18:

Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. See Note 8 for additional information.

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

Governmental Accounting Standards Board (GASB) Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). See Note 8 for additional information.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. *Implementation of Governmental Accounting Standards Board (GASB) Pronouncements (Continued)*

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

NOTE 2 - 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 does not budget for the Storm Drainage Capital Project Fund.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018:

Fund Name	Amount
General Fund:	
Planning	\$1,778
Major Special Revenue Funds:	
Special Tax	
General Government	5,674
Nonmajor Special Revenue Funds:	
County Measure A	
Public Works	18,483
Gas Tax	
Public Works	6,031
Supplemental Law Enforcement Services/COPS Grants	
Police	69,591

NOTE 3 - CASH AND INVESTMENTS

The Town's dependence on property tax receipts requires it to maintain significant cash reserves to finance operations during the remainder of the year. The Town receives property tax in November (5%), December (45%), March (5%), April (35%), May (5%) and June (5%). The Town pools cash from all sources and all funds except Cash with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town's cash on deposit or first trust deed mortgage notes with a value of 150% of the Town's cash on deposit as collateral for these deposits. Under California Law, this collateral is held in an investment pool by an independent financial institution in the Town's name and places the Town ahead of general creditors of the institution pledging the collateral.

The Town's investments are carried at fair value, as required by generally accepted accounting principles. The Town adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. In the Town's case, fair value equals fair market value, since all of the Town's investments are readily marketable.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Classification

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

Statement of Net Position	
Cash and investments available for operations	\$48,804,202
Fiduciary Funds	
Cash and investments held by OPEB trust	6,259,170
Cash and Investment available for operations	32,097
Total Cash and Investments	\$55,095,469

Cash and investments as of June 30, 2018 consist of the following:

Cash on hand	\$875
Cash in bank	1,942,076
Investments	53,152,518
Total Cash and Investment	\$55,095,469

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.

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 _m	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, 2018

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	Total
U.S. Treasury Notes	\$991,924	\$983,750	\$1,975,674
U.S. Agency Securities	4,976,202	5,610,987	10,587,189
Corporate Notes	2,492,744	494,552	2,987,296
San Mateo County Investment Pool (SMCL Donor Trust Fund)	8,045,604		8,045,604
California Local Agency Investment Fund	21,923,227		21,923,227
Money Market Mutual Fund	7,633,528		7,633,528
Total Investments	<u>\$46,063,229</u>	<u>\$7,089,289</u>	53,152,518
Cash in Banks			1,942,076
Petty Cash			875
Total Cash			<u>1,942,951</u>
Total Cash and Investments			<u>\$55,095,469</u>

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Standard and Poor's investment ratings as of June 30, 2018 are as follows:

Investment Type	AAA	AAAm	AA	A+*	Not Rated	Total
U.S. Treasury Notes			\$1,975,674			\$1,975,674
U.S. Agency Securities			10,587,189			10,587,189
Corporate Notes	\$498,148		1,994,596	\$494,552		2,987,296
San Mateo County Investment Pool (SMCL Donor Trust Fund)					\$8,045,604	8,045,604
California Local Agency Investment Fund					21,923,227	21,923,227
Money Market Mutual Fund		\$1,374,357			6,259,171	7,633,528
Total Investments	<u>\$498,148</u>	<u>\$1,374,357</u>	<u>\$14,557,459</u>	<u>\$494,552</u>	<u>\$36,228,002</u>	<u>\$53,152,518</u>

*Rated Aa2 by Moody's NRSRO

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, 2018:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Agency Securities	\$3,466,968

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

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

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.

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, 2018:

Investment Type	Level 1	Level 2	Total
Investments by Fair Value Level:			
U.S. Treasury Notes	\$1,975,674		\$1,975,674
U.S. Agency Securities		\$10,587,189	10,587,189
Corporate Notes		2,987,296	2,987,296
Subtotal	<u>\$1,975,674</u>	<u>\$13,574,485</u>	15,550,159
Investments Measured at Amortized Cost:			
Money Market Mutual Funds			7,633,528
Investments Exempt from Fair Value Hierarchy			
San Mateo County Investment Pool			8,045,604
California Local Agency Investment Fund			21,923,227
Total Investments			<u>\$53,152,518</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 Securities 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. Fair value is defined as the quoted market value on the last trading day of the period. Money market funds were reported at amortized cost.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018 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	547,883 (B)
Capital Improvement Capital Projects Fund	General Fund	165,000 (C)
Internal Service Funds	General Fund	449,258 (D)
		<u>\$1,534,141</u>

(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

B. Due to due from other Funds

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Interfund balances as of June 30, 2018, are as follows:

Due From Other Funds	Due To Other Funds	Amount
General Fund	Gas Tax Special Revenue Fund	\$4,500
General Fund	Road Construction Special Revenue Fund	2,532

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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.

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, 2018

NOTE 5 - CAPITAL ASSETS (Continued)

A. Current Year Capital Asset Activities

<i>Governmental Funds</i>	Balance July 1, 2017	Additions	Retirement	Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$690,884				\$690,884
Construction in progress	5,576,813	\$4,195,295		(\$619,425)	9,152,683
Total non-depreciable capital assets	6,267,697	4,195,295		(619,425)	9,843,567
Capital assets being depreciated:					
Buildings	1,934,299				1,934,299
Other improvements	1,125,668				1,125,668
Computer equipment and software	338,597				338,597
Furniture and fixtures	34,798				34,798
Vehicles	60,156		(\$32,067)		28,089
Machinery and equipment	421,518				421,518
Infrastructure	60,433,069			619,425	61,052,494
Total depreciable capital assets	64,348,105		(32,067)	619,425	64,935,463
Less accumulated depreciation for:					
Buildings	1,138,180	43,929			1,182,109
Other improvements	821,112	27,487			848,599
Computer equipment and software	287,376	13,949			301,325
Furniture and fixture	34,799				34,799
Vehicles	60,157		(32,067)		28,090
Machinery and equipment	353,560	12,017			365,577
Infrastructure	37,136,655	1,421,486			38,558,141
Total accumulated depreciation	39,831,839	1,518,868	(32,067)		41,318,640
Depreciable capital assets, net	24,516,266	(1,518,868)		619,425	23,616,823
General capital assets, net	30,783,963	2,676,427			33,460,390
<i>Internal Service Funds</i>					
Depreciable capital assets:					
Vehicles	891,008	154,960	(115,122)		930,846
Computer equipment	285,844	41,777			327,621
Other equipment	124,177				124,177
Total depreciable capital assets	1,301,029	196,737	(115,122)		1,382,644
Less: accumulated depreciation for					
Vehicles	662,775	101,014	(115,122)		648,667
Computer equipment	246,567	15,265			261,832
Other equipment	67,299	11,152			78,451
Total accumulated depreciation	976,641	127,431	(115,122)		988,950
Internal Service Funds capital assets, net	324,388	69,306			393,694
Total governmental activities capital assets, net	\$31,108,351	\$2,745,733			\$33,854,084

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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:

Public works	\$1,493,044
Building	6,694
Police	<u>19,130</u>
Governmental activities subtotal	1,518,868
Internal Service Fund	<u>127,431</u>
Total	<u><u>\$1,646,299</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, 2018

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, 2018

NOTE 6 - FUND BALANCES AND NET POSITIONS (Continued)

B. Fund Balances (Continued)

Detailed classifications of the Town's Fund Balances, as of June 30, 2018, are below:

	General Fund	Major Special Revenue Funds		Major Capital Projects Funds		Other Governmental Funds	Total
		Special Tax	Library	Facilities Construction	Capital Improvement		
Nonspendable:							
Prepays	\$58,400						\$58,400
Total Nonspendable	58,400						58,400
Restricted for:							
Street drainage and police services		\$2,043,139					2,043,139
Library operations			\$12,628,503				12,628,503
Measure A						\$555,815	555,815
Supplemental law enforcement services / COPS Grant						302	302
Evans Creative Design						7,351	7,351
Measure M						244,853	244,853
Refuse Services						1,540,849	1,540,849
Channel Drainage District						279,600	279,600
Total Restricted		2,043,139	12,628,503			2,628,770	17,300,412
Committed to:							
Emergency disaster	1,809,753						1,809,753
Total Committed	1,809,753						1,809,753
Assigned to:							
Tennis program	181,709						181,709
Building department operations	434,296						434,296
Tree Committee	4,854						4,854
Capital projects				\$141,679	\$5,458,864	30,829	5,631,372
Total Assigned	620,859			141,679	5,458,864	30,829	6,252,231
Unassigned	14,857,701					(29,111)	14,828,590
Total Unassigned	14,857,701					(29,111)	14,828,590
Total Fund Balances	\$17,346,713	\$2,043,139	\$12,628,503	\$141,679	\$5,458,864	\$2,630,488	\$40,249,386

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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 6 - FUND BALANCES AND NET POSITIONS (Continued)

E. Net Position Restatements

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

The implementation of the Statement required the City to make prior period adjustments. As a result, the beginning net positions of the Governmental Activities and Employee Benefits Internal Service Fund were restated and reduced by \$9,738,515 and \$3,061,822, respectively. See Note 8.

NOTE 7 – PENSION PLAN

A. General Information about the 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.

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, 2018

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, 2018, 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 or older	52-67 or older
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1% to 2.5%
Required employee contribution rates	7.0%	6.5%
Required employer contribution rates	9.096%	6.908%
	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	50-55 or older	50-57 or older
Monthly benefits, as a % of eligible compensation	3%	2% to 2.7%
Required employee contribution rates	9.00%	12.25%
Required employer contribution rates	21.418%	12.729%

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 \$657,860 in fiscal year 2018.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018, the contributions to the Plan were as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous PEPRA</u>	<u>Safety</u>	<u>Safety PEPRA</u>
Contributions - employer	\$318,007	\$31,358	\$822,829	\$116,647
Contributions - employee	107,954	29,133	144,551	110,426

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

As of June 30, 2018, 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 - Classic & PEPRA	\$4,542,046
Safety - Classic & PEPRA	11,579,520
Total Net Pension Liability	<u>\$16,121,566</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, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions 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, 2016 and 2017 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2016	0.11181%	0.19496%
Proportion - June 30, 2017	0.11522%	0.19379%
Change - Increase (Decrease)	<u>0.00341%</u>	<u>-0.00117%</u>

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018, the Town recognized pension expense of \$1,937,251. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous - Classic & PEPR

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$349,365	
Differences between actual and expected experience	6,048	(\$86,648)
Changes in assumptions	750,408	(57,219)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(355,025)
Change in employer proportion	89,198	(157,495)
Net differences between projected and actual earnings on plan investments	169,711	
Total	\$1,364,730	(\$656,387)

Safety - Classic & PEPR

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$939,476	
Differences between actual and expected experience	120,971	(\$31,540)
Changes in assumptions	1,754,378	(134,601)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(427,417)
Change in employer proportion	136,648	(131,451)
Net differences between projected and actual earnings on plan investments	382,523	
Total	\$3,333,996	(\$725,009)
Grand total	\$4,698,726	(\$1,381,396)

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - PENSION PLAN (Continued)

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

\$1,288,841 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous	Safety	TOTAL
	Amortization Amount	Amortization Amount	Amortization Amount
2019	(\$100,078)	\$282,863	\$182,785
2020	349,337	986,462	1,335,799
2021	210,478	624,013	834,491
2022	(100,759)	(223,827)	(324,586)
	<u>\$358,978</u>	<u>\$1,669,511</u>	<u>\$2,028,489</u>

Actuarial Assumptions – The total pension liability as of June 30, 2017 was determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.1% - 20% (1)
Investment Rate of Return	7.15% (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 available on the CalPERS website under Forms and Publications.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - PENSION PLAN (Continued)

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

Change of Assumptions – For the measurement date of June 30, 2017, the accounting discount rate was reduced from 7.65 to 7.15 percent.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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, 2018

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	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
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>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$7,015,604	\$17,375,258
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$4,542,046	\$11,579,520
1% Increase	8.15%	8.15%
Net Pension Liability	\$2,057,206	\$6,841,794

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, 2018

NOTE 8 – POST EMPLOYMENT HEALTH CARE BENEFITS

A. General Information about the Town's Other Post Employment Benefit (OPEB) Plan and the OPEB Trust Fund

OPEB Trust Fund Plan Administrator - The City Manager is the Town's appointed plan administrator to act on behalf of the Town. The Public Agency Retirement Services (PARS) administers the trust for the Town's retiree healthcare benefit plan.

Plan Description – The Town's Post Employment Benefit Plan is a single-employer defined benefit OPEB plan. 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).

Benefits Provided – The Town of Atherton participates in the CalPERS medical program. Retirees who qualify for a CalPERS pension are entitled to employer paid CalPERS medical benefits as described below. The Town does not pay for dental, vision or other health and welfare benefits for retirees.

Employees who retire from the Town, receive a PERS pension and continue their CalPERS medical coverage are eligible to receive the benefit described below. This benefit continues throughout the life of the retiree and surviving spouse.

Management Employees (non-represented), hired before adoption of Management Resolution on November 17, 2010 - The Town pays 100% of premiums for any medical coverage and any family status.

Management Employees (non-represented), hired after adoption of November 17, 2010 and before 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.

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.

Management Employees (non-represented), hired on or after July 1, 2013 - The Town pays the CalPERS minimum benefit.

APOA Police Officers, retired before October 1, 2013 - The Town pays a maximum monthly benefit of \$1,247.06 which is assumed to not increase in the future. 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 be exempt from this cap.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

A. General Information about the Town's Other Post Employment Benefit (OPEB) Plan and the OPEB Trust Fund (Continued)

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%. This assumption is based on the language in Resolution 13-37, page 8, Paragraph C. a., and assumes that the same language will continue in years after 2016. 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. If they have 10 or more years of service, they are subject to a vesting schedule.

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 90% of the Town contribution of Kaiser.

APOA Police Officers, hired on or after October 1, 2013 - The Town pays up to a maximum of the PEMHCA Minimum (\$125 in 2016, \$128 in 2017).

APOA Miscellaneous Employees - The Town pays the same benefit as for APOA Officers. It has been assumed that this benefit will continue after 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.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2018:

Active employees	36
Retirees receiving benefit payments	40
Covered dependents of retirees	20
Total	96

To comply with Actuarial Standard of Practice No. 6 (ASOP 6), the actuarial valuation includes an implicit subsidy liability. When premiums for retirees are determined using a blend of active employee and retiree experience, it creates an implicit subsidy to the retirees, since retiree healthcare costs are generally higher than active employees. ASOP 6 effectively requires most public agencies to calculate an implicit subsidy liability whenever their retirees participate in the group medical plans, but only pay the same premiums as active employees. As a result of the required ASOP 6, the Town's Actuarial Accrued Liability at June 30, 2018 included an implicit subsidy liability of \$1,983,223.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Net OPEB Liability

Actuarial Methods and Assumptions – The Town’s net OPEB liability and total OPEB liability were determined by an actuarial valuation based on the following dates, actuarial methods and assumptions:

Actuarial Assumptions	June 30, 2018 Measurement Date
Valuation Date	• June 30, 2018
Actuarial Cost Method	• Entry Age Normal
Contribution Policy	• The Town intends to contribute the full ADC to the PARS trust each year
Discount Rate and Long Term Expected Rate of Return on Investment	• 6.00%, based on PARS investment allocation Moderate
Inflation	• 2.0% per annum
Payroll Increases	• 3.25% annual increases
Medical Trend	• Pre-65: 5.62% for 2018, increasing to 7.80% in 2024, decreasing to 5.68% in 2030 and later years • Post-65: 3.04% for 2018 increasing to 5.00% in 2019 and later years
Mortality	• CalPERS 2014 Scale MP-2014

OPEB Trust Fund Investment Policy - PARS offers different investment portfolios as part of the investment vehicle. The Town has elected to invest pre-funded contributions using a Moderate Index Plus portfolio. The investment objective of this strategy is to provide current income and moderate capital appreciation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	48.25%	5.65%
Fixed income	45.00%	1.39%
REITS	1.75%	5.06%
Cash	5.00%	0.00%
Total	100.00%	

The long-term expected real rate of return used JPMorgan arithmetic Long Term Capital Market assumptions and expected inflation of 2.26%.

The above table shows the target asset allocation in the PARS Trust Moderate investment policy.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Net OPEB Liability (Continued)

Discount Rate – The discount rate is based on a blend of (a) the long-term expected rate of return on assets for benefits covered by plan assets and a yield or index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better for benefits not covered by plan assets. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Trust Fund Annual Money-Weighted Rate of Return - For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 6.00%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Changes in Net OPEB Liability

The changes in the net OPEB liability follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (a) - (b)
Balance at June 30, 2017 Measurement Date	\$12,532,328	\$5,855,635	\$6,676,693
Changes Recognized for the Measurement Period:			
Service Cost	257,258		257,258
Interest on the total OPEB liability	755,515		755,515
Changes in benefit terms			0
Differences between expected and actual experience	(574,495)		(574,495)
Changes of assumptions	(2,299,690)		(2,299,690)
Contributions from the employer		493,288	(493,288)
Net investment income		326,600	(326,600)
Benefit payments	(401,170)	(401,170)	0
Administrative expenses		(15,183)	15,183
Net changes	(2,262,582)	403,535	(2,666,117)
Balance at June 20, 2018 Measurement Date	\$10,269,746	\$6,259,170	\$4,010,576
Plan fiduciary net position as a percentage of the total OPEB liability		60.9%	

The OPEB plan does not issue separate financial statements.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

D. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB 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 discount rate:

Net OPEB Liability		
Discount Rate -1%	Current Discount Rate	Discount Rate +1%
(5.00%)	(6.00%)	(7.00%)
\$5,395,976	\$4,010,576	\$2,888,077

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates as discussed above:

Net OPEB Liability		
Current Healthcare Cost		
1% Decrease	Trend Rates	1% Increase
\$2,898,978	\$4,010,576	\$5,359,239

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

For the year ended June 30, 2018, the Town recognized OPEB expense of \$284,723. At June 30, 2018, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience		(\$495,537)
Changes of assumptions		(1,983,625)
Net differences between projected and actual earnings on plan investments	\$21,610	
Total	\$21,610	(\$2,479,162)

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

E. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

The deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future fiscal years as part of OPEB expense as follows:

Year Ended June 30	Annual Amortization
2019	(\$389,620)
2020	(389,620)
2021	(389,620)
2022	(389,622)
2023	(395,023)
Thereafter	(504,047)
Total	(\$2,457,552)

NOTE 9 - RISK MANAGEMENT

A. Coverage

The Town is a member of Pooled Liability Assurance Network (PLAN), 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. PLAN is governed by a board consisting of representatives from member municipalities. The board controls the operations of PLAN, 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 PLAN Services, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

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.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - RISK MANAGEMENT

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:

	2018	2017
Beginning balance	\$45,881	\$35,662
Net change in claims liabilities	(61,441)	32,605
Claims paid	20,070	(22,386)
Ending balance	<u>\$4,510</u>	<u>\$45,881</u>
Claims liabilities due within a year	<u>\$4,510</u>	<u>\$45,881</u>

For the years ended June 30, 2018, 2017 and 2016 the amount of settlements did not exceed insurance coverage.

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, 2018 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 \$23,282 for the year ended June 30, 2018. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

TOWN OF ATHERTON
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 10 - JOINT POWERS AUTHORITIES (Continued)

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.

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.

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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

Measurement Date	Miscellaneous			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Plan's proportion of the Net Pension Liability (Asset)	0.04366%	0.10574%	0.11181%	0.11522%
Plan's proportion share of the Net Pension Liability (Asset)	<u>\$2,716,530</u>	<u>\$2,901,033</u>	<u>\$3,884,053</u>	<u>\$4,542,046</u>
Plan's Covered Payroll	<u>\$1,473,083</u>	<u>\$1,595,884</u>	<u>\$1,772,771</u>	<u>\$1,912,587</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	184.41%	181.78%	219.10%	237.48%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%	78.28%	73.20%	75.39%

Measurement Date	Safety			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Plan's proportion of the Net Pension Liability (Asset)	0.10505%	0.18865%	0.19496%	0.19379%
Plan's proportion share of the Net Pension Liability (Asset)	<u>\$6,536,499</u>	<u>\$7,773,056</u>	<u>\$10,097,455</u>	<u>\$11,579,520</u>
Plan's Covered Payroll	<u>\$2,030,918</u>	<u>\$2,391,765</u>	<u>\$2,488,471</u>	<u>\$2,414,626</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	321.85%	324.99%	405.77%	479.56%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	81.46%	78.52%	73.96%	71.74%

* - 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

Fiscal Year Ended June 30	Miscellaneous			
	2015	2016	2017	2018
Actuarially determined contribution	\$179,934	\$150,616	\$305,597	\$349,365
Contributions in relation to the actuarially determined contributions	(179,934)	(150,616)	(305,597)	(349,365)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
 Covered payroll	 \$1,595,884	 \$1,772,771	 \$1,912,587	 \$2,040,240
 Contributions as a percentage of covered payroll	 11.27%	 8.50%	 15.98%	 17.12%
Fiscal Year Ended June 30	Safety			
	2015	2016	2017	2018
Actuarially determined contribution	\$646,174	\$466,548	\$849,073	\$939,476
Contributions in relation to the actuarially determined contributions	(646,174)	(466,548)	(849,073)	(939,476)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
 Covered payroll	 \$2,391,765	 \$2,488,471	 \$2,414,626	 \$2,608,708
 Contributions as a percentage of covered payroll	 27.02%	 18.75%	 35.16%	 36.01%

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
 Retiree Healthcare OPEB Plan - Single Employer
 Last 10 fiscal years*

Measurement Date	<u>6/30/2017</u>	<u>6/30/2018</u>
Total OPEB Liability		
Service Cost	\$245,008	\$257,258
Interest	730,760	755,515
Changes in benefit terms		
Differences between expected and actual experience	(150,117)	(574,495)
Changes of assumptions		(2,299,690)
Benefit payments	<u>(448,746)</u>	<u>(401,170)</u>
Net change in total OPEB liability	376,905	(2,262,582)
Total OPEB liability - beginning	<u>12,155,423</u>	<u>12,532,328</u>
Total OPEB liability - ending (a)	<u><u>\$12,532,328</u></u>	<u><u>\$10,269,746</u></u>
Plan fiduciary net position		
Contributions - employer	\$448,736	\$493,288
Contributions - employee		
Net investment income	464,151	326,600
Administrative expense	(13,996)	(15,183)
Benefit payments	<u>(448,746)</u>	<u>(401,170)</u>
Net change in plan fiduciary net position	450,145	403,535
Plan fiduciary net position - beginning	<u>5,405,490</u>	<u>5,855,635</u>
Plan fiduciary net position - ending (b)	<u><u>\$5,855,635</u></u>	<u><u>\$6,259,170</u></u>
Net OPEB liability - ending (a)-(b)	<u><u>\$6,676,693</u></u>	<u><u>\$4,010,576</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	46.7%	60.9%
Covered-employee payroll	<u><u>\$4,327,213</u></u>	<u><u>\$4,497,946</u></u>
Net OPEB liability as a percentage of covered-employee payroll	<u><u>154.30%</u></u>	<u><u>89.16%</u></u>

* Fiscal year 2017 was the first year of implementation for GASB 74

* Fiscal year 2018 was the first year of implementation for GASB 75

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS
 Retiree Healthcare OPEB Plan - Single Employer
 Last 10 fiscal years*

Fiscal Year Ended June 30,	2017	2018
Actuarially determined contribution	\$668,846	\$693,890
Contributions in relation to the actuarially determined contribution	448,945	493,288
Contribution deficiency (excess)	\$219,901	\$200,602
Covered-employee payroll	\$4,327,213	\$4,497,946
Contributions as a percentage of covered-employee payroll	10.4%	10.97%

* Fiscal year 2017 was the first year of implementation for GASB 74

* Fiscal year 2018 was the first year of implementation for GASB 75

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTION
 Retiree Healthcare OPEB Plan - Agent Multiple Employer
 Methods and Assumptions for Actuarially Determined Contribution

Valuation Date	• June 30, 2018
Actuarial Cost Method	• Entry Age Normal
Contribution Policy	• The Town intends to contribute the full ADC to the PARS trust each year
Discount Rate and Long Term Expected Rate of Return on Investment	• 6.00%, based on PARS investment allocation Moderate
Inflation	• 2.0% per annum
Payroll Increases	• 3.25% annual increases
Medical Trend	• Pre-65: 5.62% for 2018, increasing to 7.80% in 2024, decreasing to 5.68% in 2030 and later years • Post-65: 3.04% for 2018 increasing to 5.00% in 2019 and later years
Mortality	• CalPERS 2014 Scale MP-2014

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS
Other Post-Employment Retirement Benefits Trust Fund
Last 10 Fiscal Years

<u>Fiscal year ended June 30,</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2017	6.00%
2018	6.00%

*Fiscal year 2017 was the first year of implementation for GASB 74

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, 2018

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	\$559,588	\$319	\$302	\$7,351	\$319,853		\$1,540,849
Receivables:							
Taxes	26,119	6,216					
Total Assets	\$585,707	\$6,535	\$302	\$7,351	\$319,853		\$1,540,849
LIABILITIES							
Accounts payable	\$29,892	\$28,614			\$75,000		
Due to other funds		4,500				\$2,532	
Total Liabilities	29,892	33,114			75,000	2,532	
FUND EQUITY							
Fund balances							
Restricted	555,815		\$302	\$7,351	244,853		\$1,540,849
Assigned							
Unassigned		(26,579)				(2,532)	
Total Fund Balances	555,815	(26,579)	302	7,351	244,853	(2,532)	1,540,849
Total Liabilities and Fund Balances	\$585,707	\$6,535	\$302	\$7,351	\$319,853		\$1,540,849

CAPITAL PROJECT FUNDS

<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
\$30,829	\$279,240	\$2,738,331
	360	32,695
<u>\$30,829</u>	<u>\$279,600</u>	<u>\$2,771,026</u>
		\$133,506
		7,032
		<u>140,538</u>
<u>\$30,829</u>	<u>\$279,600</u>	2,628,770
		30,829
		<u>(29,111)</u>
<u>30,829</u>	<u>279,600</u>	<u>2,630,488</u>
<u>\$30,829</u>	<u>\$279,600</u>	<u>\$2,771,026</u>

TOWN OF ATHERTON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

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	\$371,372						
From other agencies		\$184,510	\$169,591		\$44,988		\$340,737
Use of money and property	5,320		3	\$70	3,041		14,646
Miscellaneous		8,125					
Total Revenues	<u>376,692</u>	<u>192,635</u>	<u>169,594</u>	<u>70</u>	<u>48,029</u>		<u>355,383</u>
EXPENDITURES							
Current:							
Police			169,591				
Public Works	18,483	6,031					
Non-Departmental				11,120			
Capital Outlay	<u>373,678</u>	<u>201,797</u>			<u>75,000</u>		
Total Expenditures	<u>392,161</u>	<u>207,828</u>	<u>169,591</u>	<u>11,120</u>	<u>75,000</u>		
NET CHANGE IN FUND BALANCES	(15,469)	(15,193)	3	(11,050)	(26,971)		355,383
BEGINNING FUND BALANCES	<u>571,284</u>	<u>(11,386)</u>	<u>299</u>	<u>18,401</u>	<u>271,824</u>	<u>(\$2,532)</u>	<u>1,185,466</u>
ENDING FUND BALANCES	<u>\$555,815</u>	<u>(\$26,579)</u>	<u>\$302</u>	<u>\$7,351</u>	<u>\$244,853</u>	<u>(\$2,532)</u>	<u>\$1,540,849</u>

CAPITAL PROJECTS FUNDS

<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
	\$129,314	\$129,314
		371,372
		739,826
\$293	2,654	26,027
		8,125
<u>293</u>	<u>131,968</u>	<u>1,274,664</u>
		169,591
	5,983	30,497
		11,120
	<u>3,000</u>	<u>653,475</u>
	<u>8,983</u>	<u>864,683</u>
293	122,985	409,981
<u>30,536</u>	<u>156,615</u>	<u>2,220,507</u>
<u>\$30,829</u>	<u>\$279,600</u>	<u>\$2,630,488</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, 2018

	SPECIAL REVENUE FUNDS					
	County Measure A			Gas Tax		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Measure A grants	\$340,000	\$371,372	\$31,372			
From other agencies				\$205,000	\$184,510	(\$20,490)
Use of money and property		5,320	5,320			
Miscellaneous					8,125	8,125
Total Revenues	340,000	376,692	36,692	205,000	192,635	(12,365)
EXPENDITURES						
Current:						
Police						
Public Works		18,483	(18,483)		6,031	(6,031)
Non-departmental						
Capital Outlay	896,437	373,678	522,759	300,000	201,797	98,203
Total Expenditures	896,437	392,161	504,276	300,000	207,828	92,172
NET CHANGE IN FUND BALANCES	(\$556,437)	(15,469)	\$540,968	(\$95,000)	(15,193)	\$79,807
BEGINNING FUND BALANCES		571,284			(11,386)	
ENDING FUND BALANCES		\$555,815			(\$26,579)	

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	\$169,591	\$69,591				\$75,000	\$44,988	(\$30,012)
	3	3	\$225	\$70	(\$155)	3,041	3,041	
100,000	169,594	69,594	225	70	(155)	78,041	48,029	(30,012)
100,000	169,591	(69,591)	702,971		702,971			
			14,000	11,120	2,880	136,437	75,000	61,437
100,000	169,591	(69,591)	716,971	11,120	705,851	136,437	75,000	61,437
	3	\$3	(\$716,746)	(11,050)	\$705,696	(\$58,396)	(26,971)	\$31,425
	299			18,401			271,824	
	\$302			\$7,351			\$244,853	

(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, 2018

	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					\$340,737	\$340,737
Use of money and property					14,646	14,646
Miscellaneous						
Total Revenues					355,383	355,383
EXPENDITURES						
Current:						
Police						
Public Works						
Non-departmental						
Capital Outlay						
Total Expenditures						
NET CHANGE IN FUND BALANCES					355,383	\$355,383
BEGINNING FUND BALANCES		(\$2,532)			1,185,466	
ENDING FUND BALANCES		(\$2,532)			\$1,540,849	

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, 2018

	<u>Equipment Replacement</u>	<u>Workers' Compensation Insurance</u>	<u>General Liability</u>	<u>Employee Benefits</u>	<u>Total</u>
ASSETS					
Current Assets:					
Cash and investments	\$470,229	\$724,657	\$558,714	\$1,437,403	\$3,191,003
Total Current Assets	<u>470,229</u>	<u>724,657</u>	<u>558,714</u>	<u>1,437,403</u>	<u>3,191,003</u>
Non-Current Assets:					
Capital assets:					
Depreciable	1,382,644				1,382,644
Less: accumulated depreciation	<u>(988,950)</u>				<u>(988,950)</u>
Net Capital Asset	<u>393,694</u>				<u>393,694</u>
Total noncurrent assets	<u>393,694</u>				<u>393,694</u>
Total Assets	<u>863,923</u>	<u>724,657</u>	<u>558,714</u>	<u>1,437,403</u>	<u>3,584,697</u>
LIABILITIES					
Current liabilities					
Accounts payable			7,540	2,397	9,937
Claims payable			4,510		4,510
Compensated absences				<u>356,662</u>	<u>356,662</u>
Total current liabilities			<u>12,050</u>	<u>359,059</u>	<u>371,109</u>
Noncurrent liabilities					
Compensated absences				<u>285,095</u>	<u>285,095</u>
Total noncurrent liabilities				<u>285,095</u>	<u>285,095</u>
Total Liabilities			<u>12,050</u>	<u>644,154</u>	<u>656,204</u>
Net investment in capital assets	393,694				393,694
Unrestricted	<u>470,229</u>	<u>724,657</u>	<u>546,664</u>	<u>793,249</u>	<u>2,534,799</u>
Total Net Position	<u>\$863,923</u>	<u>\$724,657</u>	<u>\$546,664</u>	<u>\$793,249</u>	<u>\$2,928,493</u>

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Equipment Replacement</u>	<u>Workers' Compensation Insurance</u>	<u>General Liability</u>	<u>Employee Benefits</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$297,001	\$377,178	\$230,884	\$599,482	\$1,504,545
Total Operating Revenues	<u>297,001</u>	<u>377,178</u>	<u>230,884</u>	<u>599,482</u>	<u>1,504,545</u>
OPERATING EXPENSES					
Insurance		510,061	109,583		619,644
OPEB expense				554,746	554,746
Employee benefits earned				199,361	199,361
Depreciation	127,431				127,431
Supplies and maintenance	39,632				39,632
Total Operating Expenses	<u>167,063</u>	<u>510,061</u>	<u>109,583</u>	<u>754,107</u>	<u>1,540,814</u>
Operating Income (Loss)	<u>129,938</u>	<u>(132,883)</u>	<u>121,301</u>	<u>(154,625)</u>	<u>(36,269)</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	4,469	6,888	5,310	13,662	30,329
Total Nonoperating Revenues (Expenses)	<u>4,469</u>	<u>6,888</u>	<u>5,310</u>	<u>13,662</u>	<u>30,329</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		357,140		92,118	449,258
Total Other Financing Sources (Uses)		<u>357,140</u>		<u>92,118</u>	<u>449,258</u>
Change in Net Position	134,407	231,145	126,611	(48,845)	443,318
BEGINNING NET POSITION, AS RESTATED	<u>729,516</u>	<u>493,512</u>	<u>420,053</u>	<u>842,094</u>	<u>2,485,175</u>
ENDING NET POSITION	<u>\$863,923</u>	<u>\$724,657</u>	<u>\$546,664</u>	<u>\$793,249</u>	<u>\$2,928,493</u>

TOWN OF ATHERTON
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from other funds	\$297,001	\$377,178	\$230,884	\$599,482	\$1,504,545
Payments to employees for benefits				(756,414)	(756,414)
Payments to vendors	(39,632)	(623,059)	(143,414)		(806,105)
Cash Flows from Operating Activities	257,369	(245,881)	87,470	(156,932)	(57,974)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in		357,140		92,118	449,258
Cash Flows from Noncapital Financing Activities		357,140		92,118	449,258
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets, net	(196,737)				(196,737)
Cash Flows (used for) Capital and Related Financing Activities	(196,737)				(196,737)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	4,469	6,888	5,310	13,662	30,329
Cash Flows from Investing Activities	4,469	6,888	5,310	13,662	30,329
Net Cash Flows	65,101	118,147	92,780	(51,152)	224,876
Cash and investments at beginning of period	405,128	606,510	465,934	1,488,555	2,966,127
Cash and investments at end of period	<u>\$470,229</u>	<u>\$724,657</u>	<u>\$558,714</u>	<u>\$1,437,403</u>	<u>\$3,191,003</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income	\$129,938	(\$132,883)	\$121,301	(\$154,625)	(\$36,269)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	127,431				127,431
Compensated absences				(4,704)	(4,704)
Change in assets and liabilities:					
Accounts payable		(112,998)	7,540	2,397	(103,061)
Claims payable			(41,371)		(41,371)
Cash Flows from Operating Activities	<u>\$257,369</u>	<u>(\$245,881)</u>	<u>\$87,470</u>	<u>(\$156,932)</u>	<u>(\$57,974)</u>

AGENCY FUNDS

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

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

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

TREE COMMITTEE – Fund maintained for the Tree Committee.

TOWN OF ATHERTON
 AGENCY FUNDS
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2018

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
<hr/> <u>H-P Park Improvement Fund</u> <hr/>				
ASSETS				
Cash and investments	\$6,194	\$59		\$6,253
Total assets	<u>\$6,194</u>	<u>\$59</u>		<u>\$6,253</u>
LIABILITIES				
Deposits payable	\$6,194	\$59		\$6,253
Total liabilities	<u>\$6,194</u>	<u>\$59</u>		<u>\$6,253</u>
<hr/> <u>Tree Committee</u> <hr/>				
ASSETS				
Cash and investments	\$25,598	\$246		\$25,844
Total assets	<u>\$25,598</u>	<u>\$246</u>		<u>\$25,844</u>
LIABILITIES				
Deposits payable	\$25,598	\$246		\$25,844
Total liabilities	<u>\$25,598</u>	<u>\$246</u>		<u>\$25,844</u>
<hr/> <u>All Agency Funds</u> <hr/>				
ASSET				
Cash and investments	\$31,792	\$305		\$32,097
Total assets	<u>\$31,792</u>	<u>\$305</u>		<u>\$32,097</u>
LIABILITIES				
Deposits payable	\$31,792	\$305		\$32,097
Total liabilities	<u>\$31,792</u>	<u>\$305</u>		<u>\$32,097</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, 2018, and have issued our report thereon dated December 23, 2018. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 23, 2018 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 December 23, 2018, 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
December 23, 2018