

**Town
of
Atherton**

Atherton, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2006

Town of Atherton

Table of Contents

I. INTRODUCTION	<u>Page</u>
City Officials	4
Independent Auditors' Report	5
Management's Discussion & Analysis	6
II. FINANCIAL SECTION	
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities and Changes in Net Assets	18
Fund Financial Statements	
<i>Governmental Fund Financial Statements:</i>	
Balance Sheet	22
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	24
Statement of Revenues, Expenditures and Changes in Fund Balances	25
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets	27
<i>Proprietary Fund Financial Statements:</i>	
Statement of Net Assets	30
Statement of Revenues, Expenses and Changes in Net Assets	31
Statement of Cash Flows	32
<i>Fiduciary Fund Financial Statements</i>	
Statement of Fiduciary Net Assets	34
Notes to the Basic Financial Statements	35
Required Supplementary Information:	
Public Employees Retirement System Schedule of Funding Progress	55
Statement of Revenues, Expenditures and Changes in Fund Balances –Budget and Actual –Major Fund:	
General Fund	56
Library	57
Road Construction Fund	58
Supplementary Information:	
Non-Major Governmental Funds:	
Combining Balance Sheet	62
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	66
Statement of Revenues, Expenditures and Changes in Fund Balances –Budget and Actual – Non - Major Funds:	
State Park Grants Fund	71
COPS Grant Fund	72
Gas Tax Fund	73
Transportation Fund	74
Special Tax Fund	75
Tennis Fund	76
Fiduciary Funds:	
Statement of Fiduciary Net Assets	78
Statement of Changes in Assets and Liabilities	80

CITY OFFICIALS

CITY COUNCIL

Mayor	Charles E. Marsala
Vice Mayor	Alan B. Carlson
Council Member	Jerry Carlson
Council Member	James R Janz
Council Member	Kathy McKeithan

ADMINISTRATION & DEPARTMENT HEADS

City Manager	Jim Robinson
Assistant City Manager	Wende C. Protzman
Police Chief	Robert J. Brennan
Public Works Director	Duncan Jones
Interim Planning/Building Administrator	Gary Binger
Finance Director	John P. Johns
Acting City Clerk	Kathi Hamilton
Park Program Manager	Jean Cardona
City Attorney	Marc G. Hynes
Town Arborist	Kathy Hughes Anderson
City Planner	Neil Martin & Associates
Deputy Town Planner	Lisa Costa Sanders

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the Town of Atherton
Atherton, California

We have audited the accompanying financial statements of 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, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111

To the Honorable Mayor and Members of the City Council
of the Town of Atherton
Atherton, California
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Capricci & Carson

Oakland, California
August 18, 2006

Town of Atherton

Management's Discussion and Analysis

For the year ended June 30, 2006

As management of the Town of Atherton, we offer readers of the Town of Atherton's financial statements this narrative and analysis of the financial activities of the Town of Atherton for the fiscal year ended June 30, 2006. 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 \$41,861,432 (net assets). Of this amount, \$8,161,460 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$2,886,732. Page 18 of the basic financial statements provides a reconciliation between the increase in fund balance as reported on the governmental funds statements of revenues, expenditures and changes in fund balance with the government-wide statement of activities and changes in net assets.
- As of the close of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$14,891,594, an increase of \$2,689,432 in comparison with the prior year. Approximately one-half of this total amount, \$7,300,831 is available for spending at the Town's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,702,141, or 50 percent of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is 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 supplementary information in a separate section.

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 a private-sector business.

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

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

Town of Atherton

Management's Discussion and Analysis, Continued

For the year ended June 30, 2006

The government-wide financial statements are intended to distinguish functions of the Town of Atherton that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Atherton include general government, public works administration, parks and recreation, police, parks maintenance, library maintenance, and streets and public facilities. At present the Town does not provide municipal services for any business-type activities (such as utilities).

The government-wide financial statements include not only the Town of Atherton itself (known as the *primary government*), but also the Atherton Channel District, a legally separate special purpose district. The Atherton Channel District, although legally separate, functions for all practical purposes as a department of the Town of Atherton, and therefore has been included as an integral part of the primary government.

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 the compliance with finance-related legal requirements. All of the funds of the Town of Atherton can be divided into three categories: governmental, proprietary, 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 prove a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Atherton maintains sixteen individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the special tax special revenue fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the Required Supplementary Information.

The Town of Atherton adopts an annual appropriated budget for its general fund and special tax special revenue fund. A budgetary comparison statement has been provided for the general fund and the special tax special revenue fund to demonstrate compliance with this budget.

Town of Atherton

Management's Discussion and Analysis, Continued

For the year ended June 30, 2006

Proprietary funds. The Town of Atherton maintains one type of proprietary fund type, internal service funds. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town of Atherton's various functions. The Town of Atherton uses internal service funds to account for its fleet of vehicles, management information systems, and certain administrative services functions activities. Because of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in 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.

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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town of Atherton's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Atherton, assets exceeded liabilities by \$41,861,432 at the close of the most recent fiscal year.

The largest portion of the Town of Atherton's net assets consists of investments in capital assets (65 percent). An additional portion of the Town of Atherton's net assets (16 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$8,161,460) may be used to meet the Town's ongoing obligations to citizens and creditors.

Town of Atherton
Management's Discussion and Analysis, Continued
For the year ended June 30, 2006

Town of Atherton's Net Assets

Net Assets	
Invested in capital assets, net of related debt	\$ 27,099,826
Restricted for:	
Capital projects	993,547
Debt service	625,138
Special projects	4,981,461
Unrestricted	<u>8,161,460</u>
Total net assets	<u>\$ 41,861,432</u>

At the end of the current fiscal year, the Town of Atherton is able to report positive balance in all three activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the Town of Atherton's net assets by \$2,886,732. The increase in net assets was due to a combination of factors including continued strength in the real estate market resulting in rising property tax revenues, lower than expected expenditures for employee salaries and benefits and continued investments in the Town's infrastructure.

Financial Analysis of the Town's Government-Wide Financial Statements

The following table provides a comparison of revenues, expenditures, assets, liabilities and net assets for all governmental-type activities for the fiscal year ended June 30, 2005 and 2006.

Town of Atherton
Comparative Analysis of Revenues, Expenditures, Assets, Liabilities, and Net Assets
For the Years Ended June 30, 2005 and 2006

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>Change</u>
Revenues	\$ 12,760,532	\$ 11,498,603	\$ 1,261,929	11%
Expenditures	\$ 10,541,125	\$ 10,548,052	\$ (6,927)	0%
Assets	\$ 43,537,389	\$ 40,664,572	\$ 2,872,817	7%
Liabilities	\$ 1,675,957	\$ 1,689,872	\$ (13,915)	(1)%
Net Assets	\$ 41,861,432	\$ 38,974,700	\$ 2,886,732	7%

Total assets and total fund equity increased by 5% and 6% respectively.

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

Town of Atherton

Management's Discussion and Analysis, Continued

For the year ended June 30, 2006

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

As of the end of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$14,891,594 an increase of \$2,689,432 in comparison with the prior year. 49% percent of this total amount (\$7,300,831) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that is not available for new spending because it has already been committed:

- To liquidate contracts and purchase orders of the prior period \$(2,896,298)
- To provide for a contingency for economic uncertainty \$(3,015,300)
- To provide for a reserve for future building inspections \$(1,054,027)
- For compensated absences \$(625,138)

The general fund is the chief operating fund of the Town of Atherton. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,702,141, while total fund balance reached \$9,490,384. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For the year ended June 30, 2006 total general fund balance represents 90 percent of FY 2006 expenditures.

The fund balance of the general fund increased by \$1,907,599 for the 12 months ended June 30, 2006. Key factors in this growth are as follows:

- A refund of excess property tax contributions to the Educational Revenue Augmentation Fund by the San Mateo County Controller in the amount of \$576,000 resulting from excess contribution withheld by the Controller in previous fiscal years;
- An additional \$400,000 in secured property taxes resulting from higher than expected growth in property assessments combined with a change in the manner in which the California State Controller apportions motor vehicle license fees;
- A \$100,000 favorable variance in real property transfer taxes and sales tax revenues due to favorable economic conditions and a conservative approach by the Finance Department in estimating such revenues;
- Increased investment income resulting from rising interest rates and higher cash balances held within the Town's treasury;

Town of Atherton
Management's Discussion and Analysis, Continued
For the year ended June 30, 2006

- A favorable variance in the amount of \$600,000 in expenditures for employee salaries and benefits due to unanticipated vacancies in the Police Department and administration combined with a lower than expected cost of providing health care and retirement benefits.

General Fund Budgetary Highlights

In FY 2005-06 the budget adopted by the City Council remained unchanged during the year. Hence there was no difference between the original budget and the final budget.

During the year, however, revenues exceeded budgetary estimates by \$1,105,058 (a favorable variance of 13 percent of estimated revenues) and expenditures were less than appropriations, by \$780,255 (a favorable variance of 9 percent of general fund appropriations).

Capital Assets

The Town of Atherton's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$27,099,826 (net of accumulated depreciation). This investment in capital assets includes land, building, computers, a telecommunications system, improvements, machinery, equipment, park facilities, a corporation yard, and roads. The total increase in the Town of Atherton's investment in capital assets for the current fiscal year was \$216,574 (all of which were for governmental activities).

Major capital asset events during the current fiscal year included the following:

- The reconstruction of Selby Lane at a cost of \$966,000;
- The resurfacing of various streets within the Town at a cost of \$266,000;
- Major repairs to the Atherton Channel at a cost of \$480,000.

Town of Atherton
Management's Discussion and Analysis, Continued
For the year ended June 30, 2006

Town of Atherton's Capital Assets

	Balance July 1, 2005	Additions	Retirements	Inventory Adjustments	Transfers	Balance June 30, 2006
Governmental Activities:						
Capital assets, not being depreciated:						
Land	\$ 690,884	\$ -	\$ -	\$ -	\$ -	\$ 690,884
Construction in progress	30,258	1,058,724	-	455,363	(659,123)	885,222
Total non depreciable assets	<u>721,142</u>	<u>1,058,724</u>	<u>-</u>	<u>455,363</u>	<u>(659,123)</u>	<u>1,576,106</u>
Capital assets, being depreciated:						
Buildings	1,668,094	-	-	-	-	1,668,094
Other improvements	618,127	151,162	(19,758)	-	-	749,531
Vehicles	499,462	65,276	-	-	-	564,738
Equipment - computer	44,985	5,996	(8,495)	-	-	42,486
Equipment - furniture/equipment	419,094	-	(10,712)	-	-	408,382
Infrastructure	46,044,631	-	(346,180)	396,610	659,123	46,754,184
Total depreciable assets	<u>49,294,393</u>	<u>881,557</u>	<u>(385,145)</u>	<u>396,610</u>	<u>659,123</u>	<u>50,187,415</u>
Accumulated Depreciation:						
Buildings	(621,173)	(37,392)	-	-	-	(658,565)
Other improvements	(488,641)	(20,609)	11,854	-	-	(497,396)
Vehicles	(286,630)	(73,149)	-	-	-	(359,779)
Equipment - computer	(13,810)	(5,812)	3,034	-	-	(16,588)
Equipment - furniture/equipment	(356,506)	(12,991)	7,498	3,291	-	(358,708)
Infrastructure	(21,365,523)	(1,537,666)	318,469	(187,939)	-	(22,772,659)
Total accumulated depreciation	<u>(23,132,283)</u>	<u>(1,687,619)</u>	<u>340,855</u>	<u>(184,648)</u>	<u>-</u>	<u>(24,663,695)</u>
Depreciable assets, net	<u>26,162,110</u>	<u>(806,062)</u>	<u>(44,290)</u>	<u>211,962</u>	<u>-</u>	<u>25,523,720</u>
Governmental activities capital assets, net	<u>\$ 26,883,252</u>	<u>\$ 252,662</u>	<u>\$ (44,290)</u>	<u>\$ 667,325</u>	<u>\$ -</u>	<u>\$ 27,099,826</u>

Additional information on the Town of Atherton's capital assets can be found in Note 4 of this report.

Economic Factors Affecting Subsequent Years

In June of 2005 the residents of Atherton approved Measure W, thereby renewing the Atherton Special Tax for an additional five years. The maximum tax levy approved by the electorate was consistent with the amounts that were in effect during the previous four fiscal years and is expected to generate \$1.865 million in additional funds annually for the five years ended June 30, 2010. Of this amount, the Town expects to expend approximately \$1.4 million annually for infrastructure maintenance and improvements and to expend the balance on current operations.

- The assessed value of real and personal property within the Town of Atherton in FY 2006-07 will amount to \$4.86 Billion. As a result property tax revenues are expected to increase by 10% over the \$3.6 million collected in FY 2005-06.

Town of Atherton

Management's Discussion and Analysis, Continued

For the year ended June 30, 2006

- In order to provide a greater margin of security, the Town elected to increase its reserves for economic uncertainty from \$3.2 million to \$4.8 million. At this higher level, the Town expects to have a minimum of six months reserves in place for the current five-year financial planning horizon.
- The permitted value of residential renovation and construction is expected to exceed \$100 million for the fifth consecutive year. As a result, the Building Department is expected to be fully self-supporting at current permit fee levels.
- Pension expenses for municipal employees will amount to 18 percent of covered payroll for miscellaneous employees and 35 percent for safety employees.
- Employee salary and benefit expenses will increase at levels consistent with expected changes in the consumer price index during the past year (approximately 3 percent).

All of these factors were considered in preparing the Town of Atherton's budget for Fiscal Year 2005-06.

This financial report is designed to provide a general overview of the Town of Atherton's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Atherton Finance Department, 91 Ashfield Road, Atherton, California 94027.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Town of Atherton
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash and investments in treasury	\$ 15,956,920
Accounts	323,167
Interest	156,006
Miscellaneous	1,470
Non-depreciable	1,576,106
Depreciable, net	<u>25,523,720</u>
TOTAL ASSETS	<u>43,537,389</u>
LIABILITIES	
Accounts payable	225,369
Accrued payroll	348,809
Deposits payable	476,641
Compensated absences payable	<u>625,138</u>
TOTAL LIABILITIES	<u>1,675,957</u>
NET ASSETS	
Investment in capital assets, net of related debt	27,099,826
Restricted for:	
Capital projects	993,547
Debt service	625,138
Special projects	4,981,461
Unrestricted:	
Unrestricted	<u>8,161,460</u>
TOTAL NET ASSETS	<u>\$ 41,861,432</u>

See accompanying Notes to the Basic Financial Statements.

Town of Atherton
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2006

Functions/Programs	Expenditures	Program Revenues		Net (Expenditure) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	Governmental Activities
Primary Government:				
General government	\$ 2,317,478	\$ 2,195,192	\$ 481,240	\$ 358,954
Public works administration	990,706	-	-	(990,706)
Parks and recreation	4,402	-	-	(4,402)
Police	4,277,921	62,120	-	(4,215,801)
Library maintenance	27,898	-	450,000	422,102
Streets and public facilities	2,922,720	1,169,195	220,654	(1,532,871)
Total governmental activities	\$ 10,541,125	\$ 3,426,507	\$ 1,151,894	(5,962,724)
General revenues:				
Taxes:				
				6,042,958
				413,476
				680,742
				670,179
				<u>7,807,355</u>
				351,753
				23,023
				<u>8,182,131</u>
				2,219,407
				<u>39,642,025</u>
				<u>\$ 41,861,432</u>

See accompanying Notes to the Basic Financial Statements.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

The General Fund- This Fund accounts for all general revenues of the Town not specifically levied or collected for other Town funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit which are not accounted for in other funds.

Library -This Fund is used to account for funds dedicated to the Town's library operations.

Road Construction -This Fund is used to account for moneys dedicated to road construction.

Town of Atherton
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds		
	General	Library	Road Construction
ASSETS			
Cash and investments in treasury	\$ 10,047,525	\$ 1,947,895	\$ 1,394,142
Receivables:			
Accounts	191,080	-	-
Interest	156,006	-	-
Miscellaneous	1,470	-	-
Receivables Total	348,556	-	-
Due from other funds	62,101	-	-
TOTAL ASSETS	\$ 10,458,182	\$ 1,947,895	\$ 1,394,142
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 216,071	\$ 609	\$ 20,583
Accrued payroll	275,086	-	-
Deposits payable	476,641	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	967,798	609	20,583
FUND BALANCE			
Reserved for:			
Encumbrances	109,078	-	-
Special projects, encumbrances	-	-	1,206,265
Contingency	3,000,000	-	-
Future building inspection	1,054,027	-	-
Capital projects, encumbrances	-	-	-
Compensated absences	625,138	-	-
Unreserved, Designated:			
Insurance	500,000	-	-
Unreserved, Undesignated:			
Special revenue funds	-	1,947,286	167,294
Capital project funds	-	-	-
Undesignated	4,202,141	-	-
TOTAL FUND BALANCE	9,490,384	1,947,286	1,373,559
TOTAL LIABILITIES AND FUND BALANCE	\$ 10,458,182	\$ 1,947,895	\$ 1,394,142

See accompanying Notes to the Basic Financial Statements.

Other Governmental	Total
\$ 2,055,258	\$ 15,444,820
132,087	323,167
-	156,006
-	1,470
<u>132,087</u>	<u>480,643</u>
-	62,101
<u>\$ 2,187,345</u>	<u>\$ 15,987,564</u>

\$ 39,230	276,493
5,649	280,735
-	476,641
<u>62,101</u>	<u>62,101</u>
<u>106,980</u>	<u>1,095,970</u>

-	109,078
1,544,915	2,751,180
15,300	3,015,300
-	1,054,027
36,040	36,040
-	625,138
-	500,000
115,701	2,230,281
368,409	368,409
-	4,202,141
<u>2,080,365</u>	<u>14,891,594</u>
<u>\$ 2,187,345</u>	<u>\$ 15,987,564</u>

Town of Atherton
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

Total Fund Balances - Total Governmental Funds \$ 14,891,594

Amounts reported for governmental activities in the Statement of Net Assets were reported differently because:

Capital assets used in governmental activities were not current financial resources and therefore were not reported in the Governmental Funds Balance Sheet.

Non depreciable assets (Land and construction in progress)	1,576,106
Depreciable buildings, property, equipment and infrastructure, net (does not include capital assets of \$230,857 net, related to the internal service funds)	<u>25,292,863</u>
Total capital assets	<u>26,868,969</u>

Internal service funds were used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds were included in governmental activities in the Government-Wide Statement of Net Assets.

726,007

Compensated absences payable were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Total compensated absences	<u>(625,138)</u>
----------------------------	------------------

Net Assets of Governmental Activities \$ 41,861,432

See accompanying Notes to the Basic Financial Statements.

Town of Atherton
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	Major Funds		
	General	Library	Road Construction
REVENUES			
Property taxes	\$ 4,075,437	\$ 74,872	\$ -
Special assessments	-	-	-
Sales taxes	167,393	-	-
Measure A grants	-	-	-
Other taxes	1,350,921	-	-
Permits and licenses	1,716,348	-	-
Fines and forfeitures	57,453	-	-
From other agencies	444,564	450,000	-
Service charges	335,165	-	-
Use of money and property	323,658	35,269	18,139
Road impact fees	-	-	1,169,195
Other revenues	53,416	-	-
TOTAL REVENUES	8,524,355	560,141	1,187,334
EXPENDITURES			
Current:			
General government	908,351	-	-
Public works administration	991,929	-	-
Parks and recreation	-	-	-
Police	4,112,398	-	-
Library maintenance	-	27,898	-
Streets and public facilities	1,908,078	-	335,825
TOTAL EXPENDITURES	7,920,756	27,898	335,825
REVENUES OVER (UNDER) EXPENDITURES	603,599	532,243	851,509
OTHER FINANCING SOURCES (USES)			
Transfers in	1,304,000	-	-
Transfers (out)	-	-	(310,000)
TOTAL OTHER FINANCING SOURCES (USES)	1,304,000	-	(310,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,907,599	532,243	541,509
FUND BALANCES:			
Beginning of year	7,582,785	1,415,043	832,050
End of year	\$ 9,490,384	\$ 1,947,286	\$ 1,373,559

See accompanying Notes to the Basic Financial Statements.

Other Governmental	Total
\$ 53,302	\$ 4,203,611
1,839,347	1,839,347
-	167,393
246,083	246,083
-	1,350,921
-	1,716,348
-	57,453
350,054	1,244,618
6,000	341,165
32,745	409,811
-	1,169,195
-	53,416
2,527,531	12,799,361
-	908,351
-	991,929
4,402	4,402
114,853	4,227,251
-	27,898
1,706,195	3,950,098
1,825,450	10,109,929
702,081	2,689,432
-	1,304,000
(994,000)	(1,304,000)
(994,000)	0
(291,919)	2,689,432
2,372,284	12,202,162
\$ 2,080,365	\$ 14,891,594

Town of Atherton

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets

For the year ended June 30, 2006

Net Changes in Fund Balances - Total Governmental Funds \$ 2,689,432

Governmental activities in the Statement of Activities and Changes in Net Assets were reported differently because:

Governmental funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of construction in progress and other improvements recorded in the current period net of internal service fund capital asset additions of \$71,272. This amount also includes a loss of \$(38,829) associated with the disposal of capital assets. 1,171,057

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds. Depreciation expense associated with internal service funds of \$ 78,961 is not reported here. (1,608,658)

Payroll expense on compensated absences is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, compensated absences expense was not reported as expenditures in governmental funds. This amount represents the net activity of \$242,840 in additions and \$(190,382) in deductions. (52,458)

Internal service funds were used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds was reported with governmental activities. 20,034

Change in Net Assets of Governmental Activities \$ 2,219,407

See accompanying Notes to the Basic Financial Statements.

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PROPRIETARY FUND FINANCIAL STATEMENTS

Internal Service Fund- This fund is used to account for special activities and services performed by a designated Town department for other departments on a cost reimbursement basis.

Town of Atherton
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Governmental Activities Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	\$ 512,100
Noncurrent assets:	
Depreciable capital assets	607,225
Accumulated depreciation	<u>(376,368)</u>
TOTAL ASSETS	<u>742,957</u>
LIABILITIES	
Current liabilities:	
Accounts payable	11,913
Accrued payroll	<u>5,037</u>
TOTAL LIABILITIES	<u>16,950</u>
NET ASSETS	
Unrestricted	<u>726,007</u>
TOTAL NET ASSETS	<u>\$ 726,007</u>

See accompanying Notes to the Basic Financial Statements.

Town of Atherton
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2006

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Service charges	\$ 505,495
TOTAL OPERATING REVENUES	<u>505,495</u>
OPERATING EXPENSES	
Risk management	235,809
Depreciation	78,962
Supplies and maintenance	170,393
TOTAL OPERATING EXPENSES	<u>485,164</u>
OPERATING INCOME (LOSS)	<u>20,331</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	5,164
Gain (loss) on sale of assets	(5,461)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(297)</u>
CHANGE IN NET ASSETS	<u>20,034</u>
NET ASSETS:	
Beginning of year	<u>705,973</u>
End of year	<u>\$ 726,007</u>

See accompanying Notes to the Basic Financial Statements.

Town of Atherton
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2006

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers/other funds	\$ 505,495
Cash payments to suppliers for goods and services	<u>426,374</u>
Net cash provided (used) by operating activities	<u>79,121</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition or disposal of fixed assets	<u>(71,273)</u>
Net cash provided (used) by capital and related financing activities	<u>7,848</u>
Net increase (decrease) in cash and cash equivalents	
CASH AND CASH EQUIVALENTS:	
Beginning of year	<u>504,252</u>
End of year	<u>\$ 512,100</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ <u>25,495</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	78,962
Changes in assets and liabilities:	
Accounts payable	(26,783)
Accrued payroll	<u>1,447</u>
Total adjustments	<u>53,626</u>
Net cash provided (used) by operating activities	<u>\$ 79,121</u>

See accompanying Notes to the Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds- These funds account for assets held in an agency capacity for others and therefore cannot be used to support the Town's programs.

Town of Atherton
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and investments	<u>\$ 147,755</u>
TOTAL ASSETS	<u><u>\$ 147,755</u></u>
LIABILITIES	
Deposits payable	<u>\$ 147,755</u>
TOTAL LIABILITIES	<u><u>\$ 147,755</u></u>

See accompanying Notes to the Basic Financial Statements.

Town of Atherton

Notes to the Basic Financial Statements

For the year ended June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Town of Atherton, California (Town) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

A. Financial Reporting Entity

The Town was incorporated 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 created by charter in 1923 and provides the following services: public safety (police), public works and streets, park services, and general administration services.

The Town is governed by a five-member council elected by Town residents. The Town is legally separate and fiscally independent, which means it can issue debt, set and modify budgets and fees and sue or be sued. The accompanying basic financial statements include the financial activities of the Town, the primary government, and its component units.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The following is a brief review of the blended component unit included in the accompanying basic financial statements of the Town in which the Council functions as the governing board:

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

The above component unit is included in the Town's basic financial statements using the blended method since the governing body of this component unit is substantially the same as the governing body of the Town and this component unit provides services entirely to the Town.

Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the Town. The Town does not have any component units that are discretely presented. Financial information for the component unit may be obtained from the Town's Finance Department.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

B. Basis of Accounting and Measurement Focus

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Town's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of the governmental activities for the Town, the primary government, accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

These financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets and related current year infrastructure asset additions and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

Certain types of transactions are reported as program revenues for the Town and are presented in the following three categories:

- Charges for services
- Operating grants

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

The Town applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) pronouncements and Statements Interpretations, Accounting Principles Board (APB), and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Town has presented all major funds that met applicable criteria.

All governmental funds are accounted for on a spending or "*current financial resources*" measurements focus. Accordingly, only current assets and current liabilities generally are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financial uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, charges for services, federal and state grants, sales tax, and interest. Expenditures are recognized in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows for all proprietary funds.

The Town's proprietary funds represent Internal Service funds of which have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non current) are included on the Statement of Net Assets.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

The Statement of Revenues, Expenses and Change in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements normally include a Statement of Net Assets and a Statement of Changes in Fiduciary Net Assets. The Town's fiduciary funds represent agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. As a result, a statement of Changes in Fiduciary Net Assets is not presented in this report.

C. Recognition of Interest Liability

In government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities and business type activities.

In the fund financial statements, proprietary fund types recognize the interest payable when the liability is incurred.

D. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Town's policy is to apply restricted net assets first.

E. Cash, Cash Equivalents and Investments

The Town pools cash and investments from all sources, for the purpose of increasing income through investment activities. Interest income on investments is allocated on the basis of average month-end cash and investment balances in each fund. Cash and cash equivalents represent cash and investments and restricted cash and investments with an original maturity term of three months or less.

The Town invests in the California Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account operated by the California State Treasurer. LAIF funds are invested in high quality money market securities and are managed to insure the safety of the portfolio. A portion of LAIF's investments are in structured notes and asset-backed securities. As of June 30, 2006 LAIF had invested 2.567% of its funds in such securities.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

The Town also invests in the San Mateo County Investment Fund (SMCPIF), which is part of the Pooled Money Investment Account operated by the San Mateo County Treasurer. SMCPIF funds are invested in high quality money market securities and are managed to insure the safety of the portfolio.

LAIF and SMCPIF determine fair value on its investment portfolio based on market quotations for these securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

In accordance with GASB statement No. 31, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to protect deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

F. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Town policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings	40 Years
Improvements other than buildings	20 Years
Machinery and equipment	5-20 Years
Infrastructure	20-50 Years

Assets are grouped by asset type into one of the following accounts - land, land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, machinery and equipment, lease improvements, software, and construction in progress.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

GASB Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Town has included the value of all infrastructures in the basic financial statements.

The Town defines infrastructure as the basic physical assets that allow the Town to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the Town elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. Estimated historical costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the estimated historical cost.

G. Compensated Absences

Government-Wide Financial Statements

For governmental and business-type activities, compensated absences are recorded as incurred and the related expenses are reported.

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the years paid.

H. Property Taxes

San Mateo County assesses properties and bills, and collects property taxes for the Town. Secured and unsecured taxes are levied on the preceding March 1. Secured taxes are due in two installments on November 1 and February 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payments. Unsecured taxes are due as of January 1 lien date and become delinquent if unpaid on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes remain unpaid on October 31, an additional 1.5% attaches on the first day of each month until unpaid. The term "unsecured" refers to taxes on property not secured by liens on real property.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

Property tax revenues are recorded when they become measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 90 days after the close of the current period.

Property taxes levied are recorded as revenue when received, in the fiscal year of the levy, because of the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the Town and County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid.

I. Post Employment Benefits Other than Pensions

The Town provides post-retirement health care benefits to all employee groups with 20 years of service as required by current association and management agreements. The Town records premium payments on a "pay-as-you-go" basis.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Town management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Net Assets

Government-Wide Financial Statements

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt—This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets—This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets—This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

Reservation of fund balances of governmental funds and retained earnings of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

L. GASB Statement No. 34 (Inclusion of Infrastructure)

In 2004, the Town implemented GASB No. 34 but elected to defer the inclusion of all prior period infrastructure capital assets in accordance with GASB Statement No. 34. GASB Statement No. 34 permits the Town to defer infrastructure assets acquired prior to the year of implementation for a period not to exceed 4 years after the date of implementation of GASB Statement No. 34. Accordingly, only the infrastructure which resulted from current year activities was included in the prior year basic financial statements.

In 2005, the Town elected to complete the implementation of GASB Statement No. 34 by including the infrastructure assets acquired prior to fiscal year 2004.

M. Implementation of New GASB Pronouncements

In 2005, the Town adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.*

GASB Statement No. 40 updates the custodial credit risk disclosure requirements of GASB Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of deposits and investments of state and local governments, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

2. CASH AND INVESTMENTS

The Town maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the Town invests to enhance interest earnings. The pooled interest is allocated to the funds quarterly, based on average daily cash and investment balances in these funds.

A. Cash Deposits

At June 30, 2006, the carrying amount of the Town's deposits was \$727,277. Bank balances before reconciling items were \$701,429 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the Town's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Town's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Town's name.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the Town's cash deposits. California law also allows institutions to secure Town deposits by pledging first trust deed mortgage notes having a value of 150% of the Town's total cash deposits. The Town may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The Town, however, has not waived the collateralization requirements.

The Town follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on a quarterly basis to the various funds based on average daily cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

The Town is authorized by State statutes and in accordance with the Town's Investment Policy (Policy) to invest in the following:

- San Mateo County Investment Pool Fund (SMCPIF)
- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit

The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The Town's investments comply with the established policy.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools*, investments were stated at fair value using the aggregate method in all funds and component units, resulting in the following investment income:

Realized gain/(loss) on matured/sold investments	\$ -
Unrealized gain/(loss) in changes in fair value of investments	(212,608)
Net gain/(loss)	<u>(212,608)</u>
Interest income	323,097
Total investment income	<u><u>\$ 110,489</u></u>

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses in investments that had been held in more than one fiscal year that matured or were called / sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

The Town's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise.

In accordance with GASB Statement No. 31, the portfolio, for year-end reporting purposes, is treated as if it were all sold. Therefore, fund balance reflects the portfolio's change in value. These portfolio value changes are unrealized unless sold. The Town's policy is to buy and hold investments until their maturity dates.

C. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2006:

	Government - Wide	Fiduciary Funds Statement of Net Assets	Total
	Governmental Activities		
Cash and investments	\$ 15,956,920	\$ 147,755	\$ 16,104,675

Deposits and investments were categorized as follows at June 30, 2006:

	Credit Quality Ratings	Fair Value	Days to Maturity
Town Treasury Deposits:			
Deposits	Not Rated	\$ 726,577	N/A
Petty Cash	Not Rated	700	N/A
Total Town treasury deposits		<u>727,277</u>	
Town Treasury Investments:			
San Mateo County Investment Pool Funds	Not Rated	11,259,426	N/A
Local Agency Investment Funds	Not Rated	4,117,972	
Total Town treasury investments		<u>15,377,398</u>	
Total cash and investments		<u>\$ 16,104,675</u>	

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

D. Risk Disclosures

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's investment policy requires that at least 30% of the Town's investment portfolio mature in less than one year. Additional limitations are that the average maturity of the investment portfolio will not exceed three years, and no investment will have a maturity of more than five years from its date of purchase. The Town has no other risk or exposure which require disclosure.

E. Investments in Local Agency Investment Funds (LAIF)

The Town's investments with the LAIF at June 30, 2006, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2006, the Town had \$4,117,972 invested in LAIF, which had invested 2.567% of the pool investment funds in Structured Notes and Asset-Backed Securities.

The Town valued its investments in LAIF as of June 30, 2006, by multiplying its account balance with LAIF by a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of .998185821.

F. Investments in San Mateo County Pooled Investment Fund

The Town invests in the San Mateo County Pooled Investment Fund (SMCPIF), an external investment pool. The pool determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

As of June 30, 2006, the Town had \$11,259,426 invested in SMCPIF. The Town valued its investments in SMCPIF as of June 30, 2006, by multiplying its account balance with SMCPIF by a fair value factor determined by SMCPIF. This fair value factor was determined by dividing all SMCPIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of .982108.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

G. Summary of Investment to Maturity

Investments held in the Town grouped by maturity date at June 30, 2006 were as follows:

Maturity	
Current to one year	\$ 16,105,375
Total	\$ 16,105,375

3. RECEIVABLES

A. Government-Wide and Fund Financial Statements

At June 30, 2006, the Government-Wide and Fund Financial Statements show the following receivables:

Accounts Receivable

As of June 30, 2006, accounts receivable consists of the following items:

Property tax	\$ 56,460
Measure A sales tax	4,276
Franchise fee	50,251
Grants	115,188
Other accounts receivable	96,992
Total accounts receivable	\$ 323,167

4. CAPITAL ASSETS

In accordance with GASB Statement No. 34, the Town has reported all capital assets including infrastructure acquired in the current year in the Government-Wide Statement of Net Assets. The Town has elected to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reporting, whereby depreciation expense and accumulated depreciation have been recorded.

Capital assets include land, buildings, and equipment used in Town operations. Infrastructure includes roads, bridges, curbs, sidewalks, drainage systems, street and traffic lights, park improvements and other improvements used by all citizens.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

A. Government-Wide Financial Statements

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2005	Additions	Retirements	Inventory Adjustments	Transfers	Balance June 30, 2006
Governmental Activities:						
Capital assets, not being depreciated:						
Land	\$ 690,884	\$ -	\$ -	\$ -	\$ -	\$ 690,884
Construction in progress	30,258	1,058,724	-	455,363	(659,123)	885,222
Total non depreciable assets	<u>721,142</u>	<u>1,058,724</u>	<u>-</u>	<u>455,363</u>	<u>(659,123)</u>	<u>1,576,106</u>
Capital assets, being depreciated:						
Buildings	1,668,094	-	-	-	-	1,668,094
Other improvements	618,127	151,162	(19,758)	-	-	749,531
Vehicles	499,462	65,276	-	-	-	564,738
Equipment - computer	44,985	5,996	(8,495)	-	-	42,486
Equipment - furniture/equipment	419,094	-	(10,712)	-	-	408,382
Infrastructure	46,044,631	-	(346,180)	396,610	659,123	46,754,184
Total depreciable assets	<u>49,294,393</u>	<u>881,557</u>	<u>(385,145)</u>	<u>396,610</u>	<u>659,123</u>	<u>50,187,415</u>
Accumulated Depreciation:						
Buildings	(621,173)	(37,392)	-	-	-	(658,565)
Other improvements	(488,641)	(20,609)	11,854	-	-	(497,396)
Vehicles	(286,630)	(73,149)	-	-	-	(359,779)
Equipment - computer	(13,810)	(5,812)	3,034	-	-	(16,588)
Equipment - furniture/equipment	(356,506)	(12,991)	7,498	3,291	-	(358,708)
Infrastructure	(21,365,523)	(1,537,666)	318,469	(187,939)	-	(22,772,659)
Total accumulated depreciation	<u>(23,132,283)</u>	<u>(1,687,619)</u>	<u>340,855</u>	<u>(184,648)</u>	<u>-</u>	<u>(24,663,695)</u>
Depreciable assets, net	<u>26,162,110</u>	<u>(806,062)</u>	<u>(44,290)</u>	<u>211,962</u>	<u>-</u>	<u>25,523,720</u>
Governmental activities capital assets, net	<u>\$ 26,883,252</u>	<u>\$ 252,662</u>	<u>\$ (44,290)</u>	<u>\$ 667,325</u>	<u>\$ -</u>	<u>\$ 27,099,826</u>

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2006 are as follows.

General Government	\$ 1,559,291
General Government, related to Internal Service	78,961
Public Works Administration	39,927
Police	9,440
Total depreciation expense	<u>\$ 1,687,619</u>

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

5. COMPENSATED ABSENCES

The Town's compensated absences consist of accrued vacation pay, floating holiday pay for all regular employees and paid time off and floating holiday pay for management employees. Some employees are allowed to accrue compensatory time. The total amount of the accrued liability is recorded in the Government-Wide Financial Statements and charges for compensated absences expense is charged to the various program activities. The net activity for compensated absences for 2005-06 is \$52,458.

Summary of changes in compensated absences for the year ended June 30, 2006 is as follows.

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities	\$ 572,680	\$ 242,840	\$ (190,382)	\$ 625,138
Total	<u>\$ 572,680</u>	<u>\$ 242,840</u>	<u>\$ (190,382)</u>	<u>\$ 625,138</u>

6. INTERFUND TRANSACTIONS

A. Due To/From Other Funds

At June 30, 2006, the Town had the following short-term receivables and payables:

Due to Other Funds	Due from Other Funds	
	General Fund	Total
Governmental Funds		
Non-major Governmental Funds	\$ 62,101	\$ 62,101
Total	<u>\$ 62,101</u>	<u>\$ 62,101</u>

The Town has recorded due from/due to all funds requiring cash at June 30, 2006. The short-term loans will be repaid during fiscal year 2007.

B. Interfund Transfers

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

Transfers during the fiscal year ended June 30, 2006 comprise the following:

Transfers In	Transfers Out Governmental Funds		Total
	Road Construction Special Revenue	Non-major Governmental Funds	
Governmental Funds			
General Fund	\$ 310,000	\$ 994,000	\$ 1,304,000
Total	\$ 310,000	\$ 994,000	\$ 1,304,000

7. EMPLOYEE RETIREMENT PLANS

A. Plan Description

The Town contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, CA 95814.

B. Funding Policy

Active plan members are required by state statute to contribute 7% for miscellaneous and 9% for safety employees of their annual covered salary. The Town makes the contributions required of Town employees on their behalf and for their account, which amounted to \$342,138 for the year ended June 30, 2006.

The Town, as employer, is required to contribute an actuarially determined payment that is reflected as a percentage of annual covered payroll for miscellaneous and safety employees. The contribution rate for the fiscal year 2006 was 13.095% for miscellaneous employees and 31.551% for safety employees.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

C. Annual Pension Cost

For the fiscal year 2006, the Town's annual pension cost of \$911,806 for PERS was equal to the Town's required contribution. The required contribution was determined as a part of the June 30, 2004 actuarial valuation using the entry age method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that range from 3.25% to 14.45% for miscellaneous and 3.25% to 13.15% for safety employees depending on age, service and type of employment, and (c), 3.25% per year cost-of-living adjustments for retirees. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. The average remaining amortization period at June 30, 2004 was 17 years for miscellaneous and 17 years for safety employees for prior and current service unfunded liabilities.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 451,373	100%	\$ -
6/30/2005	\$ 818,899	100%	\$ -
6/30/2006	\$ 911,806	100%	\$ -

8. RISK MANAGEMENT

A. Risk Pool

The Town belongs to ABAG Plan Corporation, which covers general liability claims in an amount up to \$5,000,000. The Town has a deductible or uninsured liability of up to \$25,000 per claim. Once the Town's deductible is met, the ABAG Plan becomes responsible for payment of all claims up to the limit. Other coverage includes Risk Property Coverage with a total insured value of \$1,669,000,000 with a deductible of \$25,000 for property damage and \$10,000 for auto/vehicle damage, and Public Official Bond insurance of \$1,000,000 with a deductible of \$5,000. During the fiscal year ended June 30, 2006, the Town contributed \$113,942 for current year coverage.

The Cities Group covers workers' compensation claims up to \$750,000 each and has coverage above that limit to a maximum of \$12,400,000. The Town has no deductible for the claims. During the fiscal year ended June 30, 2006, the Town contributed \$62,127 for current year coverage.

Each risk pool is governed by a board consisting of representatives from member municipalities. The board controls the operations of each risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. The Town's contributions to each risk pool equal the ratio of the Town's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

spread to member entities on a percentage basis after a retrospective rating.

B. Liability for Uninsured Claims

Municipalities are required to record their liability of uninsured claims and to reflect the current portion of this liability as expenditure in their financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for deductible or uninsured portions of these claims. The Town includes its claims liability amount as part of accounts payable, since the amount is considered a current liability. The Town's liability for uninsured claims based on claims experience was computed as follows:

	Liability Balance July 1	Current Year Claims and Changes in Estimates	Claims Payments for Current and Prior Fiscal Years	Liability Balance June 30
2003-04	\$ -	\$ 101,052	\$ (47,087)	\$ 53,965
2004-05	53,965	53,500	(41,390)	66,075
2005-06	66,075	7,400	66,025	7,450

9. JOINT VENTURES

The Town participates in several active joint ventures through formally organized and 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 Agreement (JPA), including selection of management and approval of operating budgets, independent of any influences by each member beyond representation on each 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.

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

C/CAG was established under a 1990 Joint Exercise of Powers Agreement between the Town, the County and a majority of cities and towns within the County for the purpose of developing State mandated plans. Members of C/CAG pay their pro-rata share of the total annual contributions required based on the member's 1990 population. Financial statements for C/CAG may be obtained by mailing a request to the Town of San Carlos, 666 Elm Street, San Carlos, California 94070.

B. South Bayside Waste Management Authority (Authority)

The Authority is a joint powers agreement formed on October 13, 1999 for the purpose of joint ownership, financing and administration of the San Carlos Transfer Station and the San Mateo Recyclery; and the planning, administration, review, monitoring, enforcement and reporting of solid waste and recyclable material within the Authority's service area.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

Members of the 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, BFI Waste Systems of North America Inc. provides refuse and recyclable materials collection and disposal services for the benefit of residents and businesses 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 December 1998, 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.

10. COMMITMENTS AND CONTINGENCIES

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

11. RESTATEMENTS OF PRIOR PERIOD BALANCES

During the fiscal year 2006, the Town completed its implementation of GASB Statement No. 34 which resulted in the following adjustment:

	Net Assets as Previously Reported	GASB 34 Adjustments	Capital Assets, Net	Net Assets as Restated
Net Assets	\$ <u>38,974,700</u>	\$ <u>667,325</u>		\$ <u>39,642,025</u>

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

12. DISCLOSURE OF SUBSEQUENT EVENTS

At the regularly scheduled meeting of September 20th, 2006 the Atherton City Council adopted a resolution to:

- Rescind the \$22 per cubic yard surcharge on all excavation activity requiring the removal and transportation across the Town's roadways; and,
- Refund with interest all excavation surcharges collected since the May 16th, 2005 effective date of the excavation surcharge.

The City Council's decision to rescind and refund excavation surcharges was based upon a consensus among the Council that the fee had become unduly burdensome on those who wanted to develop their property. The effect upon the Road Impact Fund in FY 2006-07 will amount to an estimated \$800,000 one-half of which represents monies collected in FY 2005-06 that will be refunded in FY 2006-07. Sufficient reserves exist within the Road Impact Fee fund to comply with the Decision of the Council.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Atherton
Required Supplementary Information
For the year ended June 30, 2006

The most recent information available from the Public Employee Retirement System follows.

PUBLIC EMPLOYEE RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

SAFETY PLAN

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2002	\$ 13,981,721	\$ 12,469,898	\$ 1,511,823	89.2%	\$ 1,609,221	93.95%
2003	4,270,573,982	3,577,742,166	692,831,816	83.8%	476,089,674	145.53%
2004	5,383,921,942	4,424,586,846	959,335,096	82.2%	575,296,434	166.75%

CalPERS Risk Pool Information (See note below)

MISCELLANEOUS PLAN

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2002	\$ 5,175,328	\$ 5,236,789	\$ (61,461)	101.2%	\$ 2,155,176	(2.85)%
2003	2,596,966,545	2,372,879,034	224,087,511	91.4%	725,020,458	30.91%
2004	2,746,095,668	2,460,944,656	285,151,012	89.6%	743,691,970	38.34%

CalPERS Risk Pool Information (See note below)

As of the actuarial valuation date of June 30, 2004, the Town's miscellaneous plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. The schedule of funding programs for miscellaneous employees presented above for June 30, 2004, is for the whole pool and not that of the Town individually.

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 3,651,651	\$ 3,651,651	\$ 4,075,437	\$ 423,786
Sales taxes	126,000	126,000	167,393	41,393
Other taxes	830,760	830,760	1,350,921	520,161
Permits and licenses	1,839,879	1,839,879	1,716,348	(123,531)
Fines and forfeitures	35,000	35,000	57,453	22,453
From other agencies	303,166	303,166	444,564	141,398
Service charges	336,208	336,208	335,165	(1,043)
Use of money and property	291,633	291,633	323,658	32,025
Other revenues	5,000	5,000	53,416	48,416
TOTAL REVENUES	7,419,297	7,419,297	8,524,355	1,105,058
EXPENDITURES				
Current:				
General government	1,237,055	1,237,055	908,351	328,704
Public works administration	1,042,371	1,042,371	991,929	50,442
Police	4,521,000	4,521,000	4,112,398	408,602
Streets and public facilities	1,900,584	1,900,584	1,908,078	(7,494)
TOTAL EXPENDITURES	8,701,010	8,701,010	7,920,756	780,254
REVENUES OVER (UNDER) EXPENDITURES	(1,281,713)	(1,281,713)	603,599	1,885,312
OTHER FINANCING SOURCES (USES)				
Transfers in	1,301,161	1,301,161	1,304,000	2,839
TOTAL OTHER FINANCING SOURCES (USES)	1,301,161	1,301,161	1,304,000	2,839
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 19,448	\$ 19,448	1,907,599	\$ 1,888,151
FUND BALANCE				
Beginning of year			7,582,785	
End of year			\$ 9,490,384	

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -

Library Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 200,000	\$ 200,000	\$ 74,872	\$ (125,128)
From other agencies	-	-	450,000	450,000
Use of money and property	-	-	35,269	35,269
TOTAL REVENUES	<u>200,000</u>	<u>200,000</u>	<u>560,141</u>	<u>360,141</u>
EXPENDITURES				
Current:				
General government	71,045	71,045	-	71,045
Library maintenance	-	-	27,898	(27,898)
TOTAL EXPENDITURES	<u>71,045</u>	<u>71,045</u>	<u>27,898</u>	<u>43,147</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>128,955</u>	<u>128,955</u>	<u>532,243</u>	<u>403,288</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 128,955</u>	<u>\$ 128,955</u>	<u>532,243</u>	<u>\$ 403,288</u>
FUND BALANCE				
Beginning of year			<u>1,415,043</u>	
End of year			<u>\$ 1,947,286</u>	

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -

Road Construction Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Use of money and property	\$ -	\$ -	\$ 18,139	\$ 18,139
Road impact fees	1,158,328	1,158,328	1,169,195	10,867
TOTAL REVENUES	<u>1,158,328</u>	<u>1,158,328</u>	<u>1,187,334</u>	<u>29,006</u>
EXPENDITURES				
Current:				
Streets and public facilities	1,288,671	1,288,671	335,825	952,846
TOTAL EXPENDITURES	<u>1,288,671</u>	<u>1,288,671</u>	<u>335,825</u>	<u>952,846</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(130,343)</u>	<u>(130,343)</u>	<u>851,509</u>	<u>981,852</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(310,000)	(310,000)	(310,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(310,000)</u>	<u>(310,000)</u>	<u>(310,000)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (440,343)</u>	<u>\$ (440,343)</u>	<u>541,509</u>	<u>\$ 981,852</u>
FUND BALANCE				
Beginning of year			832,050	
End of year			<u>\$ 1,373,559</u>	

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

Town of Atherton
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2006

	Special Revenue			
	Transportation	Tennis	Supplemental Law Enforcement Services	State Park Grants
ASSETS				
Cash and investments in treasury	\$ 527,577	\$ 23,691	\$ 11,153	-
Accounts	-	-	-	98,133
TOTAL ASSETS	\$ 527,577	\$ 23,691	\$ 11,153	\$ 98,133
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 36,032
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	62,101
TOTAL LIABILITIES	-	-	-	98,133
FUND BALANCE				
Reserved for:				
Encumbrances	483,502	-	-	-
Contingency	15,300	-	-	-
Undesignated	28,775	23,691	11,153	-
TOTAL FUND BALANCE	527,577	23,691	11,153	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 527,577	\$ 23,691	\$ 11,153	\$ 98,133

Special Revenue				Capital Projects		
Special Tax	Police on the Street	Gas Tax	COPS Grant	Storm Drainage	Facilities Construction	Channel Drainage District
\$ 1,005,832	\$ 4,455	\$ 69,090	\$ 5,983	\$ 43,455	\$ 66,529	\$ 39,068
-	-	33,784	-	-	-	170
<u>\$ 1,005,832</u>	<u>\$ 4,455</u>	<u>\$ 102,874</u>	<u>\$ 5,983</u>	<u>\$ 43,455</u>	<u>\$ 66,529</u>	<u>\$ 39,238</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,198
-	-	-	5,649	-	-	-
-	-	-	-	-	-	-
-	-	-	5,649	-	-	3,198
1,003,400	-	58,013	-	-	-	36,040
-	-	-	-	-	-	-
2,432	4,455	44,861	334	43,455	66,529	-
<u>1,005,832</u>	<u>4,455</u>	<u>102,874</u>	<u>334</u>	<u>43,455</u>	<u>66,529</u>	<u>36,040</u>
<u>\$ 1,005,832</u>	<u>\$ 4,455</u>	<u>\$ 102,874</u>	<u>\$ 5,983</u>	<u>\$ 43,455</u>	<u>\$ 66,529</u>	<u>\$ 39,238</u>

(Continued)

Town of Atherton
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2006

	<u>Capital Projects</u>	
	<u>Capital Improvement</u>	<u>Total</u>
ASSETS		
Cash and investments in treasury	\$ 258,425	\$ 2,055,258
Accounts	-	132,087
TOTAL ASSETS	<u>\$ 258,425</u>	<u>\$ 2,187,345</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ -	39,230
Accrued payroll	-	5,649
Due to other funds	-	62,101
TOTAL LIABILITIES	<u>-</u>	<u>106,980</u>
FUND BALANCE		
Reserved for:		
Encumbrances	-	1,580,955
Contingency	-	15,300
Undesignated	258,425	484,110
TOTAL FUND BALANCE	<u>258,425</u>	<u>2,080,365</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 258,425</u>	<u>\$ 2,187,345</u>

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Town of Atherton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the year ended June 30, 2006

	Special Revenue			
	Transportation	Tennis	Supplemental Law Enforcement Services	State Park Grants
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Measure A grants	246,083	-	-	-
From other agencies	-	-	-	57,733
Service charges	-	6,000	-	-
Use of money and property	7,609	251	-	9
TOTAL REVENUES	253,692	6,251	-	57,742
EXPENDITURES				
Current:				
Parks and recreation	-	4,402	-	-
Police	-	-	-	-
Streets and public facilities	31,800	-	-	96,430
TOTAL EXPENDITURES	31,800	4,402	-	96,430
REVENUES OVER (UNDER) EXPENDITURES	221,892	1,849	-	(38,688)
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(25,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(25,000)	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	196,892	1,849	-	(38,688)
FUND BALANCES:				
Beginning of year	330,685	21,842	11,153	38,688
End of year	\$ 527,577	\$ 23,691	\$ 11,153	\$ -

Special Revenue				Capital Projects		
Special Tax	Police on the Street	Gas Tax	COPS Grant	Storm Drainage	Facilities Construction	Channel Drainage District
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,302
1,839,347	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	190,726	100,551	-	-	1,044
-	-	-	-	-	-	-
12,136	-	984	879	756	1,147	4,520
1,851,483	-	191,710	101,430	756	1,147	58,866
-	-	-	-	-	-	-
-	-	-	114,854	-	-	-
1,094,394	-	23,250	-	2,563	-	457,758
1,094,394	-	23,250	114,854	2,563	-	457,758
757,089	-	168,460	(13,424)	(1,807)	1,147	(398,892)
(864,000)	-	(100,000)	-	-	-	(5,000)
(864,000)	-	(100,000)	-	-	-	(5,000)
(106,911)	-	68,460	(13,424)	(1,807)	1,147	(403,892)
1,112,743	4,455	34,414	13,758	45,262	65,382	439,932
\$ 1,005,832	\$ 4,455	\$ 102,874	\$ 334	\$ 43,455	\$ 66,529	\$ 36,040

(Continued)

Town of Atherton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the year ended June 30, 2006

	<u>Capital Projects</u>	
	<u>Capital Improvement</u>	<u>Total</u>
REVENUES		
Property taxes	\$ -	\$ 53,302
Special assessments	-	1,839,347
Measure A grants	-	246,083
From other agencies	-	350,054
Service charges	-	6,000
Use of money and property	4,454	32,745
TOTAL REVENUES	<u>4,454</u>	<u>2,527,531</u>
EXPENDITURES		
Current:		
Parks and recreation	-	4,402
Police	(1)	114,853
Streets and public facilities	-	1,706,195
TOTAL EXPENDITURES	<u>(1)</u>	<u>1,825,450</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>4,455</u>	<u>702,081</u>
OTHER FINANCING SOURCES (USES)		
Transfers (out)	-	(994,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(994,000)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>4,455</u>	<u>(291,919)</u>
FUND BALANCES:		
Beginning of year	<u>253,970</u>	<u>2,372,284</u>
End of year	<u>\$ 258,425</u>	<u>\$ 2,080,365</u>

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NON-MAJOR SPECIAL REVENUE BUDGET TO ACTUAL COMPARISONS

The following funds are not included in this section because budgets are not prepared:

- Supplemental Law Enforcement Services
- Police on the Street

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -

State Park Grants Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
From other agencies	\$ 197,399	\$ 197,399	\$ 57,733	\$ (139,666)
Use of money and property	-	-	9	9
TOTAL REVENUES	<u>197,399</u>	<u>197,399</u>	<u>57,742</u>	<u>(139,657)</u>
EXPENDITURES				
Current:				
Streets and public facilities	<u>196,736</u>	<u>196,736</u>	<u>96,430</u>	<u>100,306</u>
TOTAL EXPENDITURES	<u>196,736</u>	<u>196,736</u>	<u>96,430</u>	<u>100,306</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>663</u>	<u>663</u>	<u>(38,688)</u>	<u>(39,351)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 663</u>	<u>\$ 663</u>	<u>(38,688)</u>	<u>\$ (39,351)</u>
FUND BALANCE				
Beginning of year			<u>38,688</u>	
End of year			<u>\$ -</u>	

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -

COPS Grant Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
From other agencies	\$ 100,000	\$ 100,000	\$ 100,551	\$ 551
Use of money and property	-	-	879	879
TOTAL REVENUES	<u>100,000</u>	<u>100,000</u>	<u>101,430</u>	<u>1,430</u>
EXPENDITURES				
Current:				
General government	100,000	100,000	-	100,000
Police	-	-	114,854	(114,854)
TOTAL EXPENDITURES	<u>100,000</u>	<u>100,000</u>	<u>114,854</u>	<u>(14,854)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(13,424)</u>	<u>(13,424)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>(13,424)</u>	<u>\$ (13,424)</u>
FUND BALANCE				
Beginning of year			<u>13,758</u>	
End of year			<u>\$ 334</u>	

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Gas Tax Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
From other agencies	\$ 172,376	\$ 172,376	\$ 190,726	\$ 18,350
Use of money and property	-	-	984	984
TOTAL REVENUES	<u>172,376</u>	<u>172,376</u>	<u>191,710</u>	<u>19,334</u>
EXPENDITURES				
Current:				
Streets and public facilities	50,000	50,000	23,250	26,750
TOTAL EXPENDITURES	<u>50,000</u>	<u>50,000</u>	<u>23,250</u>	<u>26,750</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>122,376</u>	<u>122,376</u>	<u>168,460</u>	<u>46,084</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(100,000)	(100,000)	(100,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 22,376</u>	<u>\$ 22,376</u>	<u>68,460</u>	<u>\$ 46,084</u>
FUND BALANCE				
Beginning of year			34,414	
End of year			<u>\$ 102,874</u>	

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -

Transportation Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Measure A grants	\$ 180,000	\$ 180,000	\$ 246,083	\$ 66,083
Use of money and property	-	-	7,609	7,609
TOTAL REVENUES	<u>180,000</u>	<u>180,000</u>	<u>253,692</u>	<u>73,692</u>
EXPENDITURES				
Current:				
Streets and public facilities	298,420	298,420	31,800	266,620
TOTAL EXPENDITURES	<u>298,420</u>	<u>298,420</u>	<u>31,800</u>	<u>266,620</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(118,420)</u>	<u>(118,420)</u>	<u>221,892</u>	<u>340,312</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(25,000)	(25,000)	(25,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (143,420)</u>	<u>\$ (143,420)</u>	<u>196,892</u>	<u>\$ 340,312</u>
FUND BALANCE				
Beginning of year			<u>330,685</u>	
End of year			<u>\$ 527,577</u>	

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -

Special Tax Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Special assessments	\$ 1,858,000	\$ 1,858,000	\$ 1,839,347	\$ (18,653)
Use of money and property	-	-	12,136	12,136
TOTAL REVENUES	<u>1,858,000</u>	<u>1,858,000</u>	<u>1,851,483</u>	<u>(6,517)</u>
EXPENDITURES				
Current:				
Streets and public facilities	1,767,077	1,767,077	1,094,394	672,683
TOTAL EXPENDITURES	<u>1,767,077</u>	<u>1,767,077</u>	<u>1,094,394</u>	<u>672,683</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>90,923</u>	<u>90,923</u>	<u>757,089</u>	<u>666,166</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(864,000)	(864,000)	(864,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(864,000)</u>	<u>(864,000)</u>	<u>(864,000)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (773,077)</u>	<u>\$ (773,077)</u>	<u>(106,911)</u>	<u>\$ 666,166</u>
FUND BALANCE				
Beginning of year			1,112,743	
End of year			<u>\$ 1,005,832</u>	

Town of Atherton

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -

Tennis Fund

For the year ended June 30, 2006

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Service charges	\$ 7,000	\$ 7,000	\$ 6,000	\$ (1,000)
Use of money and property	-	-	251	251
TOTAL REVENUES	<u>7,000</u>	<u>7,000</u>	<u>6,251</u>	<u>(749)</u>
EXPENDITURES				
Current:				
General government	25,011	25,011	-	25,011
Parks and recreation	-	-	4,402	(4,402)
TOTAL EXPENDITURES	<u>25,011</u>	<u>25,011</u>	<u>4,402</u>	<u>20,609</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(18,011)</u>	<u>(18,011)</u>	<u>1,849</u>	<u>19,860</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (18,011)</u>	<u>\$ (18,011)</u>	<u>1,849</u>	<u>\$ 19,860</u>
FUND BALANCE				
Beginning of year			<u>21,842</u>	
End of year			<u>\$ 23,691</u>	

FIDUCIARY FUND FINANCIAL STATEMENTS

Town of Atherton
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Evans Estate	H-P Park Improvement	Tree Committee
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 117,346	\$ 5,851	\$ 24,558
TOTAL ASSETS	<u>\$ 117,346</u>	<u>\$ 5,851</u>	<u>\$ 24,558</u>
LIABILITIES			
Deposits payable	\$ 117,346	\$ 5,851	\$ 24,558
TOTAL LIABILITIES	<u>\$ 117,346</u>	<u>\$ 5,851</u>	<u>\$ 24,558</u>

See accompanying Notes to the Basic Financial Statements.

<u>Total</u>	
\$	<u>147,755</u>
\$	<u>147,755</u>
	<u>147,755</u>
\$	<u>147,755</u>

Town of Atherton
Statement of Changes in Assets and Liabilities
Fiduciary Funds - Agency Funds
For the year ended June 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>Evans Creative Design Fund</u>				
Assets:				
Cash and investments	\$ 113,204	\$ 5,326	\$ (1,184)	\$ 117,346
Interest receivable	1,877	-	(1,877)	-
Total assets	\$ 115,081	\$ 5,326	\$ (3,061)	\$ 117,346
Liabilities:				
Accounts payable	\$ -	\$ 1,184	\$ (1,184)	\$ -
Deposits payable	115,081	3,708	(1,443)	117,346
Total liabilities	\$ 115,081	\$ 4,892	\$ (2,627)	\$ 117,346
<u>MA Little League</u>				
Assets:				
Cash and investments	\$ -	\$ 2,910	\$ (2,910)	\$ -
Total assets	\$ -	\$ 2,910	\$ (2,910)	\$ -
Liabilities:				
Deposits payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	\$ -	\$ -	\$ -	\$ -
<u>H-P Park Improvement Fund</u>				
Assets:				
Cash and investments	\$ 5,851	\$ -	\$ -	\$ 5,851
Total assets	\$ 5,851	\$ -	\$ -	\$ 5,851
Liabilities:				
Deposits payable	\$ 5,851	\$ -	\$ -	\$ 5,851
Total liabilities	\$ 5,851	\$ -	\$ -	\$ 5,851
<u>Tree Committee</u>				
Assets:				
Cash and investments	\$ 4,617	\$ 40,428	\$ (20,487)	\$ 24,558
Total assets	\$ 4,617	\$ 40,428	\$ (20,487)	\$ 24,558
Liabilities:				
Accounts payable	\$ 580	\$ 4,948	\$ (5,528)	\$ -
Deposits payable	4,037	42,544	(22,023)	24,558
Total liabilities	\$ 4,617	\$ 48,072	\$ (26,971)	\$ 24,558
<u>All Agency Funds</u>				
Assets:				
Cash and investments	\$ 123,672	\$ 48,664	\$ (24,581)	\$ 147,755
Interest receivable	1,877	-	(1,877)	-
Total assets	\$ 125,549	\$ 48,664	\$ (26,458)	\$ 147,755
Liabilities:				
Accounts payable	\$ 580	\$ 6,132	\$ (6,712)	\$ -
Deposits payable	124,969	46,252	(23,466)	147,755
Total liabilities	\$ 125,549	\$ 52,964	\$ (29,598)	\$ 147,755