

Town of Atherton

Atherton, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2008

Town of Atherton
Basic Financial Statements
For the year ended June 30, 2008

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Town of Atherton
Basic Financial Statements
For the year ended June 30, 2008

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**CITY OFFICIALS
As of June 30, 2008**

CITY COUNCIL

Mayor James R. Janz
Vice Mayor Jerry Carlson
Council Member James Dobbie
Council Member Charles E. Marsala
Council Member Kathy McKeithen
Council Member Elizabeth Lewis (elected 12/08)

ADMINISTRATION & DEPARTMENT HEADS

City Manager Jerome D. Gruber
Assistant City Manager Eileen Wilkerson (appointed)
Police Chief Robert J. Brennan
Police Chief Glenn Nielsen (appointed)
Public Works Director Duncan Jones
Building Official Mike Wassmann
Finance Director Louise Ho (appointed)
Acting City Clerk Kathi Hamilton
City Attorney Marc G. Hynes
Deputy Town Planner Lisa Costa Sanders

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the Town 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, 2008, 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.

Subsequent to the basic financial statement date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions that, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the Town has not been informed and is not aware of any investment losses other than that described below. Accordingly, any such investment losses have not been reflected in the accompanying basic financial statements.

As explained in Note 2F to the basic financial statements, the investments in the San Mateo County Investment Pool were impaired as a result of the failure of certain investments held by the Pool. Consequently the Town incurred a loss of \$552,009 which has been reflected in the accompanying financial statements.

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, 2008, 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.

As described in Note 1 to the basic financial statements, the Town adopted Statement of Governmental Accounting Standards Board No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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Oakland, California 94612

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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 Town Council
of the Town of Atherton
Atherton, California
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The accompanying Required Supplementary Information, such as management's discussion and analysis 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 inquiries 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.

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 7, 2009

Town of Atherton

Management's Discussion and Analysis

For the year ended June 30, 2008

As management of the Town of Atherton (Town), we offer readers of the Town's financial statements this narrative and analysis of the financial activities of the Town for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$45,016,952 (net assets). Of this amount, \$7,874,370 (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 \$1,991,620. Page 24 provides 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's governmental funds reported combined ending fund balances of \$15,552,871, an increase of \$2,362,171 in comparison with the prior year.
- At the end of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$1,867,624, or 18 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's basic financial statements. The Town'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's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town'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 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, 2008

The government-wide financial statements are intended to distinguish functions of the Town 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 include general government, building, planning, and public works including park. At present the Town does not provide municipal services for any business-type activities.

The government-wide financial statements include not only the Town 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, 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, 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 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 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, special tax special revenue fund, library special revenue, and facilities construction capital projects fund, all 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 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, 2008

Proprietary funds. The Town 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's various functions. The Town uses internal service funds to account for its fleet of vehicles, management information systems, and certain administrative services functions activities. Because 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'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'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, assets exceeded liabilities by \$45,016,952 at the close of the most recent fiscal year.

The largest portion of the Town's net assets consists of investments in capital assets (64 percent). An additional portion of the Town's net assets (18 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$7,874,370 may be used to meet the Town's ongoing obligations to citizens and creditors.

Town of Atherton's Net Assets

Net Assets	
Invested in capital assets, net of related debt	\$ 29,002,562
Restricted for:	
Capital projects	2,138,056
Special projects	6,001,964
Unrestricted	7,874,370
Total net assets	\$ 45,016,952

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

Town of Atherton
Management's Discussion and Analysis, Continued
For the year ended June 30, 2008

Governmental activities. Governmental activities increased the Town's net assets by \$1,991,620. The increase in net assets was due to a combination of factors including higher property and related tax revenues, return of excess library (tax) fund, special parcel tax assessment to be spent on Town's infrastructure and police services.

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, 2007 and 2008.

Town of Atherton
Comparative Analysis of Revenues, Expenses, Assets, Liabilities, and Net Assets
For the Years Ended June 30, 2007 and 2008

	2008	2007	Variance	Change
Revenues	\$ 15,126,379	\$ 12,769,943	\$ 2,356,436	18%
Expenses	\$ 13,134,759	\$ 11,606,043	\$ 1,528,716	13%
Assets	\$ 47,547,469	\$ 45,273,713	\$ 2,273,756	5%
Liabilities	\$ 2,530,517	\$ 2,248,381	\$ 282,136	13%
Net Assets	\$ 45,016,952	\$ 43,025,332	\$ 1,991,620	5%

Total assets and total net assets increased by 5% and 4% respectively.

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

Governmental funds. The focus of the Town'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'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's governmental funds reported combined ending fund balances a net change of \$2,362,171 in comparison with the prior year. 18 percent of this total, *unreserved fund balance*, 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 provide for a budget stabilization for economic uncertainty and an emergency reserve \$3,191,364
- To provide for a reserve for future building inspections \$769,057
- To provide for GASB 45 unfunded liability \$500,000
- To provide for special and capital projects \$1,867,624
- For compensated absences \$737,806
- For business licenses \$817,000

Town of Atherton Management's Discussion and Analysis, Continued For the year ended June 30, 2008

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,867,624, while total fund balance reached \$7,882,851. 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, 2008 total general fund balance represents 74 percent of FY 2008 operating expenditures.

The fund balance of the general fund decreased by \$1,958,872 for the 12 months ended June 30, 2008. Key factors in this growth are as follows:

- The Town transferred \$1,805,144 to the Facilities Construction Fund for future building replacement cost.
- The Town experienced an investment loss of \$552,009 of which \$282,540 was to General Fund due to the collapse of Lehman Brothers in September 2008.

General Fund Budgetary Highlights

During the year, there was a \$558,166 increase in appropriations between the original and final adjusted budget. Following are the main components of the increase:

- \$285,000 supplemental appropriation for the City Attorney Department to cover additional legal costs.
- \$187,000 supplemental appropriation for the Building Department to acquire a new permit tracking system.

During the year, however, revenues exceeded budgetary estimates by \$1,311,668. The increase was due to higher property tax, building fees, sales tax, and franchise fees.

Expenditures exceeded appropriations by \$191,004. The increase was due to the City Attorney Department overspent by \$121,288 and Building Department by \$116,202. Other departments came in under budgets. The excess expenditures were funded by available financial resources.

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$29,002,562 (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's investment in capital assets for the current fiscal year was \$490,812 (all of which were for governmental activities).

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

- CRW Systems \$151,425

Town of Atherton
Management's Discussion and Analysis, Continued
For the year ended June 30, 2008

Town of Atherton's Capital Assets

	Balance July 1, 2007	Additions	Retirements	Inventory Adjustments	Balance June 30, 2008
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 690,884	\$ -	\$ -	\$ -	\$ 690,884
Construction in progress	774,411	105,319	-	(774,411)	105,319
Total non depreciable assets	<u>1,465,295</u>	<u>105,319</u>	<u>-</u>	<u>(774,411)</u>	<u>796,203</u>
Capital assets, being depreciated:					
Buildings	1,668,094	-	-	-	1,668,094
Other improvements	826,751	215,264	-	-	1,042,015
Vehicles	634,888	66,212	(25,050)	-	676,050
Equipment - computer	60,404	-	-	-	60,404
Software	-	151,425	-	-	151,425
Equipment - furniture/equipment	421,280	-	-	-	421,280
Infrastructure	48,942,648	346,571	(368,929)	-	49,694,701
Total depreciable assets	<u>52,554,065</u>	<u>779,472</u>	<u>(393,979)</u>	<u>774,411</u>	<u>53,713,969</u>
Accumulated Depreciation:					
Buildings	(695,956)	(37,391)	-	-	(733,347)
Other improvements	(523,715)	(33,631)	-	-	(557,346)
Vehicles	(433,752)	(73,664)	25,050	-	(482,366)
Equipment - computer	(24,792)	(9,995)	-	-	(34,787)
Software	-	(25,237)	-	-	(25,237)
Equipment - furniture/equipment	(371,287)	(10,311)	-	-	(381,598)
Infrastructure	(22,033,367)	(1,621,049)	361,487	-	(23,292,929)
Total accumulated depreciation	<u>(24,082,869)</u>	<u>(1,811,278)</u>	<u>386,537</u>	<u>-</u>	<u>(25,507,610)</u>
Depreciable assets, net	<u>28,471,196</u>	<u>(1,031,806)</u>	<u>(7,442)</u>	<u>774,411</u>	<u>28,206,359</u>
Governmental activities capital assets, net	<u>\$ 29,936,491</u>	<u>\$ (926,487)</u>	<u>\$ (7,442)</u>	<u>\$ -</u>	<u>\$ 29,002,562</u>

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

Economic Factors Affecting Subsequent Years

At the date of publication of this report, the Town is facing fiscal challenge due to the downturn of housing market which has impacted the Town's building revenue and the State borrowing of Town's property tax revenues. Property taxes comprise 54% of the General Fund operating revenues. It appears that this will remain a stable source of revenue into the coming year.

The Town expects to be able to maintain its moderate and responsible fiscal policies related to operating expenditures; however, rising employee salaries and benefits costs including retiree health-care cost remain a major concern to the Town's fiscal health.

In addition, the special parcel tax assessment is due to expire on June 30, 2010. This tax helps the Town to continue to provide the current level of services and in meeting the capital improvement needs.

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Town of Atherton
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and investments in treasury	\$ 17,624,078
Receivables:	
Accounts	731,355
Interest	128,871
Miscellaneous	8,635
Prepaid expense	51,968
Capital assets:	
Non-depreciable	796,203
Depreciable, net	28,206,359
Total capital assets	<u>29,002,562</u>
Total assets	<u>47,547,469</u>
LIABILITIES	
Current liabilities:	
Accounts payable	702,906
Accrued payroll	311,843
Deposit payable	623,656
Compensated absences payable, due in one year	337,491
Total current liabilities	<u>1,975,896</u>
Noncurrent liabilities:	
Compensated absences payable, due in more than one year	400,315
Claims payable	154,306
Total noncurrent liabilities	<u>554,621</u>
NET ASSETS	
Invested in capital assets, net of related debt	29,002,562
Restricted for:	
Capital projects	2,138,056
Special projects	6,001,964
Unrestricted	7,874,370
Total net assets	<u>\$ 45,016,952</u>

See accompanying Notes to Basic Financial Statements.

Town of Atherton
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating	Capital		
			Grants and Contributions	Grants and Contributions		
Primary government:						
Governmental activities:						
General government	\$ 3,214,020	\$ 2,983,292	\$ -	\$ -	\$ 2,983,292	\$ (230,728)
Building and planning	1,612,458	-	-	799,790	799,790	(812,668)
Police	4,907,469	49,654	60,437	-	110,091	(4,797,378)
Public works	3,400,812	988,305	-	1,023,762	2,012,067	(1,388,745)
Total governmental activities	\$ 13,134,759	\$ 4,021,251	\$ 60,437	\$ 1,823,552	\$ 5,905,240	(7,229,519)
General revenues:						
Taxes:						
Property taxes						7,048,222
Sales taxes						548,012
Motor vehicle in lieu						603,156
Other taxes						854,010
Total taxes						9,053,400
Investment earnings						101,561
Miscellaneous						66,178
Total general revenues						9,221,139
Change in net assets						1,991,620
Net assets - beginning of year						43,025,332
Net assets - end of year						\$ 45,016,952

See accompanying Notes to Basic Financial Statements.

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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 that were not specifically levied or collected for other Town funds and the related expenditures.

Special Tax - This Fund is used to account for parcel tax assessments received from property owners to be used for the maintenance of streets and police services.

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

Facilities Construction Fund - This Fund is used to account for the funds dedicated to facilities construction.

Town of Atherton
Balance Sheet
Governmental Funds
June 30, 2008

	Major Funds			
		Special Tax	Library Fund	Facilities
	General	Special Revenue	Special Revenue	Construction Capital Projects
ASSETS				
Cash and investments in treasury	\$ 8,838,884	\$ 1,261,809	\$ 3,156,259	\$ 1,825,464
Receivables:				
Accounts	209,599	-	-	-
Interest	128,871	-	-	-
Miscellaneous	8,635	-	-	-
Prepaid Expense	51,968	-	-	-
Due from other funds	57,370	-	-	-
Total assets	\$ 9,295,327	\$ 1,261,809	\$ 3,156,259	\$ 1,825,464
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 454,427	\$ 103,990	\$ 981	\$ -
Accrued payroll	311,843	-	-	-
Deposit payable	623,656	-	-	-
Deferred revenue	-	-	-	-
Claims payable	22,550	-	-	-
Due to other funds	-	-	-	-
Total liabilities	1,412,476	103,990	981	-
Fund Balances:				
Reserved for:				
Capital projects	-	-	-	1,805,144
Budget stabilization reserve	1,595,682	-	-	-
Emergency disaster reserve	1,595,682	-	-	-
Future building inspection	769,057	-	-	-
Compensated absences	737,806	-	-	-
Other Post-Employment Benefits - unfunded liability	500,000	-	-	-
Unreserved:				
Designated:				
Business License	817,000	-	-	-
Undesignated, reported in:				
General fund	1,867,624	-	-	-
Special revenue funds	-	1,157,819	3,155,278	-
Capital project funds	-	-	-	20,320
Total fund balances	7,882,851	1,157,819	3,155,278	1,825,464
Total liabilities and fund balances	\$ 9,295,327	\$ 1,261,809	\$ 3,156,259	\$ 1,825,464

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental	
Funds	Total
\$ 1,645,038	\$ 16,727,454
521,756	731,355
-	128,871
-	8,635
-	51,968
-	57,370
<u>\$ 2,166,794</u>	<u>\$ 17,705,653</u>

\$ 107,965	\$ 667,363
-	311,843
-	623,656
470,000	470,000
-	22,550
57,370	57,370
<u>635,335</u>	<u>2,152,782</u>

-	1,805,144
-	1,595,682
-	1,595,682
-	769,057
-	737,806
-	500,000
-	817,000
-	1,867,624
1,218,867	5,531,964
312,592	332,912
<u>1,531,459</u>	<u>15,552,871</u>
<u>\$ 2,166,794</u>	<u>\$ 17,705,653</u>

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Town of Atherton
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2008

Total Fund Balances - Total Governmental Funds \$ 15,552,871

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)	796,203
Depreciable buildings, property, equipment and infrastructure, net (less \$229,435 which was reported in the Internal Service Fund).	<u>27,976,924</u>
Total capital assets	<u>28,773,127</u>

Certain revenues are not available to pay for current-period expenditures and therefore are reported as deferred revenue in the fund financial statements. However, those revenues are considered earned and recognized as revenue in the government-wide statement of activities.

470000

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

958,760

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>(737,806)</u>
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Net Assets of Governmental Activities \$ 45,016,952

Town of Atherton
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2008

	Major Funds			
	General	Special Tax Special Revenue	Library Special Revenue	Facilities Construction Capital Projects
REVENUES:				
Property taxes	\$ 4,641,689	\$ -	\$ 600,000	\$ -
Special assessments	-	1,732,655	-	-
Sales taxes	258,459	-	-	-
Measure A grants	-	-	-	-
Other taxes	1,457,166	-	-	-
Permits and licenses	1,796,936	-	-	-
Fines and forfeitures	44,644	-	-	-
From other agencies	916,040	-	-	-
Service charges	917,872	-	-	-
Use of money and property	192,757	-	9,470	-
Road impact fees	-	-	-	-
Other revenue	48,913	-	-	-
Total revenues	10,274,476	1,732,655	609,470	-
EXPENDITURES:				
Current:				
General government	1,691,316	-	19,115	-
Building and planning	1,845,218	-	-	-
Police	4,920,505	-	-	-
Public works	2,216,331	485,548	-	49,127
Total expenditures	10,673,370	485,548	19,115	49,127
REVENUES OVER (UNDER) EXPENDITURES	(398,894)	1,247,107	590,355	(49,127)
OTHER FINANCING SOURCES (USES):				
Transfers in	250,000	-	-	1,805,144
Transfers (out)	(1,809,978)	(150,000)	-	-
Total other financing sources (uses)	(1,559,978)	(150,000)	-	1,805,144
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(1,958,872)	1,097,107	590,355	1,756,017
FUND BALANCES:				
Beginning of year	9,841,723	60,712	2,564,923	69,447
End of year	\$ 7,882,851	\$ 1,157,819	\$ 3,155,278	\$ 1,825,464

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental		
Funds		Total
\$ 73,878	\$	5,315,567
-		1,732,655
-		258,459
289,553		289,553
-		1,457,166
-		1,796,936
-		44,644
647,412		1,563,452
17,915		935,787
11,785		214,012
988,305		988,305
10,930		59,843
<u>2,039,778</u>		<u>14,656,379</u>
-		1,710,431
-		1,845,218
100,337		5,020,842
966,711		3,717,717
<u>1,067,048</u>		<u>12,294,208</u>
<u>972,730</u>		<u>2,362,171</u>
4,834		2,059,978
<u>(100,000)</u>		<u>(2,059,978)</u>
<u>(95,166)</u>		<u>-</u>
877,564		2,362,171
653,895		13,190,700
<u>\$ 1,531,459</u>	<u>\$</u>	<u>15,552,871</u>

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, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 2,362,171

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 capital assets recorded in the current period net of Internal Service Fund capital asset additions of \$66,212 818,579

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. This is the amount of depreciation expense for the current period net of Internal Service Fund depreciation of \$85,502. (1,725,776)

Loss on the disposal of 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, it is not reported as a loss in governmental funds. (7,442)

Certain revenues are not considered available revenue and are deferred in the governmental funds. However, those revenues are considered earned and recognized as revenue in the government-wide statement of activities. This amount represents current year's activities. 470,000

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. (64,713)

Internal Service Fund are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The change in net assets of the Internal Service Fund was reported with governmental activities. 138,801

Change in Net Assets of Governmental Activities \$ 1,991,620

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, 2008

	Governmental Activities Internal Service Fund
ASSETS	
Current assets:	
Cash and investments	\$ 896,624
Noncurrent assets:	
Capital assets:	
Depreciable	749,353
Accumulated depreciation	(519,918)
Total assets	<u>1,126,059</u>
LIABILITIES	
Current liabilities:	
Accounts payable	35,543
Claims payable	131,756
Total liabilities	<u>167,299</u>
NET ASSETS	
Invested in capital assets, net of related debt	229,435
Unrestricted	729,325
Total net assets	<u>\$ 958,760</u>

See accompanying Notes to Basic Financial Statements.

Town of Atherton
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2008

	Governmental Activities Internal Service Fund
OPERATING REVENUES:	
Service charges	\$ 797,551
Total operating revenues	797,551
OPERATING EXPENSES:	
Risk management	223,021
Depreciation	85,502
Supplies and maintenance	349,780
Total operating expenses	658,303
OPERATING INCOME (LOSS)	139,248
NONOPERATING REVENUES (EXPENSES):	
Interest expense	(447)
Total nonoperating revenues (expenses)	(447)
Change in net assets	138,801
NET ASSETS:	
Beginning of the year	819,959
End of the year	\$ 958,760

See accompanying Notes to Basic Financial Statements.

Town of Atherton
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2008

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers/other funds	\$ 797,551
Cash payments to suppliers for goods and services	(443,217)
Net cash provided (used) by operating activities	354,334
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition fixed assets	(66,212)
Proceeds from sale of assets	4,963
Net cash provided (used) by capital and related financing activities	(61,249)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment earnings	4,963
Net cash provided (used) by investing activities	4,963
Net increase (decrease) in cash and cash equivalents	293,085
CASH AND CASH EQUIVALENTS:	
Beginning of year	603,539
End of year	\$ 896,624
RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 139,248
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	85,502
Changes in assets and liabilities:	
Accounts payable	15,499
Accrued payroll	(6,800)
Claims payable	120,885
Total adjustments	215,086
Net cash provided (used) by operating activities	\$ 354,334

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They are used to 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, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 167,395
Total assets	<u><u>\$ 167,395</u></u>
LIABILITIES	
Deposits payable	\$ 167,395
Total liabilities	<u><u>\$ 167,395</u></u>

See accompanying Notes to Basic Financial Statements.

Town of Atherton
Notes to the Basic Financial Statements
For the year ended June 30, 2008

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, building 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, 2008

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

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
- Capital 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, 2008

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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 the 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 presents 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 Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are 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 fund represents an internal service fund of which has 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 noncurrent) are included on the Statement of Net Assets.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus, Continued*

Proprietary Fund Financial Statements, Continued

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 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.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Cash, Cash Equivalents and Investments, Continued

The Town invests in the California Local Agency Investment Fund (LAIF), which is operated by the California State Treasurer. The State's investment policy is consistent with the Town's policy. A portion of LAIF's investments are in structured notes and asset-backed securities. As of June 30, 2008 LAIF had invested 14.72 % of its funds in such securities as compared to 3.466% at June 30, 2007.

The Town also invests in the San Mateo County Investment Fund (SMCIP), which is operated by the San Mateo County Treasurer. The County's investment policy is consistent with the Town's policy.

LAIF and SMCIP determines 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 purchased 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 Statement 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. The Town has set the capitalization threshold for reporting capital assets at \$5,000 and a half year of depreciation is recorded in the year of acquisition. 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

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Capital Assets, Continued

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.

GASB Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the Town has included the value of all infrastructure assets 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 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 activities, compensated absences are accrued as incurred and charged to the various programs.

Fund Financial Statements

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

H. Property Taxes

San Mateo County assesses properties, 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, 2008

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Property Taxes, Continued

Town property tax revenues are recognized when levied to the extent that they result in current receivables.

On October 12, 1993, the San Mateo County Board of Supervisors adopted and implemented the Alternative Method of Tax Apportionment (Teeter Plan). The Teeter Plan applies to secured taxes only and provides a predictable cash flow for taxes since they are apportioned to the Town as if the tax levy had been collected in full.

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 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

Reservations to 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, 2008

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

L. New Pronouncements

In 2008, the Town adopted new accounting standards in order to conform to the following GASB Statements:

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* - This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues.
- GASB Statement No. 50, *Pension Disclosures - An amendment of GASB Statements No. 25 and 27* - This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI).

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, 2008, the carrying amount of the Town's bank deposits was \$1,011,397. Bank balances before reconciling items were \$1,138,919 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.

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.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

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 (SMCIP)
- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit

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		(616,576)
		(616,576)
Net gain/(loss)		(616,576)
Interest income		830,544
		830,544
Total investment income	\$	213,968

In accordance with GASB Statement No. 31, the realized and unrealized gain/loss, for year-end reporting purposes, is recognized in the financial statements. Therefore, fund balance reflects the portfolio's change in value.

C. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2008:

	Government-Wide Statement of Net Assets		Total
	Governmental Activities	Fiduciary Funds Statement of Net Assets	
Cash and investments	\$ 17,624,078	\$ 167,395	\$ 17,791,473

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

2. CASH AND INVESTMENTS, Continued

C. Summary of Cash and Investments, Continued

Deposits and investments were categorized as follows at June 30, 2008:

	Credit Quality Ratings	Fair Value	Days to Maturity
Town Treasury Deposits:			
Deposits	Not Rated	\$ 1,011,397	N/A
Petty cash	Not Rated	700	N/A
Total Town treasury deposits		1,012,097	
Town Treasury Investments:			
San Mateo County Investment Pool Funds	Not Rated	9,526,915	N/A
Local Agency Investment Funds	Not Rated	7,252,461	N/A
Total Town treasury investments		16,779,376	
Total cash and investments		\$ 17,791,473	

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.

E. Investments in Local Agency Investment Funds (LAIF)

The Town's investments with LAIF at June 30, 2008, 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, 2008, the Town had \$7,252,461 invested in LAIF, which had invested 14.72% of the pool investment funds in Structured Notes and Asset-Backed Securities.

The Town valued its investments in LAIF as of June 30, 2008, 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 .9999502190.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

2. CASH AND INVESTMENTS, Continued

F. Investments in San Mateo County Investment Pool

The Town invests in the San Mateo County Pooled Investment Fund (SMCIP), 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, 2008, the Town had \$9,526,915 invested in SMCIP. The Town valued its investments in SMCIP as of June 30, 2008, by multiplying its account balance with SMCIP by a fair value factor determined by SMCIP. This fair value factor was determined by dividing all SMCIP participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of .99367. SMCIP held investments in Lehman Brothers, as a result the Town made an additional adjustment to the fair market values of \$552,009 for a subsequent decrease in value of the Lehman Brothers' holdings.

3. RECEIVABLES

A. Government-Wide and Fund Financial Statements

As of June 30, 2008, accounts receivable consisted of the following items:

Sales and use tax	\$	27,010
Measure A sales tax		17,625
Franchise fee		37,025
Grants		595,537
Other accounts receivable		54,158
Total accounts receivable	\$	731,355

As of June 30, 2008, interest receivable of \$128,871 consisted of \$41,506 from LAIF and \$87,365 from SMCIP.

4. CAPITAL ASSETS

In accordance with GASB Statement No. 34, the Town has reported all capital assets including infrastructure 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 depreciation of all infrastructure assets.

Capital assets include land, buildings, equipment, and infrastructure 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, 2008

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements

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

	Balance July 1, 2007	Additions	Retirements	Inventory Adjustments	Balance June 30, 2008
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 690,884	\$ -	\$ -	\$ -	\$ 690,884
Construction in progress	774,411	105,319	-	(774,411)	105,319
Total nondepreciable assets	<u>1,465,295</u>	<u>105,319</u>	<u>-</u>	<u>(774,411)</u>	<u>796,203</u>
Capital assets, being depreciated:					
Buildings	1,668,094	-	-	-	1,668,094
Other improvements	826,751	215,264	-	-	1,042,015
Vehicles	634,888	66,212	(25,050)	-	676,050
Equipment - computer	60,404	-	-	-	60,404
Software	-	151,425	-	-	151,425
Equipment - furniture/equipment	421,280	-	-	-	421,280
Infrastructure	48,942,648	346,571	(368,929)	774,411	49,694,701
Total depreciable assets	<u>52,554,065</u>	<u>779,472</u>	<u>(393,979)</u>	<u>774,411</u>	<u>53,713,969</u>
Accumulated Depreciation:					
Buildings	(695,956)	(37,391)	-	-	(733,347)
Other improvements	(523,715)	(33,631)	-	-	(557,346)
Vehicles	(433,752)	(73,664)	25,050	-	(482,366)
Equipment - computer	(24,792)	(9,995)	-	-	(34,787)
Software	-	(25,237)	-	-	(25,237)
Equipment - furniture/equipment	(371,287)	(10,311)	-	-	(381,598)
Infrastructure	(22,033,367)	(1,621,049)	361,487	-	(23,292,929)
Total accumulated depreciation	<u>(24,082,869)</u>	<u>(1,811,278)</u>	<u>386,537</u>	<u>-</u>	<u>(25,507,610)</u>
Depreciable assets, net	<u>28,471,196</u>	<u>(1,031,806)</u>	<u>(7,442)</u>	<u>774,411</u>	<u>28,206,359</u>
Governmental activities					
capital assets, net	<u>\$ 29,936,491</u>	<u>\$ (926,487)</u>	<u>\$ (7,442)</u>	<u>\$ -</u>	<u>\$ 29,002,562</u>

Depreciation expense for governmental activities for the year ended June 30, 2008 was as follows:

General government	\$ 1,641,340
General government, related to Internal Service	85,502
Public works	78,186
Police	6,250
Total depreciation expense	<u>\$ 1,811,278</u>

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

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 fiscal year 2008 was \$64,713.

Summary of changes in compensated absences for the year ended June 30, 2008 is as follows.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities	\$ 673,093	\$ 467,380	\$ (402,667)	\$ 737,806
Total	\$ 673,093	\$ 467,380	\$ (402,667)	\$ 737,806

6. FUND BALANCES

The fund financial statements consist of reserved and unreserved amounts. Reserved fund balances represent that portion of a fund balance which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved and may be designated or undesignated.

Reservations and designations of fund balances are described as follows:

- Reserved for capital projects are funds set aside for capital projects.
- Reserved for budget stabilization are funds set aside for economic uncertainty, known or anticipated future obligations.
- Reserved for emergency disaster are funds set aside for unforeseen expenditures that are sudden and unexpected such as natural disaster or catastrophic accidents.
- Reserved for future building inspection are funds restricted for building code inspection activities.
- Reserved for compensated absences is the portion restricted for future payment of employee compensated absences.
- Reserved for Other Post-Employment Benefits- unfunded liability is the portion set aside for unfunded retiree healthcare costs.
- Designated for Business License is funds set aside to refund certain business license payments according to City Council’s resolution.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

6. FUND BALANCES, Continued

At June 30, 2008, the Town had a deficit Unreserved, Undesignated fund balance in its State Parks Grant Special Revenue fund in the amount of \$(141,285). The deficit was due to the fund incurring higher costs related to park work and associated contracts. The Town amended the Budget for FY 09 to accommodate this deficit.

7. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2008, the following funds had an excess of expenditures over appropriations, but had adequate fund balance to cover the excess:

General Fund	\$	191,004
Special Revenue Funds:		
Tennis Fund		146
COPS Grant Fund		337
State Grants		276,121
		<hr/>
Total	\$	276,604
		<hr/> <hr/>

8. 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 \$258,137 for the year ended June 30, 2008.

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 2008 was 13.497% for miscellaneous employees and 31.664% for safety employees.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

8. EMPLOYEE RETIREMENT PLANS, Continued

C. Annual Pension Cost

For the fiscal year 2008, the Town's annual pension cost of \$946,555 for PERS was equal to the Town's required contribution. The required contribution was determined as a part of the June 30, 2007 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 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, 2007 was 16 years for miscellaneous and 16 years for safety employees for prior and current service unfunded liabilities.

Three-Year Trend Information for PERS

<u>Ending</u>	<u>Cost (APC)</u>	<u>APC Contributed</u>	<u>Obligation (Asset)</u>
6/30/2006	\$ 911,806	100%	\$ -
6/30/2007	927,301	100%	-
6/30/2008	946,555	100%	-

D. Funded Status as of the Most Recent Actuarial Date

The Town retirement plans for miscellaneous and safety employees are part of the CalPERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the Town's miscellaneous and safety employees is no longer available.

9. 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 \$1,922,254,713 with a deductible of \$5,000 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.

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.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

9. RISK MANAGEMENT, Continued

A. Risk Pool, Continued

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 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 claims 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
2005-06	\$ 66,075	\$ 7,400	\$ (66,025)	\$ 7,450
2006-07	7,450	25,971	-	33,421
2007-08	33,421	117,979	2,906	154,306

10. 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.

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

10. JOINT VENTURES, Continued

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 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.

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.

11. COMMITMENTS AND CONTINGENCIES

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

Town of Atherton
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2008

12. SUBSEQUENT EVENTS

The Atherton Municipal Code authorizes collection of a business license tax up to the amount of \$250 each year from general contractors, \$150 each year from each sub-contractor with two or more employees, and \$100 from each sole operator sub-contractor. The Town has been collecting the business license tax only once at the time of issuance of a building permit based on a percent formula which in some cases has increased the amount of tax paid by some contractors. In accordance with the Town's review of the process, the excess is required to be refunded.

In December of 2008, the Town Council authorized claims for refunds for payments of the businesses license tax beginning December 17, 2006 through December 17, 2008, and has retained MuniServices, LLC to work with the building and finance departments to determine the amount of the refund. The business license tax to be refunded is estimated to be approximately \$817,000. The total amount has been designated in the General Fund's fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

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Town of Atherton
Required Supplementary Information
For the year ended June 30, 2008

1. BUDGETARY PRINCIPLES

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

- By June 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the year commencing July 1. The operating and capital budget includes proposed expenditures and the means of financing them. Continuing appropriations are rebudgeted by the Town Council as part of the adoption of subsequent year's budget.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of resolution during a Town Council meeting in the month of June.
- The Town Manager is authorized to transfer budgeted amounts within an activity, within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council.
- Formal budgeting is employed as a management control device during the year for the general and certain special revenue funds. The Facilities Construction Capital Projects Fund, Supplemental Law Enforcement Services and Police on the Street special revenue funds are not budgeted.
- Budgets for the general and certain and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (US GAAP).
- Budgets for capital projects funds are adopted on a project-life basis.

Budgeted amounts are as originally adopted or as amended by the Town Council.

Under encumbrance accounting, purchase orders, contracts, and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Since encumbrances do not yet constitute expenditures or liabilities, encumbrances outstanding at year-end are reported as reservations of fund balances.

2. FUNDED STATUS AS OF THE MOST RECENT ACTUARIAL DATE

The Town's retirement plans for miscellaneous and safety employees are part of the CalPERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the Town's miscellaneous and safety employees is no longer available.

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Town of Atherton
Required Supplementary Information, Continued
For the year ended June 30, 2008

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

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 4,286,303	\$ 4,286,303	\$ 4,641,689	\$ 355,386
Sales taxes	147,756	147,756	258,459	110,703
Other taxes	1,162,774	1,162,774	1,457,166	294,392
Permits and licenses	1,768,188	1,768,188	1,796,936	28,748
Fines and forfeitures	35,000	35,000	44,644	9,644
From other agencies	190,500	190,500	916,040	725,540
Services charges	653,808	653,808	917,872	264,064
Use of money and property	489,478	489,478	192,757	(296,721)
Other revenue	229,000	229,000	48,913	(180,087)
Total revenues	8,962,807	8,962,807	10,274,476	1,311,669
EXPENDITURES:				
Current:				
General government	1,332,814	1,663,180	1,691,316	(28,136)
Building and planning	1,487,474	1,692,674	1,845,218	(152,544)
Police	4,886,587	4,905,087	4,920,505	(15,418)
Public works	2,217,325	2,221,425	2,216,331	5,094
Total expenditures	9,924,200	10,482,366	10,673,370	(191,004)
REVENUES OVER (UNDER) EXPENDITURES	(961,393)	(1,519,559)	(398,894)	1,120,665
OTHER FINANCING SOURCES (USES):				
Transfers in	1,800,000	250,000	250,000	-
Transfers (out)	-	(1,809,978)	(1,809,978)	-
Total other financing sources (uses)	1,800,000	(1,559,978)	(1,559,978)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 838,607	\$ (3,079,537)	(1,958,872)	\$ 1,120,665
FUND BALANCE:				
Beginning of year			9,841,723	
End of year			<u>\$ 7,882,851</u>	

Town of Atherton
Required Supplementary Information, Continued
For the year ended June 30, 2008

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -
Major Fund - Special Tax Fund**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Special assessments	\$ 1,858,000	\$ 1,858,000	\$ 1,732,655	\$ (125,345)
Total revenues	<u>1,858,000</u>	<u>1,858,000</u>	<u>1,732,655</u>	<u>(125,345)</u>
EXPENDITURES:				
Current:				
Public works	<u>1,506,535</u>	<u>1,506,535</u>	<u>485,548</u>	<u>1,020,987</u>
Total expenditures	<u>1,506,535</u>	<u>1,506,535</u>	<u>485,548</u>	<u>1,020,987</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>351,465</u>	<u>351,465</u>	<u>1,247,107</u>	<u>895,642</u>
OTHER FINANCING SOURCES (USES):				
Transfers (out)	<u>(650,000)</u>	<u>(650,000)</u>	<u>(150,000)</u>	<u>500,000</u>
Total other financing sources (uses)	<u>(650,000)</u>	<u>(650,000)</u>	<u>(150,000)</u>	<u>500,000</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (298,535)</u>	<u>\$ (298,535)</u>	<u>1,097,107</u>	<u>\$ 1,395,642</u>
FUND BALANCE:				
Beginning of year			<u>60,712</u>	
End of year			<u>\$ 1,157,819</u>	

Town of Atherton
Required Supplementary Information, Continued
For the year ended June 30, 2008

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

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property tax	\$ 284,000	\$ 284,000	\$ 600,000	\$ 316,000
Use of money and property	-	-	9,470	9,470
Total revenues	<u>284,000</u>	<u>284,000</u>	<u>609,470</u>	<u>325,470</u>
EXPENDITURES:				
Current:				
General government	<u>78,326</u>	<u>78,326</u>	<u>19,115</u>	<u>59,211</u>
Total expenditures	<u>78,326</u>	<u>78,326</u>	<u>19,115</u>	<u>59,211</u>
Net change in fund balance	<u>\$ 205,674</u>	<u>\$ 205,674</u>	<u>\$ 590,355</u>	<u>\$ 384,681</u>
FUND BALANCE:				
Beginning of year			<u>2,564,923</u>	
End of year			<u>\$ 3,155,278</u>	

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SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

Town of Atherton
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

	Special Revenue				
	Tennis	Transportation	Gas Tax	Supplement Law Enforcement Services	Police on the Street
ASSETS					
Cash and investments in treasury	\$ 41,936	\$ 121,521	\$ 140,652	\$ 135	\$ 4,499
Accounts Receivable (net of allowances)	-	17,625	34,131	-	-
Total assets	\$ 41,936	\$ 139,146	\$ 174,783	\$ 135	\$ 4,499
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 237	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total liabilities	237	-	-	-	-
Fund Balance:					
Undesignated	41,699	139,146	174,783	135	4,499
Total fund balance	41,699	139,146	174,783	135	4,499
Total liabilities and fund balance	\$ 41,936	\$ 139,146	\$ 174,783	\$ 135	\$ 4,499

Special Revenue			Capital Project				Total
COPS Grant	Road Construction	State Grants	Capital Improvement	Storm Drainage	Channel Drainage District	Parks Well	Non-Major Governmental Funds
\$ 13,150	\$ 1,001,634	\$ -	\$ 183,797	\$ 39,859	\$ 86,020	\$ 11,835	\$ 1,645,038
-	-	470,000	-	-	-	-	521,756
<u>\$ 13,150</u>	<u>\$ 1,001,634</u>	<u>\$ 470,000</u>	<u>\$ 183,797</u>	<u>\$ 39,859</u>	<u>\$ 86,020</u>	<u>\$ 11,835</u>	<u>\$ 2,166,794</u>
\$ -	\$ 14,894	\$ 83,915	\$ 7,447	\$ -	\$ 1,472	\$ -	\$ 107,965
-	-	470,000	-	-	-	-	470,000
-	-	57,370	-	-	-	-	57,370
-	14,894	611,285	7,447	-	1,472	-	635,335
13,150	986,740	(141,285)	176,350	39,859	84,548	11,835	1,531,459
13,150	986,740	(141,285)	176,350	39,859	84,548	11,835	1,531,459
<u>\$ 13,150</u>	<u>\$ 1,001,634</u>	<u>\$ 470,000</u>	<u>\$ 183,797</u>	<u>\$ 39,859</u>	<u>\$ 86,020</u>	<u>\$ 11,835</u>	<u>\$ 2,166,794</u>

Town of Atherton
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2008

	Special Revenue				
	Tennis	Transportation	Gas Tax	Supplemental Law Enforcement Services	Police on the Street
REVENUES:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Measure A grants	-	289,553	-	-	-
From other agencies	-	-	142,006	-	-
Service charges	17,915	-	-	-	-
Use of money and property	-	2,420	2,068	-	44
Road Impact Fees	-	-	-	-	-
Other revenues	-	-	-	-	-
Total revenues	17,915	291,973	144,074	-	44
EXPENDITURES:					
Current:					
Police	-	-	-	-	-
Public works	5,667	195,297	-	-	-
Total expenditures	5,667	195,297	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	12,248	96,676	144,074	-	44
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	-	-	-
Operating transfers (out)	-	-	(100,000)	-	-
Total other financing sources (uses)	-	-	(100,000)	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	12,248	96,676	44,074	-	44
FUND BALANCES:					
Beginning of year	29,451	42,470	130,709	135	4,455
End of year	\$ 41,699	\$ 139,146	\$ 174,783	\$ 135	\$ 4,499

Special Revenue			Capital Projects				Total
COPS Grant	Road Construction	State Grants	Capital Improvement	Storm Drainage	Channel Drainage District	Park Wells	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,878	\$ -	\$ 73,878
-	-	-	-	-	-	-	289,553
101,680	-	400,000	-	-	3,726	-	647,412
-	-	-	-	-	-	-	17,915
-	-	2,060	4,752	441	-	-	11,785
-	988,305	-	-	-	-	-	988,305
-	-	-	-	-	-	10,930	10,930
101,680	988,305	402,060	4,752	441	77,604	10,930	2,039,778
100,337	-	-	-	-	-	-	100,337
-	35,974	582,831	98,602	2,964	41,447	3,929	966,711
100,337	35,974	582,831	98,602	2,964	41,447	3,929	1,067,048
1,343	952,331	(180,771)	(93,850)	(2,523)	36,157	7,001	972,730
-	-	-	-	-	-	4,834	4,834
-	-	-	-	-	-	-	(100,000)
-	-	-	-	-	-	4,834	(95,166)
1,343	952,331	(180,771)	(93,850)	(2,523)	36,157	11,835	877,564
11,807	34,409	39,486	270,200	42,382	48,391	-	653,895
\$ 13,150	\$ 986,740	\$ (141,285)	\$ 176,350	\$ 39,859	\$ 84,548	\$ 11,835	\$ 1,531,459

Town of Atherton

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

Tennis Special Revenue Fund

For the year ended June 30, 2008

	Budget		Actual	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Charges for services:				
Tennis Keys and classes	\$ 8,000	\$ 8,000	\$ 17,915	\$ 9,915
Total revenues	8,000	8,000	17,915	9,915
EXPENDITURES:				
Current:				
Public works	5,521	5,521	5,667	(146)
Total expenditures	5,521	5,521	5,667	(146)
Net change in fund balance	\$ 2,479	\$ 2,479	\$ 12,248	\$ 9,769
FUND BALANCE:				
Beginning of year			29,451	
End of year			\$ 41,699	

Town of Atherton

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

Transportation Special Revenue Fund

For the year ended June 30, 2008

	Budget		Actual	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Measure A grants	\$ 265,000	\$ 265,000	\$ 289,553	\$ 24,553
Use of money and property	-	-	2,420	2,420
Total revenues	265,000	265,000	291,973	26,973
EXPENDITURES:				
Current:				
Public works	229,500	229,500	195,297	34,203
Total expenditures	229,500	229,500	195,297	34,203
Net change in fund balance	\$ 35,500	\$ 35,500	\$ 96,676	\$ 61,176
FUND BALANCE:				
Beginning of year			42,470	
End of year			\$ 139,146	

Town of Atherton

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

Gas Tax Special Revenue Fund

For the year ended June 30, 2008

	Budget		Actual	Variance from
	Original	Final		Final Budget
				Favorable (Unfavorable)
REVENUES:				
From other agencies:				
Gas tax 2105	\$ -	\$ 56,080	\$ 44,223	\$ (11,857)
Gas tax 2106	-	-	36,499	36,499
Gas tax 2107	150,000	150,000	59,284	(90,716)
Gas tax 2107.5	-	-	2,000	2,000
Use of money and property	-	-	2,068	2,068
Total revenues	150,000	206,080	144,074	(62,006)
EXPENDITURES:				
Current operating:				
Public works	45,000	45,000	-	45,000
Total expenditures	45,000	45,000	-	45,000
REVENUES OVER (UNDER) EXPENDITURES	105,000	161,080	144,074	(17,006)
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(100,000)	(100,000)	(100,000)	-
Total other financing sources (uses)	(100,000)	(100,000)	(100,000)	-
Net change in fund balance	\$ 5,000	\$ 61,080	44,074	\$ (17,006)
FUND BALANCE:				
Beginning of year			130,709	
End of year			\$ 174,783	

Town of Atherton

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

COPS Grant Special Revenue Fund

For the year ended June 30, 2008

	Budget		Actual	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
From other agencies:				
Grants	\$ 100,000	\$ 100,000	\$ 101,680	\$ 1,680
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>101,680</u>	<u>1,680</u>
EXPENDITURES:				
Current:				
Police	100,000	100,000	100,337	(337)
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>100,337</u>	<u>(337)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,343</u>	<u>\$ 1,343</u>
FUND BALANCE:				
Beginning of year			11,807	
End of year			<u>\$ 13,150</u>	

Town of Atherton

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

Road Construction Special Revenue Fund

For the year ended June 30, 2008

	Budget		Actual	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Road impact fees	1,132,102	1,132,102	988,305	(143,797)
Total revenues	1,132,102	1,132,102	988,305	(143,797)
EXPENDITURES:				
Current:				
Public works	1,000,000	1,000,000	35,974	964,026
Total expenditures	1,000,000	1,000,000	35,974	964,026
Net change in fund balance	\$ 132,102	\$ 132,102	\$ 952,331	\$ 820,229
FUND BALANCE:				
Beginning of year			34,409	
End of year			\$ 986,740	

Town of Atherton

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

State Grants Special Revenue Fund

For the year ended June 30, 2008

	Budget		Actual	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
From other agencies:				
Grants	\$ 104,800	\$ 104,800	\$ 400,000	\$ 295,200
Use of money and property	-	-	2,060	2,060
Total revenues	104,800	104,800	402,060	297,260
EXPENDITURES:				
Current:				
Public works	306,710	306,710	582,831	(276,121)
Total expenditures	306,710	306,710	582,831	(276,121)
Net change in fund balance	\$ (201,910)	\$ (201,910)	\$ (180,771)	\$ 21,139
FUND BALANCE:				
Beginning of year			39,486	
End of year			\$ (141,285)	

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FIDUCIARY FUND FINANCIAL STATEMENTS

Town of Atherton
Statement of Fiduciary Net Assets
Fiduciary Funds - Agency Funds
June 30, 2008

	Evans Creative Design Fund	Lindenwood Gate Trust	H-P Park Improvement Fund	Tree Committee	Total
ASSETS					
Cash and investments	\$ 120,033	\$ 244	\$ 5,717	\$ 41,401	\$ 167,395
Total assets	\$ 120,033	\$ 244	\$ 5,717	\$ 41,401	\$ 167,395
LIABILITIES					
Deposits payable	\$ 120,033	\$ 244	\$ 5,717	\$ 41,401	\$ 167,395
Total liabilities	\$ 120,033	\$ 244	\$ 5,717	\$ 41,401	\$ 167,395

Town of Atherton
Statement of Changes in Assets and Liabilities
Fiduciary Funds - Agency Funds
For the year ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<u>Evans Creative Design Fund</u>				
Assets:				
Cash and investments	\$ 121,919	\$ 9,657	\$ (11,543)	\$ 120,033
Total assets	\$ 121,919	\$ 9,657	\$ (11,543)	\$ 120,033
Liabilities:				
Deposits payable	\$ 121,919	\$ 9,657	\$ (11,543)	\$ 120,033
Total liabilities	\$ 121,919	\$ 9,657	\$ (11,543)	\$ 120,033
<u>Lindenwood Gate Trust</u>				
Assets:				
Cash and investments	\$ 250	\$ 2	\$ (8)	\$ 244
Total assets	\$ 250	\$ 2	\$ (8)	\$ 244
Liabilities:				
Deposit payable	\$ 250	\$ 2	\$ (8)	\$ 244
Total liabilities	\$ 250	\$ 2	\$ (8)	\$ 244
<u>H-P Park Improvement Fund</u>				
Assets:				
Cash and investments	\$ 5,851	\$ 42	\$ (176)	\$ 5,717
Total assets	\$ 5,851	\$ 42	\$ (176)	\$ 5,717
Liabilities:				
Deposits payable	\$ 5,851	\$ 42	\$ (176)	\$ 5,717
Total liabilities	\$ 5,851	\$ 42	\$ (176)	\$ 5,717

(Continued)

Town of Atherton
Statement of Changes in Assets and Liabilities
Fiduciary Funds - Agency Funds, Continued
For the year ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<u>Tree Committee</u>				
Assets:				
Cash and investments	\$ 41,520	\$ 2,698	\$ (2,817)	\$ 41,401
Total assets	\$ 41,520	\$ 2,698	\$ (2,817)	\$ 41,401
Liabilities:				
Deposits payable	\$ 41,520	\$ 2,698	\$ (2,817)	\$ 41,401
Total liabilities	\$ 41,520	\$ 2,698	\$ (2,817)	\$ 41,401
<u>All Agency Funds</u>				
Assets:				
Cash and investments	\$ 169,540	\$ 12,399	\$ (14,544)	\$ 167,395
Total assets	\$ 169,540	\$ 12,399	\$ (14,544)	\$ 167,395
Liabilities:				
Deposits payable	\$ 169,540	\$ 12,399	\$ (14,544)	\$ 167,395
Total liabilities	\$ 169,540	\$ 12,399	\$ (14,544)	\$ 167,395

(Concluded)

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

To the Honorable Mayor and Members of the Town 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, 2008, and have issued our report thereon dated August 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Honorable Mayor and Members of the Town Council
of the Town of Atherton
Atherton, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carlson

Oakland, California
August 7, 2009