

**TOWN OF ATHERTON, CALIFORNIA**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**Prepared by**  
**FINANCE DEPARTMENT**

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**TOWN OF ATHERTON**  
**Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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**Basic Financial Statements**  
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## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Atherton, California (Town), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2019 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

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

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2020, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Maze & Associates*

Pleasant Hill, California  
January 10, 2020

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Atherton, we offer readers of the Town of Atherton's financial statements this narrative overview and analysis of the financial activities of the Town of Atherton for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here.

### FINANCIAL HIGHLIGHTS

- The assets of the Town of Atherton exceeded its liabilities at the close of the most recent fiscal year by \$65,346,161 (*net position*). Of this amount, \$6,942,250 (unrestricted position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$7,980,256. This includes total revenues of \$23,427,201 over total expenditures of \$15,446,945. The increase is due to higher total revenues of \$1,622,750. The town received lower property tax revenues of \$588,661, this was due to no longer receiving the Parcel tax. There were higher other taxes revenues of about \$94,768, and an increase in charges for services of \$44,422. There was an increase in operating grants of \$1,329,737, and an increase in investment earnings of \$742,484. There was an increase in total expenses of \$197,741 of which a majority was attributed to an additional recognized pension expense of \$511,241, reduction in Net OPEB expense of \$717,495, as well as additional capital expenditure outlays and disposals and contributions towards Workers' Compensation negative equity.
- The town recorded a net pension liability of \$16,197,111, as this is an increase of \$75,545. The Miscellaneous employee plan is \$4,466,539 and Safety is \$11,730,572.
- The Town recorded a net OPEB liability of \$3,644,663. This is a decrease of \$365,913 from last fiscal year.
- As of the close of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$44,853,828, an increase of \$4,604,442 in comparison with the prior year.
- The General Fund is the chief operating account of the Town. At the end of the current fiscal year, the unassigned fund balance for the general fund was \$20,147,810, or 155 percent of total general fund expenditures. The Town has a fund balance policy of not dropping the unassigned fund balance below 20% of the actual annual operating expenditures and the Town balance well exceeds this amount.
- The unassigned General Fund balance increased by \$5,223,615 compared to fiscal year 2017-2018. Key Contributing factors included a reduction of transfers out compare to prior year. Transfers out were only \$237,929 compared to last fiscal year transfer out of \$614,258 from the General Fund. This fiscal year transfers out included \$237,929 allocation towards Workers' compensation negative equity reserve. There was an increase in General Fund revenues of \$2,041,967 and an increase of total expenditures of \$959,202 year over year. The General Fund maintained excess revenues over expenditures of \$5,664,811. This was the first fiscal year there was no transfer in from the Parcel Tax for Police Services as there is no longer a collection of a Parcel Tax. With the inclusion of the transfers out of \$237,929, this culminated in a positive change in fund balance of \$5,426,882 for the fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Atherton's basic financial statements. The Town of Atherton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial

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statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Atherton's finances, in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the Town of Atherton that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Town of Atherton include general government, planning, building, public safety (Police), and public works.

The government-wide financial statements can be found on pages 16-17 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Atherton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Atherton can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Atherton maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Tax Special Revenue Fund, and Library Special Revenue Fund, all of which are

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considered to be major funds. The Town of Atherton also elected to include Facilities Construction Capital Projects Fund as a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

**Proprietary funds.** The Town of Atherton maintains one type of proprietary funds. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town of Atherton various functions. The Town of Atherton uses internal service funds to account for its fleet of vehicles and equipment, workers' compensation liability, general and employment liabilities, and employee benefits including compensated absences and other post-employment benefits other than pension. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

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

The basic fiduciary fund financial statements can be found on page 36-37 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-70 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents a budgetary comparison statement for General Fund, Special Tax Special Revenue Fund, and Library Special Revenue Fund. Required supplementary information can be found on pages 27-29 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 78-90 of this report.

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## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Atherton, assets exceeded liabilities by \$65,346,161 at the close of the most recent fiscal year.

By far the largest portion of the Town of Atherton's net position (55 percent) reflects its investment in capital assets of \$36,323,678 (e.g., land, buildings, vehicles, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The Town of Atherton uses capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town of Atherton's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Town of Atherton Net Position

	2019	2018
Current and other assets	\$ 55,320,157	\$ 49,138,280
Capital assets	36,323,678	33,854,084
<b>Total assets</b>	<b>91,643,835</b>	<b>82,992,364</b>
<b>Deferred Outflow of Resources</b>	<b>4,007,139</b>	<b>4,720,336</b>
Current liabilities	6,968,325	6,069,000
Noncurrent liabilities	20,105,013	20,417,237
<b>Total liabilities</b>	<b>27,073,338</b>	<b>26,486,237</b>
<b>Deferred Inflow of Resources</b>	<b>3,231,475</b>	<b>3,860,558</b>
Net Assets:		
Invested in capital assets, net of related debt	36,323,678	33,854,084
Restricted	22,080,233	22,902,673
Unrestricted	6,942,250	609,148
<b>Total net position</b>	<b>\$ 65,346,161</b>	<b>\$ 57,365,905</b>

An additional portion of the Town of Atherton net position \$22,080,233 (33.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$6,942,250 may be used to meet the government's ongoing obligations. The implementation of GASB 75 during the fiscal year 2017-18, required the recognition of the entire net OPEB liability. This included a prior period adjustment to the net position in governmental activities and employee benefits fund for a total of \$9,738,515. This adjustment was in the unrestricted net position balance in the government wide statement.

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

**Governmental activities** Governmental activities increased the Town of Atherton's net assets by \$7,980,256. Last fiscal year there was a prior period adjustment for implementation of GASB 75 OPEB. This led to a decrease in net position to \$57,365,905. There was an increase of recognized pension expense of \$511,241. Due to the implementation of GASB statements 68 and 71 fiscal year 14/15, which required the recognition of pension liabilities, deferred outflows, and deferred inflows of resources for pensions, resulted in the amount of \$12,804,236. With the recognized pension expense of

\$511,241 in the fiscal year, reflects a total adjustment of \$13,315,477 to the Total Net Position. With the addition of the OPEB pension liability, deferred outflows, and deferred inflows of resources for OPEB, this resulted in a total adjustment amount of \$5,750,633 in the current fiscal year. The total Town Net Position is \$65,346,161. Without the recognition of pension and OPEB liabilities the Town would have a total net position of \$84,412,271 for FY 2018-19. Total governmental activities had lower property taxes, sales tax, and other taxes for a combined total of \$588,661 in the fiscal year. The Town had an increase in charges for services of \$44,422, an increase in operating grants of \$1,329,737, and increase in investment earnings of \$742,484 over last year. The Town had an increase in expenditures of \$197,741 across major funds and other governmental funds due to additional pension expense, allocation toward Workers' Compensation negative equity, and increased asset cost additions. The Town made \$198,151 contribution toward its Net OPEB Obligation. The Town has contributed a combined \$1,990,953 during the previous four fiscal years toward the OPEB trust for continued reduction of its unfunded liability.

Town of Atherton's Changes in Net Position

	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 3,815,204	\$ 3,770,782
Operating grants and contributions	2,259,250	929,513
General revenues:		
Taxes	15,887,083	16,475,744
Investment earnings	1,207,306	464,822
Other revenues	258,358	163,590
Total revenues	23,427,201	21,804,451
Expenses:		
General government	1,825,272	2,109,173
Public works	4,946,656	4,103,198
Police	7,212,959	7,471,420
Building	1,195,831	1,283,885
Planning	266,227	281,528
Total expenses	15,446,945	15,249,204
Change in Net Position	7,980,256	6,555,247
Net assets - Beginning	57,365,905	50,810,658
Net assets - Ending	65,346,161	57,365,905

- Charges for services increased by \$44,422 during the year. The increase was primarily due to Public Works, and Police, department charges for services. The Town saw an

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increase in Public Works charge for services of \$388,101. This was due to C&D deposit forfeiture of \$601,547 from building construction deposits that were forfeited for construction time limit. There was \$268,113 in C&D forfeiture last fiscal year. Town encroachment permit fees had an increase of \$184,555 than previous year for an amount of \$622,526. Park fees had an overall decrease of \$8,182 from the \$221,036 received in previous year. There was a decrease in Other Reimbursements in the amount of \$124,200. This was due to the Town receiving funds in the prior year from the MTC for the Oak Grove interception project. The Town had a decrease of \$163,492 in refuse rate stabilization fund revenues over last fiscal year amount of \$340,737. Charges for Police Services had an increase of \$44,472. Other fines and forfeiture had an increase of \$9,926 over last year and special service fee for police had a decrease of \$3,654. There was an increase of administrative citations of \$39,300 over previous year for an amount of \$84,200. Building Department revenue saw a decrease of \$256,723 in building permit and building plan check fees also tree removal plan check fees over the previous year for a total of \$1,596,071. Zoning and planning fees saw a decrease of \$39,362.

- Operating grants and contribution increased overall by \$1,329,737 during the year. A majority of the increase was primarily due to a increase of \$319,574 in Civic Center donations. The Town received \$386,512 in donations from Atherton Now for the design development and construction document phases for the Civic Center project. In the previous year we received \$66,938 in donations, this is an increase of \$319,574 in donations. The Town received \$4,429 less in Gas Tax and \$13,653 more in Measure A transportation tax funding for street projects. The Town also received an increase in capital grant funds of \$1,041,397 from CalTrans for a Town water capture facility project. This is an increase of \$921,510 from prior year, as the study and engineering design ramped up for the project.
- Taxes decreased by \$588,660 (3.6 percent) during the year. The decrease was mainly due to the Town no longer collecting the Parcel Tax. Prior year Parcel Tax amount was \$1,870,015. Without including the full reduction of the Parcel Tax, Town wide property taxes increased \$1,283,994 during the year. There was an increase in sales tax by \$30,155 over previous year. There was a total \$32,794 decrease in other taxes which included \$14,217 decrease in franchise fees for a total of \$819,543. Majority of the decrease is due to not receiving the 2<sup>nd</sup> quarter cable franchise fee for year end. There was a \$6,225 decrease in Document transfer tax to \$440,871 for the year. Business license fees decreased by \$12,352
- Investment earnings are higher than last year by \$742,484. This was due to increase in interest rates and there was a major fair market value adjustment to investments in the fiscal year of \$280,474. The Town continues to diversify its investments.
- Total Government Activities expenses increased by \$197,741 (1.3 percent) during the year. The Town had an increase in expenditures of \$197,741 across major funds and other governmental funds due to additional pension expense, allocation toward Workers' Compensation negative equity, increase in capital projects outlay and disposals expense and increased asset cost additions.

### **Financial Analysis of the Government's Funds**

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

From FY 2011, The Town adopted the provision of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Additional information can be found in Note 7 on page 56 through 62 in the financial statements.

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**Governmental funds:**

The focus of the Town of Atherton's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Atherton's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** is the chief operating fund of the Town of Atherton. At the end of the current fiscal year, unassigned fund balance of the general fund was \$20,147,810 while total fund balance reached \$22,773,595. As a measure of the general fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 155 percent of the total general fund expenditures of \$13,024,224, while total fund balance represents 174.8 percent of that same amount of total expenditures.

Town of Atherton's general fund balance increased by \$5,426,882 during the current fiscal year. Key factors in the increase are as follows:

- The Council authorized an allocation from the General fund that included \$237,929 allocation towards Workers' Compensation negative equity reserve. The previous year total allocations from the General Fund were \$614,258, of which included an allocation of \$357,140 toward Workers Compensation, \$92,118 toward OPEB Trust, and \$165,000 allocation for the Town's portion of the Bayfront Canal water-front analysis study. The Town received a loan from the County for the initial study.
- The General Fund Revenue increased \$2,041,967 over prior year and there was \$959,202 increase in General Fund operating expenditures. The increase in expenditures due to increase in unfunded CalPERS liability, equipment purchases, workers compensation, liability and health insurance, increase in operational expenses within General government departments, Police, and Public Works departments. There was an MOU salary increase of 3.75% for the Police Department and unrepresented miscellaneous employees.
- The CalPERS employer contribution rate had a slight increase as total expense was \$10,260 more than previous year. All Town employees have picked up the maximum additional employer contribution share of normal cost. CalPERS continues to collect the unfunded liability as a dollar amount. The Town payment of the unfunded liability portion for the fiscal year increased \$180,355 to \$838,215. The total CalPERS expense for the Town increased \$190,615.
- Increase in property tax revenues in the amount of \$1,113,897. In the previous year property taxes increased \$863,264. Secured property taxes increased \$581,540. Property Tax in Lieu of VLF had an increase of \$77,623 and ERAF revenue had an increase of \$411,600.
- Decrease in other taxes (Franchise tax) in the amount of \$20,442. A majority of the decrease was in Cable Franchise fee of \$37,143 from previous year for a total amount of \$103,702. This was due to not receiving the second quarter fee amount until well after the year closed.
- Increase of sales tax in the amount of \$30,155 compared to previous year for a total of \$313,155.
- Increase in Fines and Forfeitures in the amount of \$380,340. A majority of the increase is mainly due to C&D time limit forfeiture of \$601,547 realized in the year.
- Decrease in Service Charges in the amount of \$86,269. A majority of the decrease is attributed to building permit and planning fees received were \$295,785 less than the previous year. This could be a trend of some minor slowdown in building and

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construction during the year. Encroachment permits saw an increase of \$184,555 for a total of \$622,526. Administrative code enforcement citations revenue increased \$39,300 for a total of \$84,200.

**Special Tax Special Revenue Fund** has a total fund balance of \$1,688,743, all of which is reserved for street and drainage facility maintenance. There was a significant variation in revenue to the fund. The special Parcel tax was not renewed past fiscal year 2017-18. The Town no longer receives Parcel Tax revenue and only maintains residual funds from prior years. The Parcel Tax appropriated \$400,000 in funding to street maintenance projects. The total 2019 street maintenance projects were \$538,000. Expenditures decreased by \$1,367,568 as the Series Street light project, repairs to culverts and drainage facility systems at Polhemus, Camino Al Lago, and Stockbridge were completed last fiscal year. The Town also saw the completion of the Oak Grove intersection street project. The special Parcel tax was also budgeted to appropriate Funding to the Middlefield Class II Bike Lane project total cost of \$782,000, However the Town received an SMCTA Grant of up to \$733,000 that required a 45% match on construction costs and PG&E provided \$360,000 in funding for line replacement work associated on Middlefield. The Class II Bike Lane project will be completed in FY 19/20. The Parcel Tax was a vital component of the Town capital improvement fund as it provided approximately \$1.48 Million toward the capital projects and \$372,000 toward police services. The Town approach is to spend residual monies in the special tax fund within our Town Capital Improvement Program projects until it is depleted. With the beginning of the Civic Center construction project in Fiscal Year 2019-20, the Town CIP program has been reduced to street and drainage improvement. The Town estimates to allocate \$575,000 of Parcel Tax to Road Maintenance and Drainage Improvements.

**Library Special Revenue Fund** has a total fund balance of \$13,140,982, all of which is reserved for the library construction and operation. Revenue was higher than prior year by \$159,016 as return of excess donor city funds received was \$1,609,416. As of 2012-2013 fiscal year, all donor funds are held in a separate trust for each city in the JPA. The town currently has \$9,829,069 in the SMCL Donor trust fund. Funds will be remitted to cities once they use up all existing funds. Current existing funds held by the Town are \$3,313,967. The Library fund is funding the new Library design and construction portion of the Town Civic Center as the Town will be using all funds toward the project. The fund had \$1,280,254 in expenditures for the final construction document phase and for the first construction payment as the project began in June 2019. The San Mateo County will be advancing all of the Town's funds held in the SMCL trust and future donor funds in FY 2019-20 for the construction of the new library.

### **General Fund Budgetary Highlights**

During the year, the revenue budget increased by a total of \$1,403,777 at mid-year. The following are the main components of the increase:

- \$253,092 higher secured property tax
- \$666,772 higher ERAF revenue.
- \$22,000 higher total sales tax
- \$22,000 decrease in zoning and planning fees
- \$98,942 higher total police revenue
- \$384,971 increase of revenue in miscellaneous, intergovernmental, and DPW revenue categories

During the year there was also \$9,000 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- \$2,500 increase in the administration budget for employee recognition program. This program includes an all employee luncheon and a recognition of awards for years of service milestones.
- \$6,500 increase in the public works department expenditures for contract custodial services expense for park and facility maintenance departments. This was due to the Town finding an alternative custodial service to provide custodial maintenance on a month to month basis while the Town enters the construction phase of the Civic Center project.

### Capital Assets and Debt Administration

**Capital assets.** The Town of Atherton's investment in capital assets for its governmental activities as of June 30, 2019, amounts to \$36,323,678 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, drainage systems, and construction in progress. Construction in progress increased by \$3,566,296. This is mainly due to continued projects in progress for the Civic Center design and now the construction phase, Bike/Pedestrian Middlefield Class II lane, Water Capture Facility, Green Infrastructure plan implementation, and Drainage master plans project repairs to drainage facilities and valley gutters along Stockbridge and Polhemus Avenues, and Camino Al Lago. The Civic Center design, construction documents, and beginning of construction phase comprises \$9.9 million of Town construction in progress.

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

	Governmental activities	
	2019	2018
Land	690,884	690,884
Construction in progress	12,718,979	9,152,683
Building	228,478	752,190
Other Improvements	249,582	277,069
Vehicles	381,964	282,178
Computer Equipment/Software	70,779	103,061
Furniture & Fixture	(1)	(1)
Machinery & Equipment	78,498	101,667
Infrastructure	21,904,515	22,494,353
Total Fixed Assets	36,323,678	33,854,084

Additional information about the Town's capital assets can be found in Note 5 on pages 51 through 53 in the financial statements.

**Long-term debt.** At the end of the current fiscal year, the Town of Atherton has no total debt outstanding. The Town had an assessment of \$237,929 due to The Cities Group to cover negative workers' compensation reserve for fiscal year 2018. In the FY 2018-2019 budget, the Council approved an appropriation of \$237,929 for the Workers' Compensation Equity Reserve replenishment. This was to mitigate the depletion of the reserves and also possibly offset any future additional assessments from Cities Group workers' compensation JPA.

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In Fiscal Year 2014-15, GASB 68 and 71 were implemented for Accounting and Financial Reporting for Pensions. This established standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The net pension liability increased \$75,545 over last fiscal year. As of FY 2018-19, the Town of Atherton reports a net pension liability of \$16,197,111 and is as follows;

Miscellaneous Employee Plan: \$4,466,539  
Safety Employees Plan: \$11,730,572

The Town reported a deferred outflow of resources of \$4,007,139 and deferred inflow of resources \$1,125,505.

In Fiscal Year 2017-18, GASB 74 and 75 were implemented for the Accounting and Financial Reporting for Postemployment Benefits Other than pensions. This establishes accounting and financial reporting requirements for governments whose employees are provided with OPEB benefits. It also includes requirements similar to pension reporting to address financial reporting for assets accumulated for purposes of providing OPEB benefits. As of FY 2018-19, the Town of Atherton reports a net OPEB liability of \$3,644,663. This is a decrease of \$365,913 over last fiscal year.

The Town reported a deferred inflow of resources \$2,105,970 for OPEB.

**Economic Factors and Next Year's Budgets** Property taxes are still the major revenue source for the Town and comprise 66% of the General Fund revenues. Property Taxes increased 9.9% from the previous year of \$11,191,973, an indication that increased property sales within the town continues. As of FY 2019-20, the Town experienced a Net Taxable Assessed Value increase of 6.61% for a total value of \$11.66 Billion. Expectations for FY 2019-20 property tax revenues should continue to show a slight growth as the housing market prices in the Town continue to increase. The Town in future years will be on the conservative assumption on property tax increases. For the current budget, financial assumptions include an increase in property tax revenue projections at approximately 4.5 percent, and building revenue was increased by approximately 1 percent. All other revenue sources are budgeted between 1 to 2 percent. Franchise fees are budgeted at 2 to 3 percent based on FY 2018-19 levels. In certain revenues like park revenue, they were budgeted based on other percentages or based on bookings history from previous year. We continue to monitor other Town revenues as they remain stable.

Sales tax had a slight increase to \$343,310. It has remained static around \$315,000 over the past couple of years. The FY 2017-18 was the last year for collection of the Parcel Tax. The Town Parcel Tax contributed \$1.4 Million towards capital projects and \$372,000 towards police services. It was a vital source of revenue for capital project funding in the community. Beginning FY 2018-19, the Town will longer receives Parcel Tax for Capital Projects and Police Services. The Town however maintains residual funds from the Parcel Tax that will continue to be used toward capital projects. The five-year capital improvement programs were adjusted in the FY 2018-19 budget adoption. The Town is now in "save and spend" mode for priority capital projects. The Town received \$1,691,772 in ERAF for the Fiscal Year. This was an increase of \$411,600. ERAF was not specifically earmarked in the FY 2018-19 budget, however the Town anticipates using ERAF as a contribution toward the civic center construction project.

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The Town's General Fund operating budget presents a plan for accomplishing the goals and objectives of the City Council within existing resources and core strategy of financial stability in mind. We continue to be fiscally prudent with our resources but are mindful of operational and infrastructure needs. The Town continues the commitment of the General Fund unallocated reserves to the Civic Center project and anticipates the use of Certificated of Participation financing for the of the project. This financing is more of a cash flow necessity for the project. The Town has the commitment of the use of future Atherton library donor funds from the San Mateo County JPA for the completion of the Library project. Certain CIP projects will be on hold until additional funding is identified and/or when the Civic Center project is completed. The Town is heavily reliant on property taxes. There is no certainty that the growth will continue at the same pace in recent years, and as such the Town continues to explore revenue alternatives to the General Fund. We continue to keep our expenditures in line with our revenues and carefully review our choices for programs and priorities closely monitoring and controlling any discretionary spending. Staff seeks to ensure that the Town's fiscal position remains positive while continuing current programs, policies, and services. The Town's General Fund Operating Budget relies on continued fiscal prudence, while also considering the need to adjust resources in order to meet any rising demands for Town services, capital improvements and priorities. The Civic Center construction project will serve as a huge measurement of this fiscal prudence.

CIP projects continue to be identified from the Town various master plans and residual funding remaining from the Town Parcel Tax is being used. With the Civic Center to begin construction, it is a beneficial time to be in save mode for capital projects. The Town will maintain its annual street maintenance and identified drainage maintenance projects. Also, with the elimination of Parcel Tax revenue and while the Civic Center Project is underway, there have been some CIP projects that have been delayed as staff seeks additional funding options and grants.

During the past fiscal year there has been CIP focus on –

- Award a contract for Middlefield Class II Bike lane project.
- Annual Road Maintenance and Rehabilitation program;
- Completion of Stockbridge Avenue Valley Gutter Replacement project;
- Review of the Euclid/Parker Ditch;
- Green Infrastructure review/plan development and Bayfront Canal Study; and
- Review and plan for potential Water Capture Facility

With the Town in a “save and spend” mode the Town will continue to use every source revenue to carry out its Capital Improvement Program (CIP). Projects will continue to be identified and designed based on capital project priorities. The principal focus of the CIP is the Civic Center Project as the Administration and Community development offices relocate to the park and construction is set to begin in June. Funding for this project is through Atherton Now donations, Capital Improvement Fund, Library Fund, and the General Fund reserves, Certificates of Participation and future revenue over expenditures.

We continue to work on fostering partnerships with other agencies in fulfilling infrastructure needs. The Town is continuing to evaluate the Water Capture Facility and siting location. The cooperative implementation agreement with Caltrans is still in effect, however funding milestones will need to be met in the FY 2019/20. This project helps mitigate drainage issues, storm water capacity for the Town, and reduction of pollutants in the Bayfront. The Town is also working on completing its Green Infrastructure plan mandate and anticipates implementing some minor projects as a result of the plan. The CIP program serves as a guide in prioritizing community needs through the identification of funding and projects that will be a major focus in the next 5 years.

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Paying down long-term liabilities is important to the Town's fiscal stability. During fiscal year 2018-19 the Town made an additional \$198,151 contribution into the OPEB trust to satisfy the minimum annual required contribution for future OPEB liabilities. Total Town contribution to the Trust as of June 30, 2019 is \$5,290,268. The balance in the PARS Trust as of June 30, 2019 is \$6,842,386.

In FY 2015/16, CalPERS started requiring agencies to pay for their Unfunded Accrued Liabilities (UAL) as dollar amounts rather than a percentage of payroll. This was implemented to recover gains and losses of funded status of plans. Every fiscal year CalPERS invoices municipalities the unfunded portion of their liabilities. The Town paid \$230,536 for Miscellaneous Employees and \$607,679 for Public Safety, for a total of \$838,215 for the PERS unfunded accrued liability portion for FY 2018-19. The anticipated Town UAL portion for FY 2019-20 is \$777,538 for public safety and \$298,744 for miscellaneous employees. Analysis on future costs will continue to be a focus as we intend to meet long term obligations and Town operating expenditures. The Town now records its net pension liability and is based on contributions and investment earnings on the plan. Town pension liability increased by \$75,545. The CalPERS board implemented changes to the discount rates, with the discount rate being reduced to 7.375% beginning in FY 2018-19. There will be a gradual decrease to 7.0% by FY 2020-21. Agency plans will likely see increases in both the normal costs and the accrued liabilities, resulting in higher required employer contributions. OPEB liabilities were included in the financials for the first time last fiscal year and the Town has a liability of \$3.3 million.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town of Atherton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 91 Ashfield Road, Atherton, CA 94027 or [www.ci.atherton.ca.us](http://www.ci.atherton.ca.us).

**TOWN OF ATHERTON**

**STATEMENT OF NET POSITION AND  
STATEMENT OF ACTIVITIES**

The Statement of Net Position and the Statement of Activities summarize all of the Town’s financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all of the Town’s assets and liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Town’s transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Town funds have been eliminated.

The Statement of Net Position reports the difference between the Town’s total assets and the Town’s total liabilities, including all the Town’s capital assets. The Statement of Net Position presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the Town’s net position, by subtracting total liabilities and deferred inflow of resources from total assets and deferred outflow of resources.

The Statement of Net Position summarizes the financial position of all of the Town’s Governmental Activities in a single column, and the financial position of all of the Town’s Business-Type Activities in a single column. These columns are followed by a Total column that presents the financial position of the entire Town.

The Town’s Governmental Activities include the activities of its General Fund, along with all its Special Revenue, and Capital Projects Funds.

The Statement of Activities reports increases and decreases in the Town’s net position. It is also prepared on the full accrual basis, which means it includes all the Town’s revenues and all its expenses, regardless of when cash changes hands. This differs from the “modified accrual” basis used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Town’s expenses, listed by program. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of governmental program. The Town’s general revenues are then listed in the Governmental Activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

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

TOWN OF ATHERTON  
STATEMENT OF NET POSITION  
JUNE 30, 2019

	Governmental Activities
<b>ASSETS</b>	
Cash and investments (Note 3)	\$54,825,244
Receivables:	
Taxes	295,107
Interest	141,422
Other	25,911
Prepaid expenses	32,473
Capital assets (Note 5):	
Non-depreciable	13,409,863
Depreciable, net	22,913,815
Total Capital Assets	36,323,678
Total Assets	91,643,835
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions (Note 7)	4,007,139
Total Deferred Outflows of Resources	4,007,139
<b>LIABILITIES</b>	
Accounts payable	2,638,005
Accrued liabilities	283,085
Deposits payable	3,508,600
Unearned revenue	50,578
Claims payable (Note 9)	
Due in less than one year	4,510
Note payable	140,846
Compensated absences (Note 1G)	
Due in less than one year	342,701
Due in more than one year	263,239
Net pension liability, due in more than one year (Note 7)	16,197,111
Net OPEB liability, due in more than one year (Note 8)	3,644,663
Total Liabilities	27,073,338
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to OPEB (Note 8)	2,105,970
Related to pensions (Note 7)	1,125,505
Total Deferred Inflows of Resources	3,231,475
<b>NET POSITION (Note 6):</b>	
Net investment in capital assets	36,323,678
Restricted for:	
Streets and drainage maintenance and police services	1,688,743
Library operations	13,140,982
Public facilities constructions	35,934
Special revenue projects	2,783,870
Capital projects	4,430,704
Unrestricted	6,942,250
Total Net Position	\$65,346,161

See accompanying notes to financial statements

TOWN OF ATHERTON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Primary Government:				
General government	\$1,825,272	\$303,320		(\$1,521,952)
Public works	4,946,656	1,556,941	\$660,848	(1,300,961)
Police	7,212,959	163,469	170,496	(6,878,994)
Building	1,195,831	1,600,107		404,276
Planning	266,227	191,367		(74,860)
	\$15,446,945	\$3,815,204	\$831,344	\$1,427,906
Total Governmental Activities				(9,372,491)
General revenues:				
Taxes:				
Property taxes				14,055,680
Sales taxes				343,310
Other taxes				1,488,093
Total Taxes				15,887,083
Investment earnings				1,207,306
Miscellaneous				258,358
Total General Revenues				17,352,747
Change in Net Position				7,980,256
Net Position-Beginning				57,365,905
Net Position-Ending				\$65,346,161

See accompanying notes to financial statements

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<b>MAJOR GOVERNMENTAL FUNDS</b>
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The funds described below were determined to be Major Funds by the Town in fiscal 2019. Individual non-major funds may be found in the Supplemental Section.

**GENERAL FUND**

The General Fund accounts for all the general revenues and financial resources of the Town not specifically levied or collected for the other Town funds, as well as the related expenditures.

**SPECIAL TAX SPECIAL REVENUE FUND**

Accounts for parcel tax assessments received from property owners to be used for maintenance of streets drainage and police services. The tax assessment is no longer collected. Fiscal year 2017-18 was the last year of collection. Residual funds remain.

**LIBRARY SPECIAL REVENUE FUND**

Accounts for the property tax funds dedicated to the Town's library operations.

**FACILITIES CONSTRUCTION CAPITAL PROJECTS FUND**

Accounts for the funds dedicated to facilities construction.

**CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND**

Accounts for capital improvement construction costs and financing sources.

TOWN OF ATHERTON  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2019

	Major Funds				
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Facilities Construction Capital Projects Fund	Capital Improvement Capital Projects Fund
<b>ASSETS</b>					
Cash and investments (Note 3)	\$26,530,939	\$2,088,743	\$13,143,036	\$1,667,071	\$4,072,005
Receivables:					
Taxes	252,580				
Interest	141,422				
Other	22,807				
Prepays	32,473				
Total Assets	<u>\$26,980,221</u>	<u>\$2,088,743</u>	<u>\$13,143,036</u>	<u>\$1,667,071</u>	<u>\$4,072,005</u>
<b>LIABILITIES</b>					
Accounts payable	\$223,517	\$400,000	\$2,054	\$1,631,137	\$52,846
Accrued liabilities	283,085				
Unearned revenue	50,578				
Deposits payable	3,508,600				
Note payable	140,846				
Total Liabilities	<u>4,206,626</u>	<u>400,000</u>	<u>2,054</u>	<u>1,631,137</u>	<u>52,846</u>
<b>FUND BALANCES</b>					
Fund balance (Note 6):					
Nonspendable	32,473				
Restricted		1,688,743	13,140,982		
Committed	1,953,634				
Assigned	639,678			35,934	4,019,159
Unassigned	20,147,810				
Total Fund Balances	<u>22,773,595</u>	<u>1,688,743</u>	<u>13,140,982</u>	<u>35,934</u>	<u>4,019,159</u>
Total Liabilities and Fund Balances	<u>\$26,980,221</u>	<u>\$2,088,743</u>	<u>\$13,143,036</u>	<u>\$1,667,071</u>	<u>\$4,072,005</u>

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$3,462,396	\$50,964,190
42,527	295,107
	141,422
	22,807
	<u>32,473</u>
<u>\$3,504,923</u>	<u>\$51,455,999</u>
\$309,508	\$2,619,062
	283,085
	50,578
	3,508,600
	<u>140,846</u>
<u>309,508</u>	<u>6,602,171</u>
	32,473
3,164,068	17,993,793
	1,953,634
31,347	4,726,118
	<u>20,147,810</u>
<u>3,195,415</u>	<u>44,853,828</u>
<u>\$3,504,923</u>	<u>\$51,455,999</u>

TOWN OF ATHERTON  
 Reconciliation of the  
 GOVERNMENTAL FUNDS -- BALANCE SHEET  
 with the  
 STATEMENT OF NET POSITION  
 JUNE 30, 2019

Total fund balances reported on the governmental funds balance sheet \$44,853,828

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 35,859,683

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are not governmental funds. However they are used by management to change the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in the Governmental Activities in the following line items in the Statement of Net Position.

Cash and investments	3,861,054
Accounts receivable	3,104
Capital assets, net	463,995
Accounts payable	(18,943)
Compensated absences	(605,940)
Claims payable	(4,510)

DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

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

Deferred outflows related to pensions	4,007,139
Deferred inflows related to pensions	(1,125,505)
Deferred inflows related to OPEB	(2,105,970)

LONG-TERM LIABILITIES

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

Net OPEB liability	(3,644,663)
Net pension liability	(16,197,111)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$65,346,161

See accompanying notes to financial statements

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TOWN OF ATHERTON  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019

	Major Funds				
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Facilities Construction Capital Projects Fund	Capital Improvement Capital Projects Fund
REVENUES					
Property taxes	\$12,305,870		\$1,609,416		
Special assessments					
Sales taxes	343,310				
Other taxes	1,260,414				
Measure A grants					
From other governmental agencies	21,749				\$1,108,650
Permit and licenses	227,679				4,036
Fines and forfeitures	709,986				
Service charges	2,804,383				
Use of money and property	880,259	\$34,499	228,784	\$27,534	
Miscellaneous	135,385			386,512	
<b>Total Revenues</b>	<b>18,689,035</b>	<b>34,499</b>	<b>1,838,200</b>	<b>414,046</b>	<b>1,112,686</b>
EXPENDITURES					
Current:					
General government	2,278,852				
Planning	266,227				
Building	1,190,395				
Police	7,468,610				
Public works	1,678,723	388,895		1,991,359	
Non-departmental			45,467		
Capital outlay	141,417			1,638,686	722,391
<b>Total Expenditures</b>	<b>13,024,224</b>	<b>388,895</b>	<b>45,467</b>	<b>3,630,045</b>	<b>722,391</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,664,811	(354,396)	1,792,733	(3,215,999)	390,295
Other Financing Sources (uses):					
Transfers in (Note 4)				3,110,254	
Transfers (out) (Note 4)	(237,929)		(1,280,254)		(1,830,000)
<b>Total Other Financing Sources (uses)</b>	<b>(237,929)</b>		<b>(1,280,254)</b>	<b>3,110,254</b>	<b>(1,830,000)</b>
Net change in fund balances	5,426,882	(354,396)	512,479	(105,745)	(1,439,705)
BEGINNING FUND BALANCES	17,346,713	2,043,139	12,628,503	141,679	5,458,864
ENDING FUND BALANCES	<u>\$22,773,595</u>	<u>\$1,688,743</u>	<u>\$13,140,982</u>	<u>\$35,934</u>	<u>\$4,019,159</u>

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$140,394	\$14,055,680
	343,310
	1,260,414
385,025	385,025
676,815	1,807,214
	231,715
	709,986
	2,804,383
57,187	1,228,263
<u>15,546</u>	<u>537,443</u>
<u>1,274,967</u>	<u>23,363,433</u>
	2,278,852
	266,227
	1,190,395
149,049	7,617,659
28,662	4,087,639
	45,467
<u>534,861</u>	<u>3,037,355</u>
<u>712,572</u>	<u>18,523,594</u>
<u>562,395</u>	<u>4,839,839</u>
2,532	3,112,786
	<u>(3,348,183)</u>
<u>2,532</u>	<u>(235,397)</u>
564,927	4,604,442
<u>2,630,488</u>	<u>40,249,386</u>
<u>\$3,195,415</u>	<u>\$44,853,828</u>

TOWN OF ATHERTON  
 Reconciliation of the  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 with the  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2019

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets, current liabilities and current deferred outflows/inflows of resources on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$4,604,442

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

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

The capitalized expenditures are therefore added back to fund balance	4,367,303
Depreciation expense is deducted from the fund balance	(1,468,730)
Loss on Disposal	(499,280)

ACCRUAL OF NON-CURRENT ITEMS

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

Net OPEB liabilities and OPEB-related deferred outflows/inflows of resources	717,495
Net pension liabilities and pension-related deferred outflows/inflows of resources	(511,241)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Position - All Internal Service Funds	<u>770,267</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$7,980,256</u></u>
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See accompanying notes to financial statements

TOWN OF ATHERTON  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES:				
Property taxes	\$11,704,302	\$12,574,166	\$12,305,870	(\$268,296)
Sales taxes	273,999	295,999	343,310	47,311
Other taxes	1,250,216	1,300,216	1,260,414	(39,802)
Permits and licenses	250,283	250,283	227,679	(22,604)
Fines and forfeitures	110,163	387,251	709,986	322,735
From other governmental agencies	17,500	12,500	21,749	9,249
Service charges	2,848,993	3,008,693	2,804,383	(204,310)
Use of money and property	240,006	275,606	880,259	604,653
Other	39,280	131,205	135,385	4,180
Total Revenues	<u>16,734,742</u>	<u>18,235,919</u>	<u>18,689,035</u>	<u>453,116</u>
EXPENDITURES:				
Current:				
General government				
City council	77,880	77,880	41,786	36,094
Administration	347,350	793,921	790,596	3,325
City attorney	204,000	204,000	225,011	(21,011)
Finance	718,680	718,601	700,322	18,279
Non-departmental	541,300	541,300	521,137	20,163
General government total	<u>1,889,210</u>	<u>2,335,702</u>	<u>2,278,852</u>	<u>56,850</u>
Planning	279,410	297,630	266,227	31,403
Building	1,443,631	1,451,951	1,190,395	261,556
Public works	2,119,866	2,235,562	1,678,723	556,839
Police	7,665,312	7,685,312	7,468,610	216,702
Capital outlay	319,183	299,262	141,417	157,845
Total Expenditures	<u>13,716,612</u>	<u>14,305,419</u>	<u>13,024,224</u>	<u>1,281,195</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,018,130</u>	<u>3,930,500</u>	<u>5,664,811</u>	<u>1,734,311</u>
OTHER FINANCING SOURCES USES				
Transfers (out) (Note 4)		(235,397)	(237,929)	(2,532)
NET CHANGE IN FUND BALANCE	<u>\$3,018,130</u>	<u>\$3,695,103</u>	5,426,882	<u>\$1,731,779</u>
Fund balance, beginning of year			<u>17,346,713</u>	
Fund balance, end of year			<u>\$22,773,595</u>	

See accompanying notes to financial statements

TOWN OF ATHERTON  
SPECIAL TAX SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES:				
Special assessments			\$34,499	\$34,499
Use of money and property				
Total Revenues			34,499	34,499
EXPENDITURES:				
Current:				
General government				
Public works	\$400,000	\$400,000	388,895	11,105
Capital outlay	275,000	325,074		325,074
Total Expenditures	675,000	725,074	388,895	336,179
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(675,000)	(725,074)	(354,396)	370,678
Net change in fund balance	(\$675,000)	(\$725,074)	(354,396)	\$370,678
Fund Balance, beginning of year			2,043,139	
Fund Balance, end of year			\$1,688,743	

See accompanying notes to financial statements

TOWN OF ATHERTON  
LIBRARY SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES:				
Property taxes	\$1,300,000	\$1,300,000	\$1,609,416	\$309,416
Use of money and property	<u>50,000</u>	<u>50,000</u>	<u>228,784</u>	<u>178,784</u>
Total Revenues	<u>1,350,000</u>	<u>1,350,000</u>	<u>1,838,200</u>	<u>488,200</u>
EXPENDITURES:				
Current:				
Library Maintenance	<u>4,759,230</u>	<u>4,759,230</u>	<u>45,467</u>	<u>4,713,763</u>
Total Expenditures	<u>4,759,230</u>	<u>4,759,230</u>	<u>45,467</u>	<u>4,713,763</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,409,230)</u>	<u>(3,409,230)</u>	<u>1,792,733</u>	<u>5,201,963</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4)	<u>                    </u>	<u>                    </u>	<u>(1,280,254)</u>	<u>(1,280,254)</u>
Total Other Financing Sources (Uses)	<u>                    </u>	<u>                    </u>	<u>(1,280,254)</u>	<u>(1,280,254)</u>
NET CHANGES IN FUND BALANCE	<u><u>(\$3,409,230)</u></u>	<u><u>(\$3,409,230)</u></u>	512,479	<u><u>\$3,921,709</u></u>
BEGINNING FUND BALANCE			<u>12,628,503</u>	
ENDING FUND BALANCE			<u><u>\$13,140,982</u></u>	

See accompanying notes to financial statements

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<b>PROPRIETARY FUNDS</b>
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**INTERNAL SERVICE FUNDS**

Internal Service Funds account for special activities and services performed by a designated Town department on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenue or expenses of the internal service fund is eliminated by netting them against the operations of the other Town departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Position.

TOWN OF ATHERTON  
 PROPRIETARY FUND  
 STATEMENT OF NET POSITION  
 JUNE 30, 2019

	Governmental Activities - Internal Service Funds
<b>ASSETS</b>	
Current assets	
Cash and investments (Note 3)	\$3,861,054
Accounts receivable	3,104
Total current assets	3,864,158
Noncurrent Assets:	
Capital assets (Note 5):	
Depreciable	1,533,508
Less accumulated depreciation	(1,069,513)
Total capital assets	463,995
Total noncurrent assets	463,995
Total Assets	4,328,153
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	18,943
Compensated absences (Note 1G)	342,701
Claims payable (Note 9)	4,510
Total current liabilities	366,154
Non-current liabilities:	
Compensated absences (Note 1G)	263,239
Total noncurrent liabilities	263,239
Total Liabilities	629,393
<b>NET POSITION (Note 6):</b>	
Net investment in capital assets	463,995
Unrestricted	3,234,765
Total Net Position	\$3,698,760

See accompanying notes to financial statements

TOWN OF ATHERTON  
 PROPRIETARY FUND  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Governmental Activities- Internal Service Funds</u>
OPERATING REVENUES	
Charges for services	<u>\$2,111,487</u>
Total Operating Revenues	<u>2,111,487</u>
OPERATING EXPENSES	
Insurance	566,813
OPEB expense	749,041
Employee benefits earned	122,006
Depreciation	151,594
Supplies and maintenance	<u>50,931</u>
Total Operating Expenses	<u>1,640,385</u>
Operating Income (Loss)	<u>471,102</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>63,768</u>
Total Nonoperating Revenues	<u>63,768</u>
OTHER FINANCING SOURCES (USES)	
Transfers in (Note 4)	<u>235,397</u>
Total Other Financing Sources	<u>235,397</u>
Change in net position	770,267
BEGINNING NET POSITION	<u>2,928,493</u>
ENDING NET POSITION	<u><u>\$3,698,760</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Governmental Activities- Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Interdepartmental charges	\$2,108,383
Payments to employees for benefits	(909,235)
Payments to suppliers	(606,367)
Cash Flows from Operating Activities	<u>592,781</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers in	<u>235,397</u>
Cash Flow from Noncapital Financing Activities	<u>235,397</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets, net	<u>(221,895)</u>
Cash Flow from Capital and Related Financing Activities	<u>(221,895)</u>
<b>CASH FLOWS FORM INVESTING ACTIVITIES</b>	
Interest received	<u>63,768</u>
Cash Flow from Investing Activities	<u>63,768</u>
Net Cash Flows	670,051
Cash and investments at beginning of period	<u>3,191,003</u>
Cash and investment at end of period	<u><u>\$3,861,054</u></u>
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>	
Operating income	\$471,102
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	151,594
Changes in assets and liabilities:	
Accounts receivable	(3,104)
Accounts payable	9,006
Compensated absences	(35,817)
Cash Flows from Operating Activities	<u><u>\$592,781</u></u>

See accompanying notes to financial statements

<b>FIDUCIARY FUNDS</b>
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**FIDUCIARY FUNDS**

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

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

TOWN OF ATHERTON  
 FIDUCIARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2019

	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and investments (Note 3)	<u>\$6,842,386</u>	<u>\$32,636</u>
Total Assets	<u><u>\$6,842,386</u></u>	<u><u>\$32,636</u></u>
 <b>LIABILITIES</b>		
Deposits payable	<u>                    </u>	<u>\$32,636</u>
Total Liabilities	<u>                    </u>	<u><u>\$32,636</u></u>
 <b>NET POSITION</b>		
Restricted for OPEB benefits	<u>\$6,842,386</u>	
Total Net Position	<u><u>\$6,842,386</u></u>	

See accompanying notes to financial statements

TOWN OF ATHERTON  
 FIDUCIARY FUND  
 STATEMENT OF CHANGES IN FIDUCIARY  
 NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment income:	
Interest	\$417,828
Less: investment expenses	(33,395)
Employer contributions	<u>599,043</u>
Total additions	<u>983,476</u>
DEDUCTIONS	
OPEB Benefits	<u>400,260</u>
Total deductions	<u>400,260</u>
Change in net position	583,216
BEGINNING NET POSITION	<u>6,259,170</u>
ENDING NET POSITION	<u><u>\$6,842,386</u></u>

See accompanying notes to financial statements

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**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Atherton (the Town) was incorporated as a general law City in 1923 and is situated between the cities of Menlo Park and Redwood City on the Peninsula of the San Francisco Bay Area. The Town operates under the Mayor-Council-Manager form of government. There are five Council Members who serve overlapping terms of four years, and the Council, in turn, elects one of the Council Members to serve as Mayor for one year. The Town provides the following services: public safety (police), public works and streets, park, building and planning, and general administration services.

The financial statements and accounting policies of the Town conform with generally accepted accounting principles applicable to governments. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

**A. *Reporting Entity***

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

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

**B. *Basis of Presentation***

The Town's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities, except where interfund services have been received or provided. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation (Continued)**

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

**C. Major Funds**

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

The Town reported the following major governmental funds in the accompanying financial statements:

**General Fund** – Accounts for all the general revenues and financial resources of the Town not specifically levied or collected for the other Town funds, as well as the related expenditures.

**Special Tax Special Revenue Fund** – Accounts for parcel tax assessments received from property owners to be used for the maintenance of streets and drainage, and police services. The tax assessment is no longer collected. Fiscal year 2017-18 was the last year of collection. Residual funds remain.

**Library Special Revenue Fund** – Accounts for property tax funds dedicated to the Town's library operations.

**Facilities Construction Capital Projects Fund** – Accounts for the funds dedicated to facilities construction.

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Major Funds (Continued)**

The Town also reports the following fund types:

**Internal Service Funds** - Accounts for special activities and services performed by a designated Town department for other departments on a cost reimbursement basis.

**Fiduciary Funds** – OPEB Trust Fund is used to account for assets held in an irrevocable trust and related activities. This trust is administered by Public Agency Retirement Services (PARS) for the purpose of funding postemployment health care benefits provided by the Town. Agency Funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**D. Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are sales taxes, gas taxes, charges for services, and interest revenue. Fines, licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***E. Deferred Outflows/Inflows of Resources***

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

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

***F. Property Tax***

Revenue is recognized in the period for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes and sewer charges for the Town; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on January 1 and becomes delinquent on August 31.

The term “unsecured” refers to taxes not secured by real property. These taxes are liens on the person or company named on the tax bill. Property tax revenues are recognized by the Town in the fiscal year they are assessed provided they become available as defined above.

San Mateo County distributes property taxes to jurisdictions according to the “alternate method of property tax distribution” known as the Teeter Plan. Under this plan, the County remits 100% of the levied taxes to the appropriate jurisdictions by June 30 each year, pursuing delinquencies and keeping related late penalties to cover their costs.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. *Compensated Absences***

Compensated absences comprise accrued compensated time-off, vacation and holiday pay for all regular employees; vacation and holiday pay for management employees. The Town’s liability for compensated absences is recorded in Governmental Activities. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be permanently liquidated (matured due to termination) are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Position.

The changes of the compensated absences during fiscal year 2019 were as follows:

Beginning Balance	\$641,757
Additions	505,904
Payments	<u>(541,721)</u>
Ending Balance	<u>\$605,940</u>
Current Portion	<u>\$342,701</u>

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

**H. *Estimates and Assumptions***

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**I. *Fair Value Measurements***

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

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

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

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

The following Governmental Accounting Standards Board (GASB) pronouncements that were effective in fiscal year 2018-19:

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. This statement had no impact on the Town's financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash ( or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This statement had no impact on the Town's financial statements.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

*A. Budgets and Budgetary Accounting*

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

- By June 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the year commencing July 1. The operating and capital budget includes proposed expenditures and the means of financing them. Continuing appropriations are rebudgeted by the Town Council as part of the adoption of subsequent year's budget.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of resolution during a Town Council meeting in the month of June.
- The Town Manager is authorized to transfer budget appropriations within the same department in conformance with the adopted policies set by the Town Council. All other transfers must be approved by the Town Council. Any revisions that alter the total expenditures of any department must be approved by the Town Council. Expenditures are budgeted at, and may not legally exceed, the department level. Budgeted amounts shown are as originally adopted, or as amended by the Town Council during the year.
- Formal budgeting is employed as a management control device during the year for the general and certain special revenue funds.
- Budgets for the general and certain special revenue are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- Budgets for capital projects are adopted on a project life basis.
- The Town does not budget for the Storm Drainage Capital Project Fund.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

**B. Expenditures in Excess of Budget**

The funds below incurred expenditures in excess of their budgets on departmental level in the amounts below for the year ended June 30, 2019:

Fund Name	Amount
<b>General Fund</b>	
City Attorney	\$21,011
<b>Nonmajor Special Revenue Funds:</b>	
County Measure A	
Public Works	16,830
Gas Tax	
Public Works	5,958
Supplemental Law Enforcement Services/COPS Grants	
Police	49,049

**NOTE 3 – CASH AND INVESTMENTS**

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

**A. Policies**

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**B. Classification**

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

<b>Statement of Net Position</b>	
Cash and investments available for operations	\$54,825,244
<b>Fiduciary Funds</b>	
Cash and investments held by OPEB trust	6,842,386
Cash and Investment available for operations	32,636
Total Cash and Investments	\$61,700,266

Cash and investments as of June 30, 2019 consist of the following:

Cash on hand	\$875
Cash in bank	5,490,909
Investments	56,208,482
Total Cash and Investment	\$61,700,266

Cash and investments are used in preparing the Proprietary Fund statement of cash flows since those funds participate in the Town-wide cash and investment pool. The fund equity in the pool is in substance a demand deposit which may be drawn down at any time.

**C. Investments Authorized by the California Government Code and the Town's Investment Policy**

The Town's Investment Policy and the California Government Code allow the Town to invest in the following provided the credit ratings of the issuers are acceptable to the Town; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the Town's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	No Limit	No Limit
U.S. Agency Securities	5 years	N/A	25%	No Limit
Repurchase Agreements	30 days	A / A-1	No Limit	No Limit
Medium-Term Corporate Notes	5 years	AA	30%	5%
Commercial Paper	270 days	A / A-1	25%	5%
Medium-term Notes	5 years	AA	5%	No Limit
Local Agency Investment Fund	N/A	N/A	50%	\$65M per account
Money Market Mutual Funds	N/A	AAAAm	20%	No Limit
Negotiable and Non-Negotiable Certificate of Deposits	5 years	A-1+	10%	\$250,000

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Town's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Town's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	Total
U.S. Treasury Notes	\$1,996,141		\$1,996,141
U.S. Agency Securities	8,974,939	\$3,583,035	12,557,974
Corporate Notes	499,530	551,965	1,051,495
San Mateo County Investment Pool (SMCL Donor Trust Fund)	9,829,069		9,829,069
California Local Agency Investment Fund	22,169,877		22,169,877
Money Market Mutual Fund	8,603,926		8,603,926
Total Investments	<u>\$52,073,482</u>	<u>\$4,135,000</u>	56,208,482
Cash in Banks			5,490,909
Petty Cash			875
Total Cash			<u>5,491,784</u>
Total Cash and Investments			<u>\$61,700,266</u>

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**E. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Standard and Poor's investment ratings as of June 30, 2019 are as follows:

Investment Type	AAAm	AA	A+*	Not Rated	Total
U.S. Treasury Notes		\$1,996,141			\$1,996,141
U.S. Agency Securities		12,557,974			12,557,974
Corporate Notes			\$1,051,495		1,051,495
San Mateo County Investment Pool (SMCL Donor Trust Fund)				\$9,829,069	9,829,069
California Local Agency Investment Fund				22,169,877	22,169,877
Money Market Mutual Fund	\$1,761,540			6,842,386	8,603,926
<b>Total Investments</b>	<b>\$1,761,540</b>	<b>\$14,554,115</b>	<b>\$1,051,495</b>	<b>\$38,841,332</b>	<b>\$56,208,482</b>

\*Rated Aa1 and Aa2 by Moody's NRSRO

**F. Concentration of Credit Risk**

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment funds that represent 5% or more of total Entity-wide investments and General Fund investments are as follows at June 30, 2019:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Agency Securities	\$2,675,458

**G. Local Agency Investment Fund**

The Town is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Town reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporation. At June 30, 2019, these investments matured in an average of 173 days.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**H. San Mateo County Investment Pool**

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

**I. Fair Value Hierarchy**

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

The following is a summary of the fair value hierarchy of the fair value of investments of the Town as of June 30, 2019:

Investment Type	Level 1	Level 2	Total
<b>Investments by Fair Value Level:</b>			
U.S. Treasury Notes	\$1,996,141		\$1,996,141
U.S. Agency Securities		\$12,557,974	12,557,974
Corporate Notes		1,051,495	1,051,495
<b>Subtotal</b>	<u>\$1,996,141</u>	<u>\$13,609,469</u>	15,605,610
<b>Investments Measured at Amortized Cost:</b>			
Money Market Mutual Funds			8,603,926
<b>Investments Exempt from Fair Value Hierarchy</b>			
San Mateo County Investment Pool			9,829,069
California Local Agency Investment Fund			<u>22,169,877</u>
<b>Total Investments</b>			<u>\$56,208,482</u>

U.S. Treasury Notes, classified in Level 1 of the fair value hierarchy, are valued using quoted prices in active markets. U.S. Agency Securities and Corporate Notes, classified in Level 2 of the fair value hierarchy, are valued using quoted prices for a non-active market portfolio at fiscal year-end. These prices are obtained from various pricing sources by our custodian bank. Fair value is defined as the quoted market value on the last trading day of the period. Money market funds were reported at amortized cost.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 4 – INTERFUND TRANSACTIONS**

*A. Transfers Between Funds*

With Town Council approval, resources may be transferred from one Town fund to another. The purpose of the majority of transfers is to reimburse a fund, which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2019 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred	
Facilities Construction Capital Projects Fund	Library Special Revenue Fund	\$1,280,254	(A)
Facilities Construction Capital Projects Fund	Capital Improvement Capital Projects Fund	1,830,000	(A)
Non Major Funds	General Fund	2,532	(A)
Internal Service Funds	General Fund	235,397	(B)
		<u>\$3,348,183</u>	

(A) Transfer used to fund capital projects

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

**NOTE 5 – CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition value on the date contributed.

The Town has recorded all its public domain (infrastructure) capital assets, which include streets and roads, curbs and gutters, traffic control devices, drainage systems and street lighting systems.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

The Town has set the capitalization threshold at \$5,000 for capital assets, except for infrastructure at \$100,000, and a half year of depreciation is recorded in the year of acquisition. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets:

Buildings	40 years
Other improvements	20 years
Computer Equipment and Software	3 years
Furniture and fixtures	10 years
Vehicles	5 to 10 years
Machinery and Equipment	5 to 20 years
Infrastructure	20 to 50 years

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 5 – CAPITAL ASSETS (Continued)**

**A. Current Year Capital Asset Activities**

<i>Governmental Funds</i>	Balance July 1, 2018	Additions	Retirement	Transfers	Balance June 30, 2019
Capital assets not being depreciated:					
Land	\$690,884				\$690,884
Construction in progress	9,152,683	\$4,367,303		(\$801,007)	12,718,979
Total non-depreciable capital assets	9,843,567	4,367,303		(801,007)	13,409,863
Capital assets being depreciated:					
Buildings	1,934,299		(\$810,387)		1,123,912
Other improvements	1,125,668				1,125,668
Computer equipment and software	338,597				338,597
Furniture and fixtures	34,798				34,798
Vehicles	28,089				28,089
Machinery and equipment	421,518				421,518
Infrastructure	61,052,494			801,007	61,853,501
Total depreciable capital assets	64,935,463		(810,387)	801,007	64,926,083
Less accumulated depreciation for:					
Buildings	1,182,111	24,432	(311,107)		895,436
Other improvements	848,599	27,487			876,086
Computer equipment and software	301,325	13,949			315,274
Furniture and fixture	34,798				34,798
Vehicles	28,089				28,089
Machinery and equipment	365,577	12,017			377,594
Infrastructure	38,558,141	1,390,845			39,948,986
Total accumulated depreciation	41,318,640	1,468,730	(311,107)		42,476,263
Depreciable capital assets, net	23,616,823	(1,468,730)	(499,280)	801,007	22,449,820
General capital assets, net	33,460,390	2,898,573	(499,280)		35,859,683
<i>Internal Service Funds</i>					
Depreciable capital assets:					
Vehicles	930,846	514,822	(363,958)		1,081,710
Computer equipment	327,621				327,621
Other equipment	124,177				124,177
Total depreciable capital assets	1,382,644	514,822	(363,958)		1,533,508
Less: accumulated depreciation for					
Vehicles	648,667	122,109	(71,031)		699,745
Computer equipment	261,832	18,333			280,165
Other equipment	78,451	11,152			89,603
Total accumulated depreciation	988,950	151,594	(71,031)		1,069,513
Internal Service Funds capital assets, net	393,694	363,228	(292,927)		463,995
Total governmental activities capital assets, net	\$33,854,084	\$3,261,801	(\$792,207)		\$36,323,678

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 5 – CAPITAL ASSETS (Continued)**

**B. Capital Asset Contributions**

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

**C. Depreciation Allocation**

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or programs are as follows:

Public works	\$1,446,142
Building	5,768
Police	<u>16,820</u>
Governmental activities subtotal	1,468,730
Internal Service Fund	<u>151,594</u>
Total	<u><u>\$1,620,324</u></u>

**NOTE 6 – FUND BALANCES AND NET POSITION**

**A. Net Position**

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

*Net Investment in Capital Assets* describes the portion of Net Position which is represented by the current net book value of the Town’s capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Town cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and Federal and State grant funds.

*Unrestricted* describes the portion of Net Position which is not restricted to use.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 6 – FUND BALANCES AND NET POSITIONS (Continued)**

**B. Fund Balances**

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The Town's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Town prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendables* represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as permanent funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by formal action of the Town Council which may be altered only by formal action of the Town Council. Nonspendable amounts subject to Council commitments are included along with spendable resources.

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 6 – FUND BALANCES AND NET POSITIONS (Continued)**

**B. Fund Balances (Continued)**

Detailed classifications of the Town’s Fund Balances, as of June 30, 2019, are below:

	General Fund	Major Special Revenue Funds		Major Capital Projects Funds		Other Governmental Funds	Total
		Special Tax	Library	Facilities Construction	Capital Improvement		
Nonspendable:							
Prepays	\$32,473						\$32,473
Total Nonspendable	32,473						32,473
Restricted for:							
Street drainage and police services		\$1,688,743					1,688,743
Library operations			\$13,140,982				13,140,982
Measure A						\$719,763	719,763
Gas tax						76,863	76,863
Evans Creative Design						7,475	7,475
Measure M						232,822	232,822
Refuse Services						1,746,947	1,746,947
Channel Drainage District						380,198	380,198
Total Restricted		1,688,743	13,140,982			3,164,068	17,993,793
Committed to:							
Emergency disaster	1,953,634						1,953,634
Total Committed	1,953,634						1,953,634
Assigned to:							
Tennis program	200,528						200,528
Building department operations	434,296						434,296
Tree Committee	4,854						4,854
Capital projects				\$35,934	\$4,019,159	31,347	4,086,440
Total Assigned	639,678			35,934	4,019,159	31,347	4,726,118
Unassigned	20,147,810						20,147,810
Total Unassigned	20,147,810						20,147,810
Total Fund Balances	\$22,773,595	\$1,688,743	\$13,140,982	\$35,934	\$4,019,159	\$3,195,415	\$44,853,828

**C. General Fund Committed Fund Balance for Emergency Disaster**

The Town Council has committed to set aside 15 percent of the actual annual General Fund operating expenditures specifically for emergency contingencies defined as a state of Federal and/or State emergency or declaration of a local emergency as defined in Atherton’s Municipal Code Section 2.44.010.

**D. General Fund Unassigned Fund Balance Policy**

The Town Council established the General Fund unassigned fund balance policy such that in no circumstances shall the total General Fund unassigned fund balance be less than 20% of the actual annual operating expenditures.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 – PENSION PLAN**

**A. General Information about the Pension Plan**

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

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

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

Town's labor contracts (MOU) require the Town to pay the employees' contributions as well as employer's portion, except for the sworn officers, who are responsible for 2% of 9% after the Town makes a 7% contribution for them. However, as of July 1, 2013, Miscellaneous Plan employees started to pay their own portion of the required employee contribution rate of 7%. The Town and the Atherton Police Officers Association (APOA) adopted a new MOU on October 1, 2013. Effective on January 1, 2014, the Town's payment of the employee share of the mandatory member contribution for the CalPERS retirement benefit shall be 5%. Effective January 1, 2015, the Town's payment of the employee share of the mandatory member contribution shall be reduced to 2.5%. Effective January 1, 2016, the Town shall cease paying any portion of the employees' share and the employees shall pay 100% of the employee share of the mandatory member contribution, presently 9% for sworn and 7% for civilian.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 – PENSION PLAN (Continued)**

**A. General Information about the Pension Plans (Continued)**

During the fiscal year 2018-2019, the Town adopted amendments with CalPERS that allows sharing of additional employer costs passed to the employees. The Town implemented a cost sharing within the pension plans among Public Safety and Local Miscellaneous employees. This included Public Safety sworn staff picking up the employers CalPERS share of 3% and 1% for Miscellaneous employees. These are the maximum under CalPERS law for the passing on of costs of the employer’s share. These were amendment changes to the contract between the Board of Administration California Public Employees’ Retirement System and The Town as proposed changes in Section 20516 (Employees Sharing Additional Costs). Increase in employee contribution rates results in a respective decrease in employer contribution rates. The Plan’s provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<b>Miscellaneous</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63 or older	52-67 or older
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1% to 2.5%
Required employee contribution rates	8.0%	7.5%
Required employer contribution rates	8.635%	6.266%

	<b>Safety</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55 or older	50-57 or older
Monthly benefits, as a % of eligible compensation	3%	2% to 2.7%
Required employee contribution rates	12.00%	15.25%
Required employer contribution rates	19.346%	9.965%

Beginning in fiscal year 2016, CalPERS collects employer contributions for the cost-sharing plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The Town’s required contribution for the unfunded liability was \$838,215 in fiscal year 2019.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 – PENSION PLAN (Continued)**

**A. General Information about the Pension Plans (Continued)**

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

For the year ended June 30, 2019, the contributions to the Plan were as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous PEPRA</u>	<u>Safety</u>	<u>Safety PEPRA</u>
Contributions - employer	\$376,902	\$40,092	\$933,306	\$109,326
Contributions - employee	115,360	36,605	186,083	150,744

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

As of June 30, 2019, the Town reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous - Classic & PEPRA	\$4,466,539
Safety - Classis & PEPRA	11,730,572
Total Net Pension Liability	<u>\$16,197,111</u>

The Town’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Town’s proportionate shares of the net pension liability for the Plan as of June 30, 2017 and 2018 were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2017	0.11522%	0.19379%
Proportion - June 30, 2018	0.11852%	0.19992%
Change - Increase (Decrease)	<u>0.00330%</u>	<u>0.00613%</u>

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 – PENSION PLAN (Continued)**

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

For the year ended June 30, 2019, the Town recognized pension expense of \$1,970,868. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous - Classic & PEPR

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$416,994	
Differences between actual and expected experience	171,373	(\$58,317)
Changes in assumptions	509,199	(124,795)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(274,621)
Change in employer proportion	81,096	(20,631)
Net differences between projected and actual earnings on plan investments	22,081	
Total	<u>\$1,200,743</u>	<u>(\$478,364)</u>

Safety - Classic & PEPR

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$1,042,632	
Differences between actual and expected experience	252,050	(\$956)
Changes in assumptions	1,150,974	(155,287)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(406,394)
Change in employer proportion	281,319	(84,504)
Net differences between projected and actual earnings on plan investments	79,421	
Total	<u>\$2,806,396</u>	<u>(\$647,141)</u>
Grand total	<u>\$4,007,139</u>	<u>(\$1,125,505)</u>

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 – PENSION PLAN (Continued)**

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

\$1,459,626 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous	Safety	TOTAL
	Amortization Amount	Amortization Amount	Amortization Amount
2020	\$338,013	\$976,222	\$1,314,235
2021	167,782	542,792	710,574
2022	(160,236)	(321,139)	(481,375)
2023	(40,174)	(81,252)	(121,426)
	<u>\$305,385</u>	<u>\$1,116,623</u>	<u>\$1,422,008</u>

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	Age, Service, and type of employment
Investment Rate of Return	7.15% (1)
Mortality	Derived using CalPERS Membership Data for all Funds (2)

(1) Net of pension plan investment expenses, including inflation

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 – PENSION PLAN (Continued)**

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

**Change of Assumptions** – For the measurement date of June 30, 2018, the inflation rate was reduced from 2.75 to 2.50 percent.

**Discount Rate** – The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

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

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 – PENSION PLAN (Continued)**

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

Asset Class (a)	New Strategic Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive		0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%		-0.92%
Total	<u>100%</u>		

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

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

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

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$7,048,003	\$17,757,552
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$4,466,539	\$11,730,572
1% Increase	8.15%	8.15%
Net Pension Liability	\$2,335,582	\$6,792,541

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE BENEFITS**

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

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

**Plan Description** – The Town’s Post Employment Benefit Plan is a single-employer defined benefit OPEB plan. By Town Council resolution, the Town provides certain medical benefits for employees and dependents who retire directly from the Town at fifty years or older and who are vested in the California Public Employees Retirement System (CalPERS).

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

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

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

**Management Employees (non-represented), hired after adoption of November 17, 2010 and before June 30, 2013** - The Town pays up to a maximum of the single employee Kaiser premium regardless of family status. A spouse or dependent is only covered if the employee's premium is less than this maximum. After age 65, the Town pays up to a maximum of the reduced post age 65 single employee Kaiser premium.

Employees retiring from the Town and CalPERS concurrently with at least 5 years of service will receive the basic Public Employees Medical and Hospital Care Act (PEMHCA) minimum contribution by law.

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

**APOA Police Officers, retired before October 1, 2013** - The Town pays a maximum monthly benefit of \$1,247.06 which is assumed to not increase in the future. APOA employees retiring on disability from employment of the Town while in a job classification covered by this MOU and said disability arising from employment with the Town, shall be exempt from this cap.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

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

**Members of the APOA Police Officers, hired before October 1, 2013 but retired or will retire after October 1, 2013** – The Town pays up to a maximum of 90% of the Kaiser premium for any family status. This cap is assumed to increase at half the excess of the assumed rate of increase over 3% each year, with a minimum of 0%. This assumption is based on the language in Resolution 13-37, page 8, Paragraph C. a., and assumes that the same language will continue in years after 2016. Employees retiring from the Town and CalPERS concurrently with at least 5 years of service will receive the basic Public Employees Medical and Hospital Care Act (PEMHCA) minimum contribution by law. If they have 10 or more years of service, they are subject to a vesting schedule.

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

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

**APOA Miscellaneous Employees** – The Town pays the same benefit as for APOA Officers. It has been assumed that this benefit will continue after 2016.

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

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

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

To comply with Actuarial Standard of Practice No. 6 (ASOP 6), the actuarial valuation includes an implicit subsidy liability. When premiums for retirees are determined using a blend of active employee and retiree experience, it creates an implicit subsidy to the retirees, since retiree healthcare costs are generally higher than active employees. ASOP 6 effectively requires most public agencies to calculate an implicit subsidy liability whenever their retirees participate in the group medical plans, but only pay the same premiums as active employees. As a result of the required ASOP 6, the Town’s Actuarial Accrued Liability at June 30, 2019 included an implicit subsidy liability of \$2,091,964.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**B. Net OPEB Liability**

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

Actuarial Assumptions	June 30, 2019 Measurement Date
Valuation Date	• June 30, 2018
Actuarial Cost Method	• Entry Age Normal
Contribution Policy	• The Town intends to contribute the full ADC to the PARS trust each year
Discount Rate and Long Term Expected Rate of Return on Investment	• 6.00%, based on PARS investment allocation Moderate
Inflation	• 2.26% per annum
Payroll Increases	• 3.25% annual increases
Medical Trend	• Pre-65: 5.62% for 2018, increasing to 7.80% in 2024, decreasing to 5.68% in 2030 and later years • Post-65: 3.04% for 2018 increasing to 5.00% in 2019 and later years
Mortality	• CalPERS 2014 Scale MP-2014

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

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

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

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**B. Net OPEB Liability (Continued)**

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

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

**C. Changes in Net OPEB Liability**

The changes in the net OPEB liability follows:

	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net OPEB Liability/(Asset) (a) - (b)</b>
Balance at June 30, 2018 Measurement Date	\$10,269,746	\$6,259,170	\$4,010,576
Changes Recognized for the Measurement Period:			
Service Cost	167,493		167,493
Interest on the total OPEB liability	610,002		610,002
Changes in benefit terms			0
Differences between expected and actual experience	(11,091)		(11,091)
Changes of assumptions			0
Contributions from the employer		747,885	(747,885)
Net investment income		417,827	(417,827)
Benefit payments	(549,101)	(549,101)	0
Administrative expenses		(33,395)	33,395
Net changes	217,303	583,216	(365,913)
Balance at June 30, 2019 Measurement Date	\$10,487,049	\$6,842,386	\$3,644,663
Plan fiduciary net position as a percentage of the total OPEB liability		65.2%	

The OPEB plan does not issue separate financial statements.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

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

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Net OPEB Liability		
Discount Rate -1% (5.00%)	Current Discount Rate (6.00%)	Discount Rate +1% (7.00%)
\$5,062,418	\$3,644,663	\$2,496,494

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

Net OPEB Liability		
Current Healthcare Cost		
1% Decrease	Trend Rates	1% Increase
\$2,506,891	\$3,644,663	\$5,026,119

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

For the year ended June 30, 2019, the Town recognized negative OPEB expense of \$55,106. At June 30, 2019, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience		(\$424,707)
Changes of assumptions		(1,667,560)
Net differences between projected and actual earnings on plan investments		(\$13,703)
Total	\$ -	(\$2,105,970)

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 8 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

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

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

Year Ended June 30	Annual Amortization
2020	(\$400,060)
2021	(400,060)
2022	(399,301)
2023	(402,502)
2024	(395,023)
Thereafter	(109,024)
Total	(\$2,105,970)

**NOTE 9 – RISK MANAGEMENT**

*A. Coverage*

The Town is a member of Pooled Liability Assurance Network (PLAN), which provides general liability coverage of \$5,000,000 above the Town’s deductible of \$25,000 per occurrence, risk property insurance of \$100,000 above the Town’s deductible of \$5,000 for property damage and \$5,000 for auto / vehicle damage. PLAN is governed by a board consisting of representatives from member municipalities. The board controls the operations of PLAN, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

Audited financial statements may be obtained from PLAN Services, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

Alliant Insurance Services covers employment theft up to \$1,000,000 for each claim and in the aggregate and the Town’s deductible is \$5,000 per claim.

The Cities Group covers workers’ compensation claims up to \$1,000,000 each for miscellaneous employees, up to \$1,500,000 each for safety officers, and has coverage above that limit to a maximum of \$10,000,000. The Town has no deductible for the claims.

Audited financial statements may be obtained from Cities Group, address, P.O. Box 111, Burlingame, CA 94011-0111.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 9 – RISK MANAGEMENT**

**B. Uninsured Claims**

The Town’s liability for uninsured claims, including estimated claims incurred but not reported, was estimated by management based on prior years claims experience and was computed as follows as of June 30:

	2019	2018
Beginning balance	\$4,510	\$45,881
Net change in claims liabilities	10,704	(21,301)
Claims paid	(10,704)	(20,070)
Ending balance	\$4,510	\$4,510
Claims liabilities due within a year	\$4,510	\$4,510

For the years ended June 30, 2019, 2018, and 2017 the amount of settlements did not exceed insurance coverage.

**NOTE 10 – JOINT POWERS AUTHORITIES**

The Town participates in joint ventures discussed below through separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the Town's responsibility and the Town does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture. The Joint Powers Agreement is effective for the year ended June 30, 2018 and continues on a year to year basis until the parties agree to terminate the agreement or if a majority of the parties have withdrawn from the Joint Powers pursuant to Section 6 of the agreement.

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

Town/County Association of Governments of San Mateo County was formed in 1990 between the various cities in San Mateo County to prepare, adopt, monitor and enforce state mandated plans for the management of traffic congestion, integrated solid waste, airport land use and hazardous waste. The Town’s contribution to C/CAG was \$23,196 for the year ended June 30, 2019. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 10 – JOINT POWERS AUTHORITIES (Continued)**

**B. *South Bayside Waste Management Authority (Authority)***

The Authority is a joint powers agreement formed on October 13, 1999 for the purpose of joint ownership, financing and administration of the San Carlos Transfer Station and the San Mateo Recyclery; and the planning, administration, review, monitoring, enforcement and reporting of solid waste and recyclable material within the Authority service area. Members of Authority include 11 municipalities located on the mid and lower Peninsula as well as certain unincorporated areas within the County. The Authority is controlled by a 12-member board consisting of one representative from each community. Through the operation of franchise agreements, Recology San Mateo County provides refuse and recyclable materials collection and disposal services for the benefit of residents and business of each member agency.

**C. *Alcohol Violation Temporary Housing Authority (AVTHA)***

AVTHA was established between the County and most of the cities and towns in the County to provide temporary housing and counseling to persons accused of alcohol related law violations. AVTHA contracts with an operator to provide such services. The costs of operating the temporary housing are allocated to each member based on alcohol related arrests occurring within each member's jurisdiction. Financial statements for AVTHA may be obtained by mailing a request to Redwood City, 801 Marshall Street, Suite 600, Redwood City, California 94063.

**D. *Library Joint Powers Agreement***

In 1999, the Town joined with the County and ten other municipalities in the County to coordinate and expand library services throughout the County, including those in the Town.

Property tax revenues in excess of the JPA's costs of maintaining the library are remitted to the Town and are deposited into the Library Special Revenue Fund. Expenditures of this fund are subject to the approval of the Library JPA.

**NOTE 11 – CONTINGENT LIABILITIES**

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

The Town participates in Federal and State grant programs. When required, these programs are audited in accordance with the provisions of the Federal Single Audit Act as amended and applicable State requirements. These programs are also subjected to further examination by the grantors, and the amount, if any, of expenditures which may be disallowed by the granting agencies, cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

**REQUIRED SUPPLEMENTARY INFORMATION**

<b>REQUIRED SUPPLEMENTARY INFORMATION</b>
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**COST-SHARING MULTIPLE-EMPLOYER DEFINED PENSION PLAN – LAST 10 YEARS\***

**SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Measurement Date	Miscellaneous				
	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Plan's proportion of the Net Pension Liability (Asset)	0.04366%	0.10574%	0.11181%	0.11522%	0.11852%
Plan's proportion share of the Net Pension Liability (Asset)	<u>\$2,716,530</u>	<u>\$2,901,033</u>	<u>\$3,884,053</u>	<u>\$4,542,046</u>	<u>\$4,466,539</u>
Plan's Covered Payroll	<u>\$1,473,083</u>	<u>\$1,595,884</u>	<u>\$1,772,771</u>	<u>\$1,912,587</u>	<u>\$2,040,240</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	184.41%	181.78%	219.10%	237.48%	218.92%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%	78.28%	73.20%	75.39%	75.39%
Measurement Date	Safety				
	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Plan's proportion of the Net Pension Liability (Asset)	0.10505%	0.18865%	0.19496%	0.19379%	0.19992%
Plan's proportion share of the Net Pension Liability (Asset)	<u>\$6,536,499</u>	<u>\$7,773,056</u>	<u>\$10,097,455</u>	<u>\$11,579,520</u>	<u>\$11,730,572</u>
Plan's Covered Payroll	<u>\$2,030,918</u>	<u>\$2,391,765</u>	<u>\$2,488,471</u>	<u>\$2,414,626</u>	<u>\$2,608,708</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	321.85%	324.99%	405.77%	479.56%	449.67%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	81.46%	78.52%	73.96%	71.74%	71.74%

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**SCHEDULE OF CONTRIBUTIONS**

Fiscal Year Ended June 30	Miscellaneous				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$179,934	\$150,616	\$305,597	\$349,365	\$416,994
Contributions in relation to the actuarially determined contributions	<u>(179,934)</u>	<u>(150,616)</u>	<u>(305,597)</u>	<u>(349,365)</u>	<u>(416,994)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	<u>\$1,595,884</u>	<u>\$1,772,771</u>	<u>\$1,912,587</u>	<u>\$2,040,240</u>	<u>\$2,127,834</u>
Contributions as a percentage of covered payroll	11.27%	8.50%	15.98%	17.12%	19.60%
Fiscal Year Ended June 30	Safety				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$646,174	\$466,548	\$849,073	\$939,476	\$1,042,632
Contributions in relation to the actuarially determined contributions	<u>(646,174)</u>	<u>(466,548)</u>	<u>(849,073)</u>	<u>(939,476)</u>	<u>(1,042,632)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	<u>\$2,391,765</u>	<u>\$2,488,471</u>	<u>\$2,414,626</u>	<u>\$2,608,708</u>	<u>\$2,672,010</u>
Contributions as a percentage of covered payroll	27.02%	18.75%	35.16%	36.01%	39.02%

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Measurement Date	6/30/2017	6/30/2018	6/30/2019
<b>Total OPEB Liability</b>			
Service Cost	\$245,008	\$257,258	\$167,493
Interest	730,760	755,515	610,002
Changes in benefit terms			
Differences between expected and actual experience	(150,117)	(574,495)	(11,091)
Changes of assumptions		(2,299,690)	-
Benefit payments	(448,746)	(401,170)	(549,101)
<b>Net change in total OPEB liability</b>	376,905	(2,262,582)	217,303
<b>Total OPEB liability - beginning</b>	12,155,423	12,532,328	10,269,746
<b>Total OPEB liability - ending (a)</b>	<u>\$12,532,328</u>	<u>\$10,269,746</u>	<u>\$10,487,049</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$448,736	\$493,288	\$747,885
Contributions - employee			
Net investment income	464,151	326,600	417,827
Administrative expense	(13,996)	(15,183)	(33,395)
Benefit payments	(448,746)	(401,170)	(549,101)
<b>Net change in plan fiduciary net position</b>	450,145	403,535	583,216
<b>Plan fiduciary net position - beginning</b>	5,405,490	5,855,635	6,259,170
<b>Plan fiduciary net position - ending (b)</b>	<u>\$5,855,635</u>	<u>\$6,259,170</u>	<u>\$6,842,386</u>
<b>Net OPEB liability - ending (a)-(b)</b>	<u>\$6,676,693</u>	<u>\$4,010,576</u>	<u>\$3,644,663</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	46.7%	60.9%	65.2%
<b>Covered-employee payroll</b>	<u>\$4,327,213</u>	<u>\$4,497,946</u>	<u>\$4,799,843</u>
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	<u>154.30%</u>	<u>89.16%</u>	<u>75.93%</u>

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS**

Retiree Healthcare OPEB Plan - Single Employer

Last 10 fiscal years\*

<b>Fiscal Year Ended June 30,</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Actuarially determined contribution	\$668,846	\$693,890	\$419,511
Contributions in relation to the actuarially determined contribution	448,945	493,288	747,885
Contribution deficiency (excess)	\$219,901	\$200,602	(\$328,374)
Covered-employee payroll	\$4,327,213	\$4,497,946	\$4,799,843
Contributions as a percentage of covered-employee payroll	10.4%	10.97%	15.58%

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

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

**NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTION**

**Retiree Healthcare OPEB Plan - Agent Multiple Employer**

**Methods and Assumptions for Actuarially Determined Contribution**

Valuation Date	• June 30, 2019
Actuarial Cost Method	• Entry Age Normal
Contribution Policy	• The Town intends to contribute the full ADC to the PARS trust each year
Discount Rate and Long Term Expected Rate of Return on Investment	• 6.00%, based on PARS investment allocation Moderate
Inflation	• 2.26% per annum
Payroll Increases	• 3.25% annual increases
Medical Trend	• Pre-65: 5.62% for 2018, increasing to 7.80% in 2024, decreasing to 5.68% in 2030 and later years • Post-65: 3.04% for 2018 increasing to 5.00% in 2019 and later years
Mortality	• CalPERS 2014 Scale MP-2014

<b>REQUIRED SUPPLEMENTARY INFORMATION</b>
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SCHEDULE OF INVESTMENT RETURNS  
Other Post-Employment Retirement Benefits Trust Fund  
Last 10 Fiscal Years

Fiscal year ended June 30,	Annual money-weighted rate of return, net of investment expense
2017	6.00%
2018	6.00%
2019	6.00%

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

<b>NON-MAJOR GOVERNMENTAL FUNDS</b>
-------------------------------------

**SPECIAL REVENUE FUNDS**

**COUNTY MEASURE A FUND** accounts for funds received from the County of San Mateo Measure A funds for local transportation purposes.

**GAS TAX FUND** accounts for funds received from the State of California for road improvement.

**SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND/COPS GRANT FUND** accounts for grant funds for police services.

**EVANS CREATIVE DESIGN FUND** accounts for funds received from the Evans estate.

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

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

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

**CAPITAL PROJECTS FUNDS**

**STORM DRAINAGE FUND** accounts for the operation and maintenance costs of drainage systems in the Town.

**CHANNEL DRAINAGE DISTRICT** accounts for tax revenues collected and channel maintenance costs.

TOWN OF ATHERTON  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2019

SPECIAL REVENUE FUNDS

	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design	Measure M
<b>ASSETS</b>					
Cash and investment	\$875,766	\$64,596		\$7,475	\$316,381
Receivables:					
Taxes	29,699	12,267			
Total Assets	<u>\$905,465</u>	<u>\$76,863</u>		<u>\$7,475</u>	<u>\$316,381</u>
<b>LIABILITIES</b>					
Accounts payable	\$185,702				\$83,559
Total Liabilities	<u>185,702</u>				<u>83,559</u>
<b>FUND EQUITY</b>					
Fund balances					
Restricted	719,763	\$76,863		\$7,475	232,822
Assigned					
Total Fund Balances	<u>719,763</u>	<u>76,863</u>		<u>7,475</u>	<u>232,822</u>
Total Liabilities and Fund Balances	<u>\$905,465</u>	<u>\$76,863</u>		<u>\$7,475</u>	<u>\$316,381</u>

<u>SPACIAL REVENUE FUNDS</u>		<u>CAPITAL PROJECT FUNDS</u>		
<u>Road Construction</u>	<u>Refuse Rate Stabilization</u>	<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
	\$1,746,947	\$31,347	\$419,884	\$3,462,396
			561	42,527
	<u>\$1,746,947</u>	<u>\$31,347</u>	<u>\$420,445</u>	<u>\$3,504,923</u>
			\$40,247	\$309,508
			40,247	309,508
	\$1,746,947	\$31,347	380,198	3,164,068
				31,347
	<u>1,746,947</u>	<u>31,347</u>	<u>380,198</u>	<u>3,195,415</u>
	<u>\$1,746,947</u>	<u>\$31,347</u>	<u>\$420,445</u>	<u>\$3,504,923</u>

TOWN OF ATHERTON  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019

	SPECIAL REVENUE FUNDS				
	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design	Measure M
<b>REVENUES</b>					
Property taxes					
Measure A Grants	\$385,025				
From other agencies		\$275,823	\$148,747		\$75,000
Use of money and property	14,465	1,067		\$124	5,225
Miscellaneous		15,546			
<b>Total Revenues</b>	<b>399,490</b>	<b>292,436</b>	<b>148,747</b>	<b>124</b>	<b>80,225</b>
<b>EXPENDITURES</b>					
Current:					
Police			149,049		
Public Works	16,830	5,958			
Capital Outlay	218,712	183,036			92,256
<b>Total Expenditures</b>	<b>235,542</b>	<b>188,994</b>	<b>149,049</b>		<b>92,256</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in					
<b>Total Other Financing Sources</b>					
<b>NET CHANGE IN FUND BALANCES</b>	<b>163,948</b>	<b>103,442</b>	<b>(302)</b>	<b>124</b>	<b>(12,031)</b>
<b>BEGINNING FUND BALANCES</b>	<b>555,815</b>	<b>(26,579)</b>	<b>302</b>	<b>7,351</b>	<b>244,853</b>
<b>ENDING FUND BALANCES</b>	<b>\$719,763</b>	<b>\$76,863</b>		<b>\$7,475</b>	<b>\$232,822</b>

<u>SPECIAL REVENUE FUNDS</u>		<u>CAPITAL PROJECTS FUNDS</u>			Total Nonmajor Governmental Funds
<u>Road Construction</u>	<u>Refuse Rate Stabilization</u>	<u>Storm Drainage</u>	<u>Channel Drainage District</u>		
			\$140,394		\$140,394
	\$177,245				385,025
	28,853	\$518	6,935		676,815
					57,187
					15,546
	<u>206,098</u>	<u>518</u>	<u>147,329</u>		<u>1,274,967</u>
					149,049
			5,874		28,662
			40,857		534,861
			<u>46,731</u>		<u>712,572</u>
<u>\$2,532</u>					<u>2,532</u>
<u>2,532</u>					<u>2,532</u>
2,532	206,098	518	100,598		564,927
<u>(2,532)</u>	<u>1,540,849</u>	<u>30,829</u>	<u>279,600</u>		<u>2,630,488</u>
	<u>\$1,746,947</u>	<u>\$31,347</u>	<u>\$380,198</u>		<u>\$3,195,415</u>

TOWN OF ATHERTON  
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SPECIAL REVENUE FUNDS						
	County Measure A			Gas Tax		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes						
Measure A grants	\$370,000	\$385,025	\$15,025			
From other agencies				\$290,000	\$275,823	(\$14,177)
Use of money and property		14,465	14,465		1,067	1,067
Miscellaneous					15,546	15,546
Total Revenues	370,000	399,490	29,490	290,000	292,436	2,436
<b>EXPENDITURES</b>						
Current:						
Police						
Public Works		16,830	(16,830)		5,958	(5,958)
Non-departmental						
Capital Outlay	719,799	218,712	501,087	222,148	183,036	39,112
Total Expenditures	719,799	235,542	484,257	222,148	188,994	33,154
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in						
Total Other Financing Sources						
<b>NET CHANGE IN FUND BALANCES</b>	<b>(\$349,799)</b>	<b>163,948</b>	<b>\$513,747</b>	<b>\$67,852</b>	<b>103,442</b>	<b>\$35,590</b>
<b>BEGINNING FUND BALANCES</b>		<b>555,815</b>			<b>(26,579)</b>	
<b>ENDING FUND BALANCES</b>		<b>\$719,763</b>			<b>\$76,863</b>	

SPECIAL REVENUE FUNDS

Supplemental Law			Evans Creative Design Fund			Measure M		
Enforcement Services / COPS Grants								
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$100,000	\$148,747	\$48,747				\$75,000	\$75,000	
			\$90	\$124	\$34	5,225	5,225	
<u>100,000</u>	<u>148,747</u>	<u>48,747</u>	<u>90</u>	<u>124</u>	<u>34</u>	<u>80,225</u>	<u>80,225</u>	
100,000	149,049	(49,049)						
			7,596		7,596	225,000	92,256	\$132,744
<u>100,000</u>	<u>149,049</u>	<u>(49,049)</u>	<u>7,596</u>		<u>7,596</u>	<u>225,000</u>	<u>92,256</u>	<u>132,744</u>
	(302)	(302)	(7,506)	124	7,630	(144,775)	(12,031)	\$132,744
	<u>302</u>			<u>7,351</u>			<u>244,853</u>	
				<u>\$7,475</u>			<u>\$232,822</u>	

(Continued)

TOWN OF ATHERTON  
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SPECIAL REVENUE FUNDS

	Road Construction			Refuse Rate Stabilization		
	Budget	Actual	Variance	Budget	Actual	Variance
			Positive (Negative)			Positive (Negative)
REVENUES						
Property taxes						
Measure A grants						
From other agencies					\$177,245	\$177,245
Use of money and property					28,853	28,853
Miscellaneous						
<b>Total Revenues</b>					<b>206,098</b>	<b>206,098</b>
EXPENDITURES						
Current:						
Police						
Public Works						
Non-departmental						
Capital Outlay						
<b>Total Expenditures</b>						
OTHER FINANCING SOURCES (USES)						
Transfers in		\$2,532	(\$2,532)			
<b>Total Other Financing Sources</b>		<b>2,532</b>	<b>(2,532)</b>			
<b>NET CHANGE IN FUND BALANCES</b>		<b>2,532</b>	<b>\$2,532</b>		<b>206,098</b>	<b>\$206,098</b>
BEGINNING FUND BALANCES		(\$2,532)			1,540,849	
<b>ENDING FUND BALANCES</b>					<b>\$1,746,947</b>	

## INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund is eliminated by netting them against operations of the other Town departments, which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Position.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

**EQUIPMENT REPLACEMENT FUND** accounts for the financing of replacement equipment within the Town such as vehicles and computer software.

**WORKERS' COMPENSATION INSURANCE FUND** accounts for the financing of the Town's outstanding worker's compensation liability.

**GENERAL LIABILITY FUND** accounts for other liabilities including employment liabilities and hosts the insurance costs for liability claims and property losses. The activities for this fund provides for costs to general liability insurance, employment practice insurance, and self-insured retention claim expense.

**EMPLOYEE BENEFITS FUND** accounts for financing the liabilities for compensated absences and other post-employment benefits other than pension for Town General Fund departments.

TOWN OF ATHERTON  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF NET POSITION  
JUNE 30, 2019

	<u>Equipment Replacement</u>	<u>Workers' Compensation Insurance</u>	<u>General Liability</u>	<u>Employee Benefits</u>	<u>Total</u>
<b>ASSETS</b>					
Current Assets:					
Cash and investments	\$725,908	\$1,043,342	\$651,226	\$1,440,578	\$3,861,054
Receivables:					
Other	3,104				3,104
Total Current Assets	<u>729,012</u>	<u>1,043,342</u>	<u>651,226</u>	<u>1,440,578</u>	<u>3,864,158</u>
Non-Current Assets:					
Capital assets:					
Depreciable	1,533,508				1,533,508
Less: accumulated depreciation	<u>(1,069,513)</u>				<u>(1,069,513)</u>
Net Capital Asset	<u>463,995</u>				<u>463,995</u>
Total noncurrent assets	<u>463,995</u>				<u>463,995</u>
Total Assets	<u>1,193,007</u>	<u>1,043,342</u>	<u>651,226</u>	<u>1,440,578</u>	<u>4,328,153</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	18,917			26	18,943
Claims payable			4,510		4,510
Compensated absences				342,701	342,701
Total current liabilities	<u>18,917</u>		<u>4,510</u>	<u>342,727</u>	<u>366,154</u>
Noncurrent liabilities					
Compensated absences				263,239	263,239
Total noncurrent liabilities				<u>263,239</u>	<u>263,239</u>
Total Liabilities	<u>18,917</u>		<u>4,510</u>	<u>605,966</u>	<u>629,393</u>
Net investment in capital assets					
Unrestricted	463,995				463,995
	<u>710,095</u>	<u>1,043,342</u>	<u>646,716</u>	<u>834,612</u>	<u>3,234,765</u>
Total Net Position	<u>\$1,174,090</u>	<u>\$1,043,342</u>	<u>\$646,716</u>	<u>\$834,612</u>	<u>\$3,698,760</u>

TOWN OF ATHERTON  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Equipment Replacement</u>	<u>Workers' Compensation Insurance</u>	<u>General Liability</u>	<u>Employee Benefits</u>	<u>Total</u>
<b>OPERATING REVENUES</b>					
Charges for services	\$500,704	\$453,181	\$268,985	\$888,617	\$2,111,487
Total Operating Revenues	<u>500,704</u>	<u>453,181</u>	<u>268,985</u>	<u>888,617</u>	<u>2,111,487</u>
<b>OPERATING EXPENSES</b>					
Insurance		387,124	179,689		566,813
OPEB expense				749,041	749,041
Employee benefits earned				122,006	122,006
Depreciation	151,594				151,594
Supplies and maintenance	50,931				50,931
Total Operating Expenses	<u>202,525</u>	<u>387,124</u>	<u>179,689</u>	<u>871,047</u>	<u>1,640,385</u>
Operating Income (Loss)	<u>298,179</u>	<u>66,057</u>	<u>89,296</u>	<u>17,570</u>	<u>471,102</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	11,988	17,231	10,756	23,793	63,768
Total Nonoperating Revenues (Expenses)	<u>11,988</u>	<u>17,231</u>	<u>10,756</u>	<u>23,793</u>	<u>63,768</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in		235,397			235,397
Total Other Financing Sources (Uses)		<u>235,397</u>			<u>235,397</u>
Change in Net Position	310,167	318,685	100,052	41,363	770,267
BEGINNING NET POSITION	<u>863,923</u>	<u>724,657</u>	<u>546,664</u>	<u>793,249</u>	<u>2,928,493</u>
ENDING NET POSITION	<u>\$1,174,090</u>	<u>\$1,043,342</u>	<u>\$646,716</u>	<u>\$834,612</u>	<u>\$3,698,760</u>

TOWN OF ATHERTON  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from other funds	\$497,600	\$453,181	\$268,985	\$888,617	\$2,108,383
Payments to employees for benefits				(909,235)	(909,235)
Payments to vendors	(32,014)	(387,124)	(187,229)		(606,367)
<b>Cash Flows from Operating Activities</b>	<b>465,586</b>	<b>66,057</b>	<b>81,756</b>	<b>(20,618)</b>	<b>592,781</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in		235,397			235,397
<b>Cash Flows from Noncapital Financing Activities</b>		<b>235,397</b>			<b>235,397</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition of capital assets, net	(221,895)				(221,895)
<b>Cash Flows (used for) Capital and Related Financing Activities</b>	<b>(221,895)</b>				<b>(221,895)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	11,988	17,231	10,756	23,793	63,768
<b>Cash Flows from Investing Activities</b>	<b>11,988</b>	<b>17,231</b>	<b>10,756</b>	<b>23,793</b>	<b>63,768</b>
<b>Net Cash Flows</b>	<b>255,679</b>	<b>318,685</b>	<b>92,512</b>	<b>3,175</b>	<b>670,051</b>
Cash and investments at beginning of period	470,229	724,657	558,714	1,437,403	3,191,003
Cash and investments at end of period	<u>\$725,908</u>	<u>\$1,043,342</u>	<u>\$651,226</u>	<u>\$1,440,578</u>	<u>\$3,861,054</u>
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>					
Operating income	\$298,179	\$66,057	\$89,296	\$17,570	\$471,102
<b>Adjustments to reconcile operating income to net cash flows from operating activities:</b>					
Depreciation	151,594				151,594
Compensated absences				(35,817)	(35,817)
<b>Change in assets and liabilities:</b>					
Accounts receivable	(3,104)				(3,104)
Accounts payable	18,917		(7,540)	(2,371)	9,006
Claims payable					
<b>Cash Flows from Operating Activities</b>	<b>\$465,586</b>	<b>\$66,057</b>	<b>\$81,756</b>	<b>(\$20,618)</b>	<b>\$592,781</b>

## AGENCY FUNDS

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

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

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

**TREE COMMITTEE** Fund maintained for the Tree Committee.

TOWN OF ATHERTON  
 AGENCY FUNDS  
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED JUNE 30, 2019

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<hr/> <u>H-P Park Improvement Fund</u> <hr/>				
ASSETS				
Cash and investments	\$6,253	\$105		\$6,358
Total assets	<u>\$6,253</u>	<u>\$105</u>		<u>\$6,358</u>
LIABILITIES				
Deposits payable	\$6,253	\$105		\$6,358
Total liabilities	<u>\$6,253</u>	<u>\$105</u>		<u>\$6,358</u>
<hr/> <u>Tree Committee</u> <hr/>				
ASSETS				
Cash and investments	\$25,844	\$434		\$26,278
Total assets	<u>\$25,844</u>	<u>\$434</u>		<u>\$26,278</u>
LIABILITIES				
Deposits payable	\$25,844	\$434		\$26,278
Total liabilities	<u>\$25,844</u>	<u>\$434</u>		<u>\$26,278</u>
<hr/> <u>All Agency Funds</u> <hr/>				
ASSET				
Cash and investments	\$32,097	\$539		\$32,636
Total assets	<u>\$32,097</u>	<u>\$539</u>		<u>\$32,636</u>
LIABILITIES				
Deposits payable	\$32,097	\$539		\$32,636
Total liabilities	<u>\$32,097</u>	<u>\$539</u>		<u>\$32,636</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Town of Atherton, California, as of and for the year ended June 30, 2019, and have issued our report thereon dated January 10, 2020.

***Internal Control over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

We have also issued a separate Memorandum on Internal Control dated January 10, 2020 which is an integral part of our audit and should be read in conjunction with this report.

### ***Purpose of this Report***

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

*Maze & Associates*

Pleasant Hill, California  
January 10, 2020