



## Item No. 4 Town of Atherton

### FINANCE COMMITTEE STAFF REPORT

**TO: FINANCE COMMITTEE**

**FROM: ROBERT BARRON III, FINANCE DIRECTOR**

**DATE: FEBRUARY 13, 2018**

**SUBJECT: PRESENTATION OF THE FY 2016-17 ATHERTON BASIC FINANCIAL STATEMENTS PROVIDE RECOMMENDATION OF ACCEPTANCE TO CITY COUNCIL.**

#### **RECOMMENDATION**

Review FY 2016-17 Basic Financial Statements, and the Memorandum on Internal Control and Required Communications and Recommend to City Council for Acceptance.

#### **BACKGROUND**

The Atherton Basic Financial statements were completed by the independent auditor Maze & Associates. In the auditor's opinion the Town's financial statements "present fairly in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2017."

Maze and Associates audit engagement partner Katherine Yuen will be present at today's meeting. The financial statements are in conformity with general accepted accounting principles. The General Fund is the chief operating fund of the Town. The General Fund had a Net Change in Fund Balance of (\$298,917) during the fiscal year

<b>Town of Atherton General Fund</b>				
	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-2017
Revenues	\$13,937,965	\$14,861,066	14,480,498	\$15,673,758
Expenses	\$11,882,237	\$11,621,729	10,610,643	\$11,436,539
Transfers Out			\$4,234,968	\$4,536,136
Excess (Deficient) Revenues over Expenses	\$2,055,728	\$3,239,337	(\$365,311)	(\$298,917)

## PRESENTATION OF FY 2016-17 BASIC FINANCIAL STATEMENTS

February 13, 2018

Page 2 of 4

For FY 2016-17 there was a transfer out of \$4,536,136 workers' compensation negative equity reserve (\$112,998), and towards future CIP projects (\$4,423,138). Without the transfers out, the General Fund would have had a positive Net Change in Fund Balance of \$4,237,219.

At the end of the current fiscal year the unassigned fund balance of the General Fund was \$10,679,748, with a total fund balance of \$13,006,925. The unassigned fund balance represents 93% of the total General Fund expenditures of \$11,436,539.

Some highlights of the General Fund over the previous Fiscal Year include:

- Increase in property taxes over previous year in the amount of \$726,058
- Decrease of sales tax in the amount of \$83,370. This was due to the last year of the In Lieu Sales Tax Triple Flip as it sunset December 2015.
- Increase in other taxes (Franchise tax) in the amount of \$25,312. There was a slight decrease in Document Transfer Tax \$4,015 from previous year.
- Increase in Permits and Licenses (Business Licenses) in the amount of \$64,701 that was attributed to increase cycle in business activity within the Town
- Increase in Service Charges in the amount of \$400,137. A majority of the increase is attributed to building, encroachment, and planning review permits. A result of an upward trend in building and construction in the year.
- Increase in fine and forfeitures in the amount of \$85,983. This was mainly due to C&D forfeiture deposit of \$104,600 realized in the year.
- The Council authorized a couple allocations from the General fund for a total of \$4,536,136; this included \$112,998 allocation towards Workers' Compensation negative equity reserve. Also included an allocation of \$4,423,138 to the Capital Improvement Fund 401 for future capital projects. This amount is expected to be allocated toward the Civic Center Project.
- The General Fund Revenue increased \$1,193,260 over prior year and there was \$825,896 increase in General Fund operating expenditures due to increase unfunded CalPERS liability, equipment purchases, increase in operational expenses within Police, Building, Public Works departments. There was also a new MOU adoption with salary increase for police department and increase for miscellaneous employees during the fiscal year.
- The CalPERS employer contribution rate decreased as total expense was \$8,640 less than previous year, a result also do to the elimination of employer paid member contribution in police department. This is also the second year CalPERs began collecting the unfunded liability as a dollar amount. The Town payment of the unfunded liability portion for the fiscal year increased \$87,307 to \$529,536. The total CalPERS expense for the Town increased \$78,667.

In FY 2014-15, GASB 68 and 71 were implemented for Accounting and Financial Reporting for Pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. As of FY 2016-17 the Town of Atherton reports a net pension liability of \$13,981,508, an increase of \$3,307,419 and is as follows:

- Miscellaneous Employee Plan: \$3,884,053

**PRESENTATION OF FY 2016-17 BASIC FINANCIAL STATEMENTS**

**February 13, 2018**

**Page 3 of 4**

- Safety Employee Plan: \$10,097,455

The Town reported a deferred outflow of resources of \$3,409,875 and deferred inflow of \$1,584,193 and a recognized pension expense of \$485,332. As a result of the according to GASB statements, the Town made an adjustment of \$12,155,826 to the Town Total Net Position.

<b>GASB 68 &amp; 71 Net Pension Liability Implementation 06/30/17</b>	
<b>Miscellaneous Employees NPL</b>	\$3,884,053
<b>Safety Employees NPL</b>	\$10,097,455
<b>Deferred Outflow of Resources</b>	(\$3,409,875)
<b>Deferred Inflow of Resources</b>	\$1,584,193
<b>Adjustment to Beginning Governmental net position</b>	<b>\$12,155,826</b>

The town had a positive net change in Net Position for the FY 2016-17 in the amount of \$5,760,335, for an ending Net Position of \$60,549,173, compared to the previous FY net position of \$54,788,838. With GASB 68 and 71 requiring the recognition of pension liabilities, deferred outflows and deferred inflows of resources for pensions, it reduced net position by \$12,155,826. Without the recognition of pension liabilities the Town would have a total net position of \$72,704,999 for FY 2016-17. Each fiscal year the Town will report the new net pension liability based on contributions and investment earnings on the plans. With the implementation of GASB 74, the Town's OPEB trust fund is listed as a fiduciary fund and as of 06/30/17, the total net position in the PARs Trust is \$5,855,635.

The Town continues to be in a positive financial position. The Town's General Fund Operating Budget relies on continued fiscal prudence, taking into account the need to adjust resources in order to meet any rising demands for Town services and capital improvements. We continue to be fiscally prudent with our resources but are mindful of operational and infrastructure needs. Providing Town services continues to be a challenge as the rising demand for those services increases. We have many long term infrastructure needs and a project milestone of construction a new Town Civic Center. The Town is heavily reliant on property taxes. There is no certainty that the growth will continue and as such the Town is reviewing 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. Financial stability of the Town is always at the forefront in our fiscal strategies, whether it is allocating ERAF funds towards capital improvement projects or operational expenditures; allocation of reserve funds to the CIP; or ensuring our Town operations meets the needs of the community. Over the past several years the Town has taken steps to pay down long term liabilities as it is important to the Town's fiscal stability.

The goal is to continue to provide current level of services to the community and financial transparency. The Town has a capital improvement program that includes various Town infrastructure projects and requires various funding sources. Town staff will continue to work efficiently and creatively to maximize available revenues by seeking outside grants, forging community and regional partnerships, and drawing upon the imagination and commitment of our

**PRESENTATION OF FY 2016-17 BASIC FINANCIAL STATEMENTS**

**February 13, 2018**

**Page 4 of 4**

community and staff. The Town has already been successful in the partnership forefront as it is receiving Caltrans funding to construct a Water Capture Facility at Holbrook Palmer Park.

*Staff is seeking a Committee recommendation for City Council to accept the FY 2016-2017 Basic Financial Statements.*

**ATTACHMENT**

1. FY 2016-2017 Basic Financial Statements
2. Memorandum on Internal Control and Required Communications

**TOWN OF ATHERTON, CALIFORNIA**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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

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**TOWN OF ATHERTON**  
**Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**Table of Contents**

**FINANCIAL SECTION:**

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

**TOWN OF ATHERTON  
Basic Financial Statements  
For the Year Ended June 30, 2017**

**FINANCIAL SECTION (Continued):**

Fiduciary Fund:	
Statement of Net Position.....	38
Statement of Changes in Fiduciary Net Position.....	39
Notes to Basic Financial Statements.....	41
<b>Required Supplemental Information:</b>	
Schedule of Plan’s Proportionate Share of the Net Pension Liability .....	76
Schedule of Contributions - Pension.....	77
Other Post-Employment Retirement Benefits - Schedule of Funding Progress.....	78
Schedule of Changes in Net OPEB Liability and Related Ratios.....	79
Schedule of Employer Contributions - OPEB.....	80
Schedule of Investment Returns - OPEB.....	81
<b>Supplemental Information:</b>	
<i>Non-Major Governmental Funds:</i>	
Combining Balance Sheet.....	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	86
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual .....	88
<i>Internal Service Funds:</i>	
Combining Statement of Net Position.....	92
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.....	93
Combining Statement of Cash Flows.....	94
<i>Fiduciary Funds:</i>	
Statements of Changes in Assets and Liabilities – Agency Funds.....	96
<b>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.....</b>	<b>97</b>

## INDEPENDENT AUDITOR'S REPORT

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

### *Report on Financial Statements*

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Atherton (Town), California, as of and for the year ended June 30, 2017, 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, 2017 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principles***

Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended June 30, 2017 had material effects on the financial statements as discussed in Note 1J to the financial statements:

Statement No. 74 – *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*

Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*

The emphasis of these matters does not constitute a modification to our opinions.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

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

The Introductory have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Maze Associates*

Pleasant Hill, California  
February 4, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Atherton, we offer readers of the Town of Atherton's financial statements this narrative overview and analysis of the financial activities of the Town of Atherton for the fiscal year ended June 30, 2017. 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 \$60,549,173 (*net position*). Of this amount, \$6,073,708 (*unrestricted position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$5,760,335. This includes total revenues of \$20,746,120 over total expenditures of \$14,985,785. The increase is due to higher total revenues of \$629,032. The town however did receive higher property tax, and other taxes revenues of about \$993,166, an increase in charges for services of \$3,065. There was a decrease in operating grants of \$245,512, and a decrease in investment earnings of \$71,558. There was an increase in total expenses of \$1,019,743 of which a majority was attributed to an additional recognized pension expense of \$485,332 and \$112,998 towards Workers' Compensation negative equity, as well as additional capital expenditure outlays.
- The town recorded a net pension liability of \$13,981,508, as this is an increase of \$3,307,419. The Miscellaneous employee plan is \$3,884,053 and Safety is \$10,097,455.
- As of the close of the current fiscal year, the Town of Atherton's governmental funds reported combined ending fund balances of \$36,374,039, an increase of \$1,339,771 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$10,679,749, or 93 percent of total general fund expenditures. The Town adopted a fund balance policy of not dropping the unassigned fund balance below 20% of the actual annual operating expenditures. The General Fund is the chief operating fund of the Town.
- The unassigned General Fund balance decreased by \$337,381 compared to fiscal year 2015-2016. Key Contributing factors include transfer out of \$4,536,136 from the General Fund. This included \$112,998 allocation towards Workers' compensation negative equity reserve. It also included \$4,423,138 to the Capital Improvement program Fund 401 for future unidentified capital projects. There was an increase in General Fund revenues of \$1,193,260 and an increase of total expenditures of \$825,896 over year. The General Fund maintained excess revenues over expenditures of \$3,865,219. With the \$372,000 million transfer in from the Parcel Tax for Police Services, and the transfers out of \$4,536,136, culminated in a negative change in fund balance of \$298,917 for the fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Atherton's basic financial statements. The Town of Atherton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

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**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 18-19 of this report.

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

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

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

The Town of Atherton maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Tax Special Revenue Fund, and Library Special Revenue Fund, all of which are considered to be major funds. The Town of Atherton also elected to include Facilities Construction Capital Projects Fund as a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 22-31 of this report.

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

The basic proprietary fund financial statements can be found on pages 34-36 of this report.

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

The basic fiduciary fund financial statements can be found on pages 38-39 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-74 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* providing trend information of the Town's pension and other post-employment benefits liabilities. Required supplementary information can be found on pages 76-81 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 84-96 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Atherton, assets exceeded liabilities by \$60,549,173 at the close of the most recent fiscal year.

By far the largest portion of the Town of Atherton's net position (51 percent) reflects its investment in capital assets of \$31,108,351 (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**

	2017	2016
Current and other assets	\$ 47,268,138	\$ 45,504,970
Capital assets	31,108,351	26,148,512
<b>Total assets</b>	<b>78,376,489</b>	<b>71,653,482</b>
<b>Deferred Outflow of Resources</b>	<b>3,409,875</b>	<b>707,944</b>
Current liabilities	5,381,971	4,906,954
Noncurrent liabilities	14,271,027	10,961,285
<b>Total liabilities</b>	<b>19,652,998</b>	<b>15,868,239</b>
<b>Deferred Inflow of Resources</b>	<b>1,584,193</b>	<b>1,704,349</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	31,108,351	26,148,512
Restricted	23,367,114	21,728,426
Unrestricted	6,073,708	6,911,900
<b>Total net position</b>	<b>\$ 60,549,173</b>	<b>\$ 54,788,838</b>

An additional portion of the Town of Atherton net position \$23,367,114 (38.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$6,073,708 may be used to meet the government's ongoing obligations to citizens and creditors.

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

**Governmental activities** Governmental activities increased the Town of Atherton's net assets by \$5,760,335. This includes the increase of recognized pension expense of \$485,332. 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 \$11,670,494. With the recognized pension expense of \$485,332, reflects a total adjustment of \$12,155,826 to the Total Net Position. The total Town Net Position is \$60,549,173. Without the recognition of pension liabilities the Town would have a total net position of \$72,704,999 for FY 2016-17. Total governmental activities had higher property taxes, sales tax, and other taxes for a combined total of \$993,166 in the fiscal year. The Town had an increase in charges for services of \$3,065, a decrease in operating grants of \$245,512, and decrease in investment earnings of \$71,558 over last year. The Town had an increase in expenditures of \$1,019,743 across major funds and other governmental funds due to additional pension expense, allocation toward Workers' Compensation negative equity, capital projects outlay, and increased asset cost additions. The Town did not make contribution toward its Net OPEB Obligation. The Town contributed a combined \$1,700,684 during the previous two fiscal years toward the OPEB trust for continued reduction of its unfunded liability.

Town of Atherton's Changes in Net Position

	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 3,323,085	\$ 3,320,020
Operating grants and contributions	1,425,840	1,671,352
General revenues:		
Taxes	15,633,646	14,640,480
Investment earnings	209,968	281,526
Other revenues	153,581	203,710
Total revenues	20,746,120	20,117,088
Expenses:		
General government	2,140,715	1,891,614
Public works	4,287,566	3,834,708
Police	7,107,716	6,950,103
Building	1,221,536	1,081,260
Planning	228,252	208,357
Total expenses	14,985,785	13,966,042
Change in Net Position	5,760,335	6,151,046
Transfers		-
Net assets - Beginning	54,788,838	48,637,792
Net assets - Ending	60,549,173	54,788,838

- Charges for services increased by \$3,065 during the year. The increase was primarily due to the one time transfer from the General Fund of \$631,243 for contribution to the Worker's Compensation fund for payment of negative reserve that occurred in the previous year. During the fiscal year this amount was \$112,998. The Town saw an increase in Public Works charge for services of \$113,119. This was due to C&D deposit forfeiture of \$104,600 from building construction deposits that were forfeited. There was only \$4,200 in C&D forfeiture last fiscal year. The Town received two years of highway maintenance reimbursement fees for a total of \$71,400. Town encroachment permit fees had an increase of \$42,363 than previous year. Park fees had an overall increase of \$46,235 than the previous year. The Town had a decrease of \$15,000 due to a one time contribution from the Tennis contractor for maintenance of the tennis courts. Other fines and forfeitures had a decrease of \$31,217 over last year and special service fee for police had a decrease of \$16,254. There was an increase of administrative citations of \$3,100 over previous year. Building Department revenue saw an increase of \$318,046 in building permit, and building plan check fees and tree removal plan check fees over the previous year. Zoning and planning fees saw an increase of \$2,415.

- 
- Operating grants and contribution decrease overall by \$245,512 during the year. The decrease was primarily due to lower general government grants and donations. The town did not receive any state mandated reimbursements for cost incurred. In the prior year the Town received \$20,215 of state mandated reimbursements. This amount is \$13,401 less than in previous year. We received \$14,638 less in Gas Tax funding for street projects. Also in the previous year the Town received \$114,284 in Fed STP transportation funding that was not received this year. It was a one-time funding grant for street projects. The Town received \$783,026 in donations from Atherton Now for the design development and construction document phases for the Civic Center project. We received \$13,525 more in Measure A sales tax transportation funds for street projects.
  - Taxes increased by \$993,166 (6.7 percent) during the year. The increase was primarily due to \$990,538 of property tax. There was a decrease in sales tax by \$83,370. This was a result of last year the town received the last of the in-lieu sales tax triple flip. Also in previous years there were one time sale transaction that increased the tax. There was a total \$85,998 increase in other taxes which included \$25,312 increase in franchise fees and \$64,701 increase in business license fees. Document transfer tax decreased by \$4,015.
  - Investment earnings are lower than last year by \$71,558. This was due to major fair market value adjustment to investments. Interest rates remain low however the Town continues to diversify its investments.
  - Total Government Activities expenses increased by \$1,019,743 (7.3 percent) during the year. The Town had an increase in expenditures of \$1,019,743 across major funds and other governmental funds due to additional pension expense, allocation toward Workers' Compensation negative equity, increase in capital projects outlay expense, and increased asset cost additions.

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

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

From FY 2011, The Town adopted the provision of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Additional information can be found in Note 6 on pages 55 through 57 in the financial statements.

#### **Governmental funds:**

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

**General Fund** is the chief operating fund of the Town of Atherton. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10,679,749 while total fund balance reached \$13,006,925. 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 93 percent of the total general fund expenditures of \$11,436,539, while total fund balance represents 113.7 percent of that same amount of total expenditures.

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Town of Atherton's general fund balance decreased by \$298,917 during the current fiscal year. Key factors in the decrease are as follows:

- The Council authorized a couple allocations from the General fund for a total of \$4,536,136; this included \$112,998 allocation towards Workers' Compensation negative equity reserve. An also included an allocation of \$4,423,138 to the Capital Improvement Fund 401 for future unidentified capital projects.
- The General Fund Revenue increased \$1,193,260 over prior year and there was \$825,896 increase in General Fund operating expenditures due to increase unfunded CalPERS liability, equipment purchases, increase in operational expenses within Police, Building, Public Works departments. There was also a new MOU adoption with salary increase for police department and increase for miscellaneous employees during the fiscal year.
- The CalPERS employer contribution rate decreased as total expense was \$8,640 less than previous year. This is also the second year CalPERS began collecting the unfunded liability as a dollar amount. The Town payment of the unfunded liability portion for the fiscal year increased \$87,307 to \$529,536. The total CalPERS expense for the Town increased \$78,667.
- The Town made \$112,998 contribution to towards its Worker's Compensation Negative equity reserve.
- Increase in property tax revenues in the amount of \$726,058. In the previous year property taxes increased \$702,943. Secured property taxes increased \$592,642
- Increase in other taxes (Franchise tax) in the amount of \$25,312. There was a slight decrease in Document Transfer Tax of \$4,015 from previous year.
- Decrease of sales tax in the amount of \$83,370. This was due to the last year of the In Lieu Sales Tax Triple Flip as it sunset December 2015.
- Increase in Permits and Licenses (Business Licenses) in the amount of \$64,701 that was attributed to increase cycle in business activity within the Town.
- Increase in Service Charges in the amount of \$400,137. A majority of the increase is attributed to building, encroachment, and planning review permits. A result of an upward trend in building and construction in the year.
- Increase in fine and forfeitures in the amount of \$85,983. This was mainly due to C&D forfeiture deposit of \$104,600 realized in the year.

**Special Tax Special Revenue Fund** has a total fund balance of \$2,167,972, all of which is reserved for street and drainage facility maintenance and police services. Revenue in the fund showed no significant variation from prior year. Expenditures decreased by \$319,762 as Marsh Road Wall project was between two fiscal years. We continue to save and spend in the special tax fund within our Town Capital Improvement Program projects. During this fiscal year we continued with several major capital projects from the five year CIP program. The Town finished the repairs to the Marsh Road retaining wall. We finished the installation of the Hybrid Beacon at El Camino and Almendral. The Town worked on one of the Bike Pedestrian master plan projects on Middlefield and Elk Grove. The Town worked on plans and designs for drainage facilities repairs for Stockbridge, Euclid, Polhemus, Camino Al Lago and Atherton channel. The allocation of the Parcel Tax to the General Fund for Police Service was maintained at 80/20 as \$372,000 is allocated to the General Fund and \$1,488,000 to the parcel tax fund for future capital projects.

**Library Special Revenue Fund** has a total fund balance of \$11,642,615, all of which is reserved for the library operation. Revenue was higher than prior year by \$256,671 due to return of excess donor city funds received of \$1,490,959. 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 \$6,504,207 in the SMCL Donor trust fund. Funds will be remitted to cities once they use up all existing funds. Current existing funds held by the Town are \$5,141,024. The Library fund is funding the new Library portion of the Town Civic Center as the Town anticipates using all funds toward the project.

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## General Fund Budgetary Highlights

During the year, the revenue budget increased by a total of \$612,360 at mid-year. The following are the main components of the increase:

- \$303,355 higher secured property tax
- \$55,788 higher SB813 supplement income
- \$34,960 higher property tax in lieu VLF
- \$70,185 higher ERAF revenue.
- \$49,666 lower total sales tax
- \$45,099 lower franchise tax
- \$32,500 higher zoning and planning fees
- \$8,663 higher business license revenue
- \$81,950 higher building revenue
- \$9,820 lower total police revenue
- \$59,399 higher park program revenue
- \$70,146 increase of revenue in miscellaneous, intergovernmental, and DPW revenue categories

During the year there was also \$257,080 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- \$13,159 increase in the city council budget for an all-mail ballot special election and \$84,000 increase in administration budget for assistance with town employment law support. There was an increase in the planning department budget of \$50,000 for climate action plan amendment.
- \$44,614 increase in the building department expenditures for building services contract. This was due to projected growth in building revenue as contract is based on building revenue.
- \$16,640 increase in the Inter-department budget for a new approved contract for IT services with Interwest.
- \$38,203 increase in Public Works for park event services contract. This expense is tied to projected increase in rental fee revenue.

## Capital Assets and Debt Administration

**Capital assets.** The Town of Atherton's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$31,108,351 (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 \$1,650,500. This is mainly due to continued projects in progress for the Civic Center design phase, Bike/Pedestrian, Park, and Drainage master plans projects.

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

	Governmental activities	
	2017	2016
Land	690,884	690,884
Construction in progress	5,576,813	3,926,313
Building	796,119	841,580
Other Improvements	304,556	332,043
Vehicles	228,232	219,699
Computer Equipment/Software	90,498	86,702
Furniture & Fixture	(1)	(1)
Machinery & Equipment	124,836	109,960
Infrastructure	23,296,414	19,941,332
Total Fixed Assets	31,108,351	26,148,512

Additional information about the Town's capital assets can be found in Note 5 on pages 53 through 55 in the financial statements.

**Long-term debt.** At the end of the current fiscal year, the Town of Atherton has no total debt outstanding. The Town paid off its assessment of \$112,998 due to The Cities Group to cover negative workers' compensation reserve. In the FY 2016-2017 budget, the Council approved an appropriation of \$112,998 for the Workers' Compensation Equity Reserve replenishment. This was to mitigate the depletion of the reserves and any possibly offset any future additional assessments from Cities Group workers' compensation JPA.

In Fiscal Year 2014-15, GASB 68 and 71 were implemented for Accounting and Financial Reporting for Pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The net pension liability increased \$3,307,419 over last fiscal year. As of FY 2016-17, the Town of Atherton reports a net pension liability of \$13,981,508 and is as follows;

Miscellaneous Employee Plan: \$3,884,053  
Safety Employees Plan: \$10,097,455

The Town reported a deferred outflow of resources of \$3,409,875 and deferred inflow of \$1,584,193.

Additional information on the Town of Atherton's outstanding pension liability can be found in note 7 on page 58-64 of this report.

**Economic Factors and Next Year's Budgets**

Property taxes comprise 68% of the General Fund revenues. Property Taxes increased 7.6% from the previous year of \$9,602,651, clearly indicating that property sales within the town continue to be on the rise. The Town experienced a Net Taxable Assessed Value increase of 7.44% for a total value of \$10.22 Billion as of FY 2017-2018. Expectations for FY 2017-18 property tax revenues should continue to show a slight growth as the housing market prices in the Town continue to increase. As of now financial assumptions includes an increase in property tax revenue projections at approximately 4.2 percent, building revenue was increased by approximately 1 percent. All other revenue sources are budgeted between 1 to 2 percent. In certain revenues like park revenue, they were budgeted based on other percentages or based on bookings. We continue to monitor other Town revenues as they remain stable. Sales tax is down due to the elimination of the In Lieu Sales Tax Triple Flip. The Town Parcel Tax revenue split was maintained at 80/20 percentage split in FY 2016-17 and is contributing \$1.4 Million towards capital projects and \$372,000 towards police

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services. The allocation remains the same in FY 2017-18, as the Parcel Tax remains a viable source of revenue for the community for Capital Projects and Police Services. As of the November 2017 election the Parcel Tax was not passed. Beginning FY 2018-19, the Town will no longer receive Parcel Tax for Capital Projects and Police Services. The five year capital improvement programs will be adjusted in the coming fiscal year and the Town will be more in "save and spend" mode for priority capital projects. The Town received \$1,103,185 in ERAF for the Fiscal Year. Unlike in previous years, ERAF was not specifically earmarked in the FY 2017-18 budget. The Town anticipates using ERAF as a contribution toward one-time capital projects such as the new civic center project.

The Town's General Fund Operating Budget relies on continued fiscal prudence, taking into account the need to adjust resources in order to meet any rising demands for Town services and capital improvements. We continue to be fiscally prudent with our resources but are mindful of operational and infrastructure needs. Providing Town services continues to be a challenge as the rising demand for those services increases. We have many long term infrastructure needs and a project milestone of construction a new Town Civic Center. The Town is heavily reliant on property taxes. There is no certainty that the growth will continue and as such the Town is reviewing 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. Financial stability of the Town is always at the forefront in our fiscal strategies, whether it is allocating ERAF funds towards capital improvement projects or operational expenditures; allocation of reserve funds to the CIP; or ensuring our Town operations meets the needs of the community.

Town staff will continue to work efficiently and creatively to maximize available revenues by seeking outside grants, forging community and regional partnerships, and drawing upon the imagination and commitment of our community and staff. The Town has already been successful in the partnership forefront as it is receiving Caltrans funding to construct a Water Capture Facility at Holbrook Palmer Park. The Town has a robust CIP program that was heavily reliant on the Special Parcel Tax. With this special tax not passing it is more prudent that we seek to maximize available revenues, seek additional grants, and adjust priority projects within our Capital Improvement Program.

Paying down long term liabilities is important to the Town's fiscal stability. During fiscal year 2017-18 the Town will make a \$92,118 contribution into the OPEB trust for future OPEB liabilities and reducing our Net OPEB obligation. Total Town contribution to the Trust as of June 30, 2017 is \$5,000,000. The balance in the PARS Trust as of June 30, 2017 is \$5,855,635. A new OPEB actuarial study was completed to account for the contributions in the Trust and prepare for GASB 75 to record unfunded OPEB liabilities.

In FY 2015/16, CalPERS started requiring agencies to pay for their Unfunded Accrued Liabilities (UAL) as dollar amounts rather than a percentage of payroll. This was implemented to recover gains and losses of funded status of plans. Every fiscal year CalPERS will invoice municipalities the unfunded portion of their liabilities. The Town paid \$140,897 for Miscellaneous Employees and \$388,638 for Public Safety, for a total of \$529,535 for the PERS unfunded accrued liability portion for FY 2016-17. The anticipated Town UAL portion for FY 2017-18 is \$496,462 for public safety and \$183,236 for miscellaneous employees. Analysis on future costs will continue to be a focus as we intend to meet long term obligations and Town operating expenditures. The Town now records its net pension liability, with FY 2014-15 being the first year the Town was required to do so. The net pension liability is based on contributions and investment earnings on the plan. Town pension liability increased by \$3.3 million. The CalPERS board will implement changes to the discount rates, with the discount rate being reduced from 7.5% to 7.375% beginning in FY 2018-19. There will be a gradual decrease to 7.0% by FY 2020-21. This means that plans will likely see increases in both the normal costs and the accrued liabilities, resulting in higher required employer contributions.

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The goal is to continue to provide current level of services to the community and financial transparency. The Town has a capital improvement program that includes various Town infrastructure projects and requires various funding sources. These projects are in addition to the Civic Center Project now moving into the Construction Document Phase in FY 2016-17 and 2017-18 budget year. Funding sources of a robust Town Capital Improvement program are vital as the Town uses every source of revenue to carry out these projects while continuing to save funds for future capital project needs. The Special Parcel Tax has been a reliable and major source for the CIP. With the Parcel Tax not passing in the November 2017 election, the Town will look to prioritize projects within the CIP until additional funding becomes available. Within the past two fiscal years the General Fund made a significant allocation to the CIP program. A major portion of it will be used to fund the Civic Center project. Paying down long term liabilities and providing funding for capital projects will continue to be a priority. The Town will always be looking to consider new operating revenue sources in future years to continue to meet the high standard of services and programs that the community has come to expect and deserve.

### **Requests for Information**

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

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## TOWN OF ATHERTON

### STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

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

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

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

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

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

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

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

TOWN OF ATHERTON  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	Governmental Activities
<b>ASSETS</b>	
Cash and investments (Note 3)	\$44,003,863
Receivables:	
Taxes	98,225
Interest	31,314
Other	72,514
Prepaid expenses	400
Net OPEB assets (Note 8)	3,061,822
Capital assets (Note 5):	
Non-depreciable	6,267,697
Depreciable, net	24,840,654
Total Capital assets	31,108,351
Total Assets	78,376,489
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions (Note 7)	3,409,875
<b>LIABILITIES</b>	
Accounts payable	1,680,109
Accrued liabilities	237,545
Deposits payable	3,002,251
Unearned revenue	59,243
Compensated absences (Note 1G)	
Due in less than one year	356,942
Due in more than one year	289,519
Claims payable (Note 9)	
Due in less than one year	45,881
Net pension liability, due in more than one year (Note 7)	13,981,508
Total Liabilities	19,652,998
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions (Note 7)	1,584,193
<b>NET POSITION (Note 6):</b>	
Net investment in capital assets	31,108,351
Restricted for:	
Streets and drainage maintenance and police services	2,167,972
Library operations	11,642,615
Public facilities constructions	1,012,512
Special revenue projects	2,033,356
Capital projects	6,510,659
Unrestricted	6,073,708
Total Net Position	\$60,549,173

See accompanying notes to financial statements

TOWN OF ATHERTON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Primary Government:					
General government	\$2,140,715	\$418,350	\$11,910		(\$1,710,455)
Public works	4,287,566	818,587	489,146	\$783,026	(2,196,807)
Police	7,107,716	89,430	141,758		(6,876,528)
Building	1,221,536	1,748,474			526,938
Planning	228,252	248,244			19,992
Total Governmental Activities	<u>\$14,985,785</u>	<u>\$3,323,085</u>	<u>\$642,814</u>	<u>\$783,026</u>	<u>(10,236,860)</u>
General revenues:					
Taxes:					
Property taxes					13,810,720
Sales taxes					340,074
Other taxes					1,482,852
Total Taxes					15,633,646
Investment earnings					209,968
Miscellaneous					153,581
Total General Revenues					<u>15,997,195</u>
Change in Net Position					5,760,335
Net Position-Beginning					<u>54,788,838</u>
Net Position-Ending					<u>\$60,549,173</u>

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 2017. Individual non-major funds may be found in the Supplemental Section.

**GENERAL FUND**

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

**SPECIAL TAX SPECIAL REVENUE FUND**

Accounts for parcel tax assessments received from property owners to be used for maintenance of streets drainage and police services.

**LIBRARY SPECIAL REVENUE FUND**

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

**FACILITIES CONSTRUCTION CAPITAL PROJECTS FUND**

Accounts for the funds dedicated to facilities construction.

**CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND**

Accounts for capital improvement construction costs and financing sources.

TOWN OF ATHERTON  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017

	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)	\$16,438,256	\$2,299,629	\$11,645,231	\$1,575,452	\$6,392,945
Receivables:					
Taxes	97,886				
Interest	31,314				
Other	72,514				
Prepays	400				
Total Assets	<u>\$16,640,370</u>	<u>\$2,299,629</u>	<u>\$11,645,231</u>	<u>\$1,575,452</u>	<u>\$6,392,945</u>
<b>LIABILITIES</b>					
Accounts payable	\$334,406	\$131,657	\$2,616	\$562,940	\$69,437
Accrued liabilities	237,545				
Deposits payable	3,002,251				
Unearned revenue	59,243				
Total Liabilities	<u>3,633,445</u>	<u>131,657</u>	<u>2,616</u>	<u>562,940</u>	<u>69,437</u>
<b>FUND BALANCES</b>					
Fund balance (Note 6):					
Nonspendable	400				
Restricted		2,167,972	11,642,615		
Committed	1,743,259				
Assigned	583,517			1,012,512	6,323,508
Unassigned	10,679,749				
Total Fund Balances	<u>13,006,925</u>	<u>2,167,972</u>	<u>11,642,615</u>	<u>1,012,512</u>	<u>6,323,508</u>
Total Liabilities and Fund Balances	<u>\$16,640,370</u>	<u>\$2,299,629</u>	<u>\$11,645,231</u>	<u>\$1,575,452</u>	<u>\$6,392,945</u>

See accompanying notes to financial statements

Other Governmental Funds	Total Governmental Funds
\$2,686,223	\$41,037,736
339	98,225
	31,314
	72,514
	400
<u>\$2,686,562</u>	<u>\$41,240,189</u>
\$466,055	\$1,567,111
	237,545
	3,002,251
	59,243
<u>466,055</u>	<u>4,866,150</u>
2,203,889	400
	16,014,476
	1,743,259
30,536	7,950,073
(13,918)	10,665,831
<u>2,220,507</u>	<u>36,374,039</u>
<u>\$2,686,562</u>	<u>\$41,240,189</u>

TOWN OF ATHERTON  
Reconciliation of the  
GOVERNMENTAL FUNDS -- BALANCE SHEET  
with the  
STATEMENT OF NET POSITION  
JUNE 30, 2017

Total fund balances reported on the governmental funds balance sheet \$36,374,039

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. 30,783,963

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

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

Cash and investments	2,966,127
Net OPEB asset	3,061,822
Capital assets, net	324,388
Accounts payable	(112,998)
Compensated absences	(646,461)
Claims payable	(45,881)

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	3,409,875
Deferred inflows related to pensions	(1,584,193)

LONG-TERM LIABILITIES

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

Net pension liability	(13,981,508)
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NET POSITION OF GOVERNMENTAL ACTIVITIES	\$60,549,173
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See accompanying notes to financial statements

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TOWN OF ATHERTON  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017

	Major Funds				
	General Fund	Special Tax Special Revenue Fund	Library Special Revenue Fund	Facilities Construction Capital Projects Fund	Capital Improvement Capital Projects Fund
<b>REVENUES</b>					
Property taxes	\$10,328,709		\$1,490,959		
Special assessments		\$1,870,390			
Sales taxes	340,074				
Other taxes	1,242,152				
Measure A grants					
From other governmental agencies	23,582				\$34,584
Permit and licenses	240,700				
Fines and forfeitures	168,238				
Service charges	2,675,409				
Use of money and property	189,350	12,441	75,047	\$8,523	
Miscellaneous	93,544			783,027	
<b>Total Revenues</b>	<b>15,301,758</b>	<b>1,882,831</b>	<b>1,566,006</b>	<b>791,550</b>	<b>34,584</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,950,378	5,607			
Planning	228,252				
Building	1,199,076				
Police	6,483,668				
Public works	1,484,587	435,360		1,771,318	
Non-departmental			37,066		
Capital outlay	90,578	1,577,661		929,438	1,096,532
<b>Total Expenditures</b>	<b>11,436,539</b>	<b>2,018,628</b>	<b>37,066</b>	<b>2,700,756</b>	<b>1,096,532</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>3,865,219</b>	<b>(135,797)</b>	<b>1,528,940</b>	<b>(1,909,206)</b>	<b>(1,061,948)</b>
<b>Other Financing Sources (uses):</b>					
Transfers in (Note 4)	372,000			703,024	4,423,138
Transfers (out) (Note 4)	(4,536,136)	(372,000)	(703,024)		
<b>Total Other Financing Sources (uses)</b>	<b>(4,164,136)</b>	<b>(372,000)</b>	<b>(703,024)</b>	<b>703,024</b>	<b>4,423,138</b>
<b>Net change in fund balances</b>	<b>(298,917)</b>	<b>(507,797)</b>	<b>825,916</b>	<b>(1,206,182)</b>	<b>3,361,190</b>
<b>BEGINNING FUND BALANCES</b>	<b>13,305,842</b>	<b>2,675,769</b>	<b>10,816,699</b>	<b>2,218,694</b>	<b>2,962,318</b>
<b>ENDING FUND BALANCES</b>	<b>\$13,006,925</b>	<b>\$2,167,972</b>	<b>\$11,642,615</b>	<b>\$1,012,512</b>	<b>\$6,323,508</b>

See accompanying notes to financial statements

Other Governmental Funds	Total Governmental Funds
\$120,662	\$11,940,330
	1,870,390
	340,074
	1,242,152
344,520	344,520
673,630	731,796
	240,700
	168,238
	2,675,409
14,532	299,893
<u>1,153,344</u>	<u>876,571</u>
	20,730,073
	1,955,985
	228,252
	1,199,076
130,086	6,613,754
23,773	3,715,038
10,745	47,811
<u>1,823,179</u>	<u>5,517,388</u>
<u>1,987,783</u>	<u>19,277,304</u>
<u>(834,439)</u>	<u>1,452,769</u>
	5,498,162
	<u>(5,611,160)</u>
	<u>(112,998)</u>
<u>(834,439)</u>	1,339,771
<u>3,054,946</u>	<u>35,034,268</u>
<u>\$2,220,507</u>	<u>\$36,374,039</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, 2017

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 \$1,339,771

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 6,448,323  
 Depreciation expense is deducted from the fund balance (1,496,763)

ACCRUAL OF NON-CURRENT ITEMS

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

Net pension liabilities and pension-related deferred outflows/inflows of resources (485,332)

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 (45,664)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$5,760,335

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$9,880,285	\$10,344,573	\$10,328,709	(\$15,864)
Sales taxes	300,540	250,874	340,074	89,200
Other taxes	1,297,048	1,251,950	1,242,152	(9,798)
Permits and licenses	227,253	235,916	240,700	4,784
Fines and forfeitures	78,639	78,101	168,238	90,137
From other governmental agencies	23,153	32,271	23,582	(8,689)
Service charges	2,426,062	2,652,375	2,675,409	23,034
Use of money and property	236,899	237,099	189,350	(47,749)
Other	41,781	43,863	93,544	49,681
<b>Total Revenues</b>	<b>14,511,660</b>	<b>15,127,022</b>	<b>15,301,758</b>	<b>174,736</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>General government</b>				
City council	62,233	75,392	38,572	36,820
Administration	306,662	864,662	792,272	72,390
City attorney	204,000	204,000	157,334	46,666
Finance	662,036	662,036	653,331	8,705
Non-departmental	462,818	479,458	308,869	170,589
<b>General government total</b>	<b>1,697,749</b>	<b>2,285,548</b>	<b>1,950,378</b>	<b>335,170</b>
Planning	217,171	267,171	228,252	38,919
Building	1,197,202	1,241,816	1,199,076	42,740
Public works	1,784,469	1,822,672	1,484,587	338,085
Police	6,753,856	6,743,856	6,483,668	260,188
Capital outlay	99,654	114,654	90,578	24,076
<b>Total Expenditures</b>	<b>11,750,101</b>	<b>12,475,717</b>	<b>11,436,539</b>	<b>1,039,178</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>2,761,559</b>	<b>2,651,305</b>	<b>3,865,219</b>	<b>1,213,914</b>
<b>OTHER FINANCING SOURCES USES</b>				
Transfer in (Note 4)	372,000	372,000	372,000	
Transfers (out) (Note 4)	(5,085,086)	(5,085,086)	(4,536,136)	(548,950)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(\$1,951,527)</b>	<b>(\$2,061,781)</b>	<b>(298,917)</b>	<b>\$1,762,864</b>
Fund balance, beginning of year			13,305,842	
Fund balance, end of year			<b>\$13,006,925</b>	

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Special assessments	\$1,860,000	\$1,860,000	\$1,870,390	\$10,390
Use of money and property			12,441	12,441
Total Revenues	<u>1,860,000</u>	<u>1,860,000</u>	<u>1,882,831</u>	<u>22,831</u>
EXPENDITURES:				
Current:				
General government			5,607	(5,607)
Public works	450,000	450,000	435,360	14,640
Capital outlay	<u>2,569,339</u>	<u>5,231,709</u>	<u>1,577,661</u>	<u>3,654,048</u>
Total Expenditures	<u>3,019,339</u>	<u>5,681,709</u>	<u>2,018,628</u>	<u>3,663,081</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,159,339)</u>	<u>(3,821,709)</u>	<u>(135,797)</u>	<u>3,685,912</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4)	<u>(372,000)</u>	<u>(372,000)</u>	<u>(372,000)</u>	
Total Other Financing Sources (Uses)	<u>(372,000)</u>	<u>(372,000)</u>	<u>(372,000)</u>	
Net change in fund balance	<u>(\$1,531,339)</u>	<u>(\$4,193,709)</u>	<u>(507,797)</u>	<u>\$3,685,912</u>
Fund Balance, beginning of year			<u>2,675,769</u>	
Fund Balance, end of year			<u>\$2,167,972</u>	

See accompanying notes to financial statements

TOWN OF ATHERTON  
LIBRARY SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$1,250,786	\$1,250,786	\$1,490,959	\$240,173
Use of money and property	50,000	50,000	75,047	25,047
Total Revenues	1,300,786	1,300,786	1,566,006	265,220
EXPENDITURES:				
Current:				
Library Maintenance	688,850	688,850	37,066	651,784
Total Expenditures	688,850	688,850	37,066	651,784
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	611,936	611,936	1,528,940	917,004
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4)			(703,024)	(703,024)
Total Other Financing Sources (Uses)			(703,024)	(703,024)
NET CHANGES IN FUND BALANCE	\$611,936	\$611,936	825,916	\$213,980
BEGINNING FUND BALANCE			10,816,699	
ENDING FUND BALANCE			\$11,642,615	

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, 2017

	Governmental Activities - Internal Service Funds
<b>ASSETS</b>	
Current assets	
Cash and investments (Note 3)	\$2,966,127
Total current assets	2,966,127
Noncurrent Assets:	
Net OPEB asset (Note 8)	3,061,822
Capital assets (Note 5):	
Depreciable	1,301,029
Less accumulated depreciation	(976,641)
Total capital assets	324,388
Total noncurrent assets	3,386,210
Total Assets	6,352,337
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	112,998
Compensated absences (Note 1G)	356,942
Claims payable (Note 9)	45,881
Total current liabilities	515,821
Non-current liabilities:	
Compensated absences (Note 1G)	289,519
Total noncurrent liabilities	289,519
Total Liabilities	805,340
<b>NET POSITION (Note 6):</b>	
Net investment in capital assets	324,388
Unrestricted	5,222,609
Total Net Position	\$5,546,997

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, 2017

	<u>Governmental Activities- Internal Service Funds</u>
OPERATING REVENUES	
Charges for services	<u>\$1,211,021</u>
Total Operating Revenues	<u>1,211,021</u>
OPERATING EXPENSES	
Insurance	432,163
OPEB expense	669,045
Employee benefits earned	125,130
Depreciation	113,873
Supplies and maintenance	<u>45,519</u>
Total Operating Expenses	<u>1,385,730</u>
Operating Income (Loss)	<u>(174,709)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>16,047</u>
Total Nonoperating Revenues	<u>16,047</u>
OTHER FINANCING SOURCES (USES)	
Transfers in (Note 4)	<u>112,998</u>
Total Other Financing Sources	<u>112,998</u>
Change in net position	(45,664)
BEGINNING NET POSITION	<u>5,592,661</u>
ENDING NET POSITION	<u><u>\$5,546,997</u></u>

See accompanying notes to financial statements

TOWN OF ATHERTON  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities- Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Interdepartmental charges	\$1,211,021
Payments to employees for benefits	(555,730)
Payments to suppliers	(353,643)
Cash Flows from Operating Activities	301,648
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers in	112,998
Cash Flow from Noncapital Financing Activities	112,998
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets, net	(122,152)
Cash Flow from Capital and Related Financing Activities	(122,152)
<b>CASH FLOWS FORM INVESTING ACTIVITIES</b>	
Interest received	16,047
Cash Flow from Investing Activities	16,047
Net Cash Flows	308,541
Cash and investments at beginning of period	2,657,586
Cash and investment at end of period	\$2,966,127
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>	
Operating income	(\$174,709)
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	113,873
Changes in assets and liabilities:	
Other assets	220,100
Accounts payable	109,194
Compensated absences	14,845
	18,345
Cash Flows from Operating Activities	\$301,648

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, 2017

	OPEB Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and investments (Note 3)	\$5,855,635	\$31,792
Total Assets	\$5,855,635	\$31,792
 <b>LIABILITIES</b>		
Deposits payable		\$31,792
Total Liabilities		\$31,792
 <b>NET POSITION</b>		
Restricted for OPEB benefits	\$5,855,635	
Total Net Position	\$5,855,635	

See accompanying notes to financial statements

TOWN OF ATHERTON  
 FIDUCIARY FUND  
 STATEMENT OF CHANGES IN FIDUCIARY  
 NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2017

	OPEB Trust Fund
ADDITIONS	
Investment income:	
Interest	\$484,092
Less: investment expenses	(33,937)
Employer contributions	390,058
Total additions	840,213
DEDUCTIONS	
OPEB expense	390,068
Total deductions	390,068
Change in net position	450,145
BEGINNING NET POSITION, AS ADJUSTED (NOTE 1J)	5,405,490
ENDING NET POSITION	\$5,855,635

See accompanying notes to financial statements

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**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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, 2017**

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

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

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

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

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

**C. Major Funds**

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

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

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

**Special Tax Special Revenue Fund** – Accounts for parcel tax assessments received from property owners to be used for the maintenance of streets and drainage, and police services.

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

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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, 2017**

**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, 2017**

**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 2017 were as follows:

Beginning Balance	\$628,116
Additions	445,637
Payments	<u>(427,292)</u>
Ending Balance	<u>\$646,461</u>
Current Portion	<u>\$356,942</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, 2017**

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

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

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2017.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The provisions in statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. This statement had no impact on the Town’s financial statements.

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Statement No. 74 replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, statement 43, and statement No. 50, Pension Disclosures. The provisions in statement 74 are effective for fiscal years beginning after June 15, 2016. The Town implemented this statement in fiscal year 2017. As a result of the Implementation, the Town increased the beginning net position of the OPEB Trust Fund by \$5,405,490 as of July 1, 2016.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is effective for reporting periods beginning after December 15, 2015 and had no impact on the Town’s financial statements.

GASB Statement No. 78 – In December 2015, the GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers who employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. 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, 2017**

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

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

GASB Statement No. 80 – In January 2016, the GASB issued Statement No. 80, Blending Requirements for Certain Component Unit –an amendment to GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, The Financial Reporting Entity. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units – an amendment to GASB Statement No. 14. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 and had no impact on the Town’s financial statements.

GASB Statement No. 82 – In March 2016, the GASB issued Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25, GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27, and GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement had no significant impact on the Town’s financial statements.

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

***A. Budgets and Budgetary Accounting***

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

- By June 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the year commencing July 1. The operating and capital budget includes proposed expenditures and the means of financing them. Continuing appropriations are rebudgeted by the Town Council as part of the adoption of subsequent year’s budget.
- Public hearings are conducted to obtain taxpayer comments.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**A. Budgets and Budgetary Accounting (Continued)**

- 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.

**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, 2017:

Fund Name	Amount
<b>Major Special Revenue Funds:</b>	
Special Tax	
General Government	\$5,607
<b>Nonmajor Special Revenue Funds:</b>	
County Measure A	
Public Works	16,764
Gas Tax	
Public Works	5,983
Supplemental Law Enforcement Services/COPS Grants	
Police	29,786
Road Construction	
Capital Outlay	9,685

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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.

**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	\$44,003,863
<b>Fiduciary Funds</b>	
Cash and investments held by OPEB trust	5,855,635
Cash and Investment available for operations	31,792
Total Cash and Investments	\$49,891,290

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$875
Cash in bank	2,093,163
Investments	47,797,252
Total Cash and Investment	\$49,891,290

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

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

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

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

**D. Interest Rate Risk**

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

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Treasury Notes	\$1,497,835	\$996,445	\$498,750	\$2,993,030
U.S. Agency Securities	4,212,484	1,495,990	2,978,625	8,687,099
Corporate Notes	3,508,005	1,505,710	502,315	5,516,030
San Mateo County Investment Pool (SMCL Donor Trust Fund)	6,504,207			6,504,207
California Local Agency Investment Fund	15,072,483			15,072,483
Money Market Mutual Fund	9,024,403			9,024,403
<b>Total Investments</b>	<b>\$39,819,417</b>	<b>\$3,998,145</b>	<b>\$3,979,690</b>	<b>47,797,252</b>
Cash in Banks				2,093,163
Petty Cash				875
<b>Total Cash</b>				<b>2,094,038</b>
<b>Total Cash and Investments</b>				<b>\$49,891,290</b>

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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. The Standard and Poor's investment ratings as of June 30, 2017 are as follows:

Investment Type	AAA	AAAm	AA	Not Rated	Exempt	Total
U.S. Treasury Notes					\$2,993,030	\$2,993,030
U.S. Agency Securities			\$8,687,099			8,687,099
Corporate Notes	\$499,310		5,016,720			5,516,030
San Mateo County Investment Pool (SMCL Donor Trust Fund)				\$6,504,207		6,504,207
California Local Agency Investment Fund				15,072,483		15,072,483
Money Market Mutual Fund		3,168,768		5,855,635		9,024,403
<b>Total Investments</b>	<u>\$499,310</u>	<u>\$3,168,768</u>	<u>\$13,703,819</u>	<u>\$27,432,325</u>	<u>\$2,993,030</u>	<u>\$47,797,252</u>

**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, 2017:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	U.S. Agency Securities	\$2,490,675
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	2,692,579

**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, 2017, these investments matured in an average of 194 days.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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, 2017:

Investment Type	Level 1	Level 2	Total
<b>Investments by Fair Value Level:</b>			
U.S. Treasury Notes	\$2,993,030		\$2,993,030
U.S. Agency Securities		\$8,687,099	8,687,099
Corporate Notes		5,516,030	5,516,030
<b>Subtotal</b>	<u>\$2,993,030</u>	<u>\$14,203,129</u>	17,196,159
<b>Investments Measured at Amortized Cost:</b>			
Money Market Mutual Funds			9,024,403
<b>Investments Exempt from Fair Value Hierarchy</b>			
San Mateo County Investment Pool			6,504,207
California Local Agency Investment Fund			<u>15,072,483</u>
<b>Total Investments</b>			<u>\$47,797,252</u>

U.S. Treasury Notes, classified in Level 1 of the fair value hierarchy, are valued using quoted prices in active markets. U.S. Agency Obligations and Corporate Notes, classified in Level 2 of the fair value hierarchy, are valued using quoted prices for a non-active market portfolio at fiscal year-end. These prices are obtained from various pricing sources by our custodian bank. 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, 2017**

**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, 2017 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred	
General Fund	Special Tax Special Revenue Fund	\$372,000	(A)
Facilities Construction Capital Projects Fund	Library Special Revenue Fund	703,024	(B)
Capital Improvement Capital Projects Fund	General Fund	4,423,138	(C)
Internal Service Funds	General Fund	112,998	(D)
		<u>\$5,611,160</u>	

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

(B) Transfer used to fund capital projects

(C) Transfers used to fund capital improvement needs

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

**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, 2017**

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

**A. Current Year Capital Asset Activities**

<i>Governmental Funds</i>	Balance July 1, 2016	Additions	Retirement	Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$690,884				\$690,884
Construction in progress	3,926,313	\$6,400,090		(\$4,749,590)	5,576,813
Total non-depreciable capital assets	4,617,197	6,400,090		(4,749,590)	6,267,697
Capital assets being depreciated:					
Buildings	1,934,299				1,934,299
Other improvements	1,125,668				1,125,668
Computer equipment and software	326,597	12,000			338,597
Furniture and fixtures	34,798				34,798
Vehicles	60,156				60,156
Machinery and equipment	385,285	36,233			421,518
Infrastructure	55,683,479			4,749,590	60,433,069
Total depreciable capital assets	59,550,282	48,233		4,749,590	64,348,105
Less accumulated depreciation for:					
Buildings	1,092,719	45,461			1,138,180
Other improvements	793,625	27,487			821,112
Computer equipment and software	271,083	16,293			287,376
Furniture and fixture	34,799				34,799
Vehicles	57,348	2,809			60,157
Machinery and equipment	343,355	10,205			353,560
Infrastructure	35,742,147	1,394,508			37,136,655
Total accumulated depreciation	38,335,076	1,496,763			39,831,839
Depreciable capital assets, net	21,215,206	(1,448,530)		4,749,590	24,516,266
General capital assets, net	25,832,403	4,951,560			30,783,963
<i>Internal Service Funds</i>					
Depreciable capital assets:					
Vehicles	807,585	97,607	(\$14,184)		891,008
Computer equipment	261,299	24,545			285,844
Other equipment	124,177				124,177
Total depreciable capital assets	1,193,061	122,152	(14,184)		1,301,029
Less: accumulated depreciation for					
Vehicles	590,694	86,265	(14,184)		662,775
Computer equipment	230,111	16,456			246,567
Other equipment	56,147	11,152			67,299
Total accumulated depreciation	876,952	113,873	(14,184)		976,641
Internal Service Funds capital assets, net	316,109	8,279			324,388
Total governmental activities capital assets, net	\$26,148,512	\$4,959,839			\$31,108,351

**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.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**C. Depreciation Allocation**

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

General government	\$3,545
Public works	1,464,254
Building	8,225
Police	<u>20,739</u>
Governmental activities subtotal	1,496,763
Internal Service Fund	<u>113,873</u>
Total	<u><u>\$1,610,636</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, 2017**

**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, 2017**

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

**B. Fund Balances (Continued)**

Detailed classifications of the Town's Fund Balances, as of June 30, 2017, 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	\$400						\$400
Total Nonspendable	400						400
Restricted for:							
Street drainage and police services		\$2,167,972					2,167,972
Library operations			\$11,642,615				11,642,615
Measure A						\$571,284	571,284
Gas tax							
Supplemental law enforcement services / COPS Grant						299	299
Road impact fee							
Evans Creative Design						18,401	18,401
Measure M						271,824	271,824
Refuse Services						1,185,466	1,185,466
Channel Drainage District						156,615	156,615
Total Restricted		2,167,972	11,642,615			2,203,889	16,014,476
Committed to:							
Emergency disaster	1,743,259						1,743,259
Total Committed	1,743,259						1,743,259
Assigned to:							
Tennis program	144,367						144,367
Building department operations	434,296						434,296
Tree Committee	4,854						4,854
Capital projects				\$1,012,512	\$6,323,508	30,536	7,366,556
Total Assigned	583,517			1,012,512	6,323,508	30,536	7,950,073
Unassigned	10,679,749					(13,918)	10,665,831
Total Unassigned	10,679,749					(13,918)	10,665,831
Total Fund Balances	\$13,006,925	\$2,167,972	\$11,642,615	\$1,012,512	\$6,323,508	\$2,220,507	\$36,374,039

**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, 2017**

**NOTE 7 – PENSION PLAN**

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

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

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

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

Town'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, 2017**

**NOTE 7 - PENSION PLAN (Continued)**

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

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to</u>	<u>On or after</u>
	<u>January 1, 2013</u>	<u>January 1, 2013</u>
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-61
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1% to 2.5%
Required employee contribution rates	7.0%	6.5%
Required employer contribution rates	9.055%	6.930%

	<u>Safety</u>	
	<u>Prior to</u>	<u>On or after</u>
	<u>January 1, 2013</u>	<u>January 1, 2013</u>
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50-51
Monthly benefits, as a % of eligible compensation	3%	2% to 2.7%
Required employee contribution rates	9.00%	12.25%
Required employer contribution rates	21.230%	12.821%

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 \$529,535 in fiscal year 2017.

**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.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 7 - PENSION PLAN (Continued)**

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

For the year ended June 30, 2017, the contributions to the Plan were as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous PEPRA</u>	<u>Safety</u>	<u>Safety PEPRA</u>
Contributions - employer	\$277,931	\$27,666	\$769,420	\$79,653
Contributions - employee	105,935	25,950	161,459	76,028

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

As of June 30, 2017, 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	\$3,884,053
Safety - Classis & PEPRA	10,097,455
Total Net Pension Liability	<u>\$13,981,508</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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2015	0.10575%	0.18861%
Proportion - June 30, 2016	0.11181%	0.19496%
Change - Increase (Decrease)	<u>0.00606%</u>	<u>0.00635%</u>

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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, 2017, the Town recognized pension expense of \$1,640,002. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous - Classic & PEPR A

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$305,597	
Differences between actual and expected experience	9,543	(\$2,187)
Changes in assumptions		(90,286)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	162,296	(643,433)
Net differences between projected and actual earnings on plan investments	469,906	
Total	<u>\$947,342</u>	<u>(\$735,906)</u>

Safety - Classic & PEPR A

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$849,073	
Differences between actual and expected experience		(\$62,447)
Changes in assumptions		(272,272)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	275,798	(513,568)
Net differences between projected and actual earnings on plan investments	1,337,662	
Total	<u>\$2,462,533</u>	<u>(\$848,287)</u>
Grand total	<u>\$3,409,875</u>	<u>(\$1,584,193)</u>

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 7 - PENSION PLAN (Continued)**

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

\$1,154,670 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, 2018. 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	<u>Miscellaneous</u>	<u>Safety</u>	<u>TOTAL</u>
	Amortization	Amortization	Amortization
	Amount	Amount	Amount
2018	(\$219,062)	(\$75,659)	(\$294,721)
2019	(184,863)	(73,460)	(258,323)
2020	188,054	566,059	754,113
2021	121,710	348,233	469,943
	<u>(\$94,161)</u>	<u>\$765,173</u>	<u>\$671,012</u>

**Actuarial Assumptions** – The total pension liability as of June 30, 2016 was determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data for all Funds (3)

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 7 - PENSION PLAN (Continued)**

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

**Change of Assumptions** – GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.65% used for the June 30, 2016 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2016 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2016 measurement date were the same as those used for the June 30, 2015 measurement date.

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

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

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 7 - PENSION PLAN (Continued)**

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	9.90%	2.43%
Inflation Sensitive	6.0%	4.50%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$6,094,527	\$15,249,061
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$3,884,053	\$10,097,455
1% Increase	8.65%	8.65%
Net Pension Liability	\$2,057,206	\$5,868,514

**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, 2017**

**NOTE 8 - POSTEMPLOYMENT HEALTH CARE BENEFITS**

By Town Council resolution, the Town provides certain medical benefits for employees and dependents who retire directly from the Town at fifty years or older and who are vested in the California Public Employees Retirement System (CalPERS). The Town participates in the CalPERS health care plan which is governed under the California Public Employees Health and Medical Care Act (PEMCHA). Required retiree medical plan contributions are also governed by PEMCHA for member agencies.

The Town participates in the CalPERS medical program. Retirees who qualify for a CalPERS pension are entitled to employer paid CalPERS medical benefits as described below. The Town does not pay for dental, vision or other health and welfare benefits for retirees. Employees who retire from the Town, receive a PERS pension and continue their CalPERS medical coverage are eligible to receive the benefit described below. This benefit continues throughout the life of the retiree, surviving spouse.

**Management employees (non-represented), hired before 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.

**Management employees (non-represented), hired on or after July 1, 2013** – The Town pays the minimum benefit, which is \$128 per month as of 2017.

**APOA Police officers, retired before October 1, 2013** - For police officers, the Town pays 100% of premiums for any medical coverage and any family status. However, this is subject to a maximum monthly benefit of \$1,247 which is assumed to not increase in the future. Any increase will be subject to Town Council approval.

**Members of the APOA Police Officers, hired before October 1, 2013 but retired or will retire after October 1, 2013** - The Town pays up to a maximum of 90% of the Kaiser premium for any family status. This cap is assumed to increase at half the excess of the assumed rate of increase over 3% each year, with a minimum of 0%. Employees retiring from the Town and CalPERS concurrently with at least 5 years of service will receive the basic Public Employees Medical and Hospital Care Act (PEMHCA) minimum contribution by law. Minimum contributions for calendar year 2016 and 2017 were \$125 and \$128, respectively. If they have 10 or more years of service, they are subject to a vesting schedule:

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

<u>Credit Years of Service</u>	<u>% of Town Contribution</u>
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

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

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

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

**Teamsters and Confidential employees (non-management, miscellaneous) hired after January 19, 2011** - The Town pays up to a maximum of the single employee Kaiser premium regardless of family status. A spouse or dependent is only covered if the employee's premium is less than this maximum. After age 65, the Town pays up to a maximum of the reduced post age 65 single employee Kaiser premiums. If they have 10 or more years of service, they are subject to a vesting schedule.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**A. Funding Policy and Actuarial Assumptions**

The annual required contribution (ARC) was determined as part of a July 1, 2016 actuarial valuation using the entry age normal cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included 6.00% investment rate of return, 3.25% projected annual salary increase, and 5.0% to 8.0% health cost inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. During fiscal 2012, the Town joined the Public Agencies Post-Retirement Health Care Plan, administered by Public Agency Retirement Services (PARS). The irrevocable trust is administered by PARS, and managed by an appointed board not under the control of the Town Council. The activities of the trust are reported in the Town's OPEB Trust Fund. Separately issued financial statements for PARS may be obtained from PARS at 4350 Von Karman Ave., Suite 200, Newport Beach, CA 92660.

The following annual healthcare trend rates were used in the valuation, assuming that there will not be any significant changes in the medical plan design:

**Annual CalPERS Medical Premium Rate**  
**Trend Rate Assumption**

<b>Plan Year</b>	<b>Pre-65</b>	<b>Post-65</b>
<b><u>Beginning</u></b>		
January 1, 2018	8.00%	5.50%
January 1, 2019	7.75%	5.25%
January 1, 2020	7.50%	5.00%
January 1, 2021	7.25%	5.00%
January 1, 2022	7.00%	5.00%
January 1, 2023 and thereafter	6.75%-5.00%	5.00%

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. This valuation is based on a closed 30-year amortization of the Unfunded Actuarial Accrued Liability as a level percentage of payroll; increasing each year as payroll increases.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**B. Funding Progress and Funded Status**

In fiscal year 2017, the Town made contributions toward the ARC and amortized its net OPEB obligation as presented below:

Annual required contribution (ARC) and Annual OPEB cost	\$668,846
Interest on the net OPEB Asset	(196,915)
Adjustment to annual required contribution	197,114
Annual OPEB Cost	669,045
Contributions made to:	
Town's portion of current year benefits paid	448,945
Total contributions	448,945
Net OPEB Asset June 30, 2016	3,281,922
Net OPEB Asset June 30, 2017	\$3,061,822
Remaining amortization period	23 years

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of ARC Contributed	Net OPEB Asset (Obligation)
6/30/2015	\$409,084	\$1,444,363	353%	\$2,506,648
6/30/2016	340,464	1,115,738	328%	3,281,922
6/30/2017	669,045	448,945	67%	3,061,822

*Funded Status and Funding Progress* – As of July 1, 2016, the most recent actuarial valuation date, the plan was 44% funded. The Actuarial Accrued Liability (AAL) for benefits was \$12,155,423 and the Actuarial Value of Plan Assets was \$5,405,490 resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$6,749,933. For fiscal year 2017, the covered payroll (annual payroll of active employees covered by the plan) was \$4,327,213 and the ratio of UAAL to the covered payroll was 156% percent.

The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**C. OPEB Trust Fund**

i. Plan Administration

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 – a single-employer defined benefit OPEB plan that provides healthcare benefits for eligible general and public safety employees of the Town.

	Fiscal Year ended 6/30/17
Plan Type	Single Employer
OPEB Trust	Yes
Special Funding Situation	No
Nonemployer Contributing Entity	No

ii. Plan Membership

As described in the table above, plan membership varies based on different employee bargaining groups. As of June 30, 2017, membership in the plan consisted of the following:

	Number of Covered Employees
Retirees and beneficiaries receiving benefits	38
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	37
	75

The Town’s Defined Benefit OPEB plan is closed to new entrants; all new employees are enrolled into the Town’s Defined Contribution plan.

iii. Contribution Information

PARS established rates for each employer based on an actuarially determined rate for each employer. Plan members are not required to contribute to the plan. For the year ended June 30, 2017, the Town did not contribute to the actuarially determined contribution.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**C. OPEB Trust Fund (Continued)**

iv. 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 portfolio is consistent with the Town's investment policy as noted in Note 3C.

The following is the Town's adopted asset allocation as of June 30, 2017.

Asset Class Component:	Target Allocation	Target Allocation
Equity	48.54%	5.68%
Fixed Income	46.28%	1.53%
Real Estate	1.48%	5.06%
Cash	3.70%	-0.25%
	100.00%	12.02%
Assumed Long Term Rate of Inflation		2.50%
Discount Rate		6.00%

v. Investment Concentration

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

vi. Net OPEB Liability

The components of the net OPEB liability of the Town's at June 30, 2017, were as follows:

Measurement Date - 6/30/2017	Fiscal Year ended 6/30/17
Total OPEB Liability	\$12,532,328
Plan Fiduciary Net Position (FNP)	(5,855,635)
Town's Net OPEB Liability	\$6,676,693
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	46.7%

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**C. OPEB Trust Fund (Continued)**

vii. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions:

Measurement Date	June 30, 2017
Funding Policy	Full pe-funding to PARS trust PARS portfolio: Moderate Index Plus
Trend	Pre-Medicare - 8.00% for 2018, decreasing to 5.00% for 2030 and later Medicare - 5.50% for 2018, decreasing to 5.00% for 2020 and later
Healthcare participation for future Retirees	100%
Actuarial Assumptions:	
Discount Rate	6.00% <sup>(1)</sup>
Inflation	2.00%
Investment Rate of Return	6.00% <sup>(2)</sup>
Mortality <sup>(4)</sup>	12.97 to 0.14 <sup>(3)</sup>

<sup>(1)</sup> Crossover analysis showed benefit payments always fully funded by plan assets

<sup>(2)</sup> Net of investment expenses

<sup>(3)</sup> Represents life expectancy over the age ranging from 50 to 70 years.  
Assumptions include 20 years of mortality improvement.

Mortality projected fully generational with scale MP-16

<sup>(4)</sup> 2014 CalPERS Experience Study, Recipients with attained age of 50

viii. Discount Rate

The discount rates used to measure the total OPEB liability were 6% as of June 30, 2017. 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 future benefit payments of current plan members. 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.

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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

**C. OPEB Trust Fund (Continued)**

ix. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the Plan as of June 30, 2017, calculated using the discount rate of 6%, as well as what the Plan's total 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 rate:

	Discount Rate		
	1% Decrease	Current	1% Increase
	5.00%	6.00%	7.00%
Total OPEB Liability	\$14,364,847	\$12,532,328	\$11,065,240

x. Sensitivity of the Net OPEB Liability to Changes in the Health Cost Trend Cost

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

	Trend Rate		
	1% Decrease	Current	1% Increase
	12.00%	13.00%	14.00%
Total OPEB Liability	\$11,072,498	\$12,532,328	\$14,324,090

**NOTE 9 - RISK MANAGEMENT**

**A. Coverage**

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

Audited financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

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

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

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

**TOWN OF ATHERTON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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:

	2017	2016
Beginning balance	\$35,662	\$75,000
Net change in claims liabilities	32,605	(5,451)
Claims paid	(22,386)	(33,887)
Ending balance	\$45,881	\$35,662
Claims liabilities due within a year	\$45,881	\$35,662

For the years ended June 30, 2017, 2016, and 2015, 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, 2017 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 \$23,080 for the year ended June 30, 2017. 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, 2017**

**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**

	Miscellaneous <u>6/30/2014</u>	Miscellaneous <u>6/30/2015</u>	Miscellaneous <u>6/30/2016</u>
Measurement Date			
Plan's proportion of the Net Pension Liability (Asset)	0.04366%	0.10574%	0.11181%
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>
Plan's Covered Payroll	<u>\$1,473,083</u>	<u>\$1,595,884</u>	<u>\$1,772,771</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	184.41%	181.78%	219.10%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.44%	82.52%	76.34%
	Safety <u>6/30/2014</u>	Safety <u>6/30/2015</u>	Safety <u>6/30/2016</u>
Measurement Date			
Plan's proportion of the Net Pension Liability (Asset)	0.10505%	0.18865%	0.19496%
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>
Plan's Covered Payroll	<u>\$2,030,918</u>	<u>\$2,391,765</u>	<u>\$2,488,471</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	321.85%	324.99%	405.77%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.42%	79.54%	73.39%

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

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

**SCHEDULE OF CONTRIBUTIONS**

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

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

<b>REQUIRED SUPPLEMENTARY INFORMATION</b>
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**Town of Atherton  
Other Post-Employment Retirement Benefits  
For the Fiscal Year Ended June 30, 2017  
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability (UAAL)	Funded Ratio
March 1, 2013	\$0	\$7,724,868	(\$7,724,868)	0%
July 1, 2014	3,513,466	7,594,463	(4,080,997)	46%
July 1, 2016	5,405,490	12,155,423	(6,749,933)	44%

<b>REQUIRED SUPPLEMENTARY INFORMATION</b>
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**Town of Atherton**  
**Other Post-Employment Retirement Benefits Trust Fund**  
**For the Fiscal Year Ended June 30, 2017**  
**Schedule of Changes in Net OPEB Liability and**  
**Related Ratios**  
**Last 10 Years\***

Fiscal Year	2017
Measurement period ending:	6/30/2017
<b>Changes in total OPEB Liability</b>	
Service cost	\$245,008
Interest	726,449
Difference between expected and actual experience	(145,806)
Changes of assumptions	
Changes of benefit terms	
Benefit payments including refunds	(448,746)
Net changes	376,905
Total OPEB liability (beginning)	12,155,423
<b>Total OPEB liability (ending)</b>	<b>\$12,532,328</b>
<b>Changes in plan fiduciary net position</b>	
Contributions - employer	\$448,736
Contributions - employee	
Net investment income	464,151
Benefit payments including refunds	(448,746)
Administrative expense	(13,996)
Net changes	450,145
Plan fiduciary net position (beginning)	5,405,490
<b>Plan fiduciary net position (ending)</b>	<b>\$5,855,635</b>
Net OPEB liability/(asset) (end of year)	\$6,676,693
Plan fiduciary net position as a percentage of the total OPEB liability	46.7%
Covered payroll	\$4,327,213
Net OPEB liability as a percentage of covered payroll	154.3%

\*Fiscal year 2017 was the first year of implementation

<b>REQUIRED SUPPLEMENTARY INFORMATION</b>
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**Town of Atherton  
Other Post-Employment Retirement Benefits Trust Fund  
For the Fiscal Year Ended June 30, 2017  
Schedule of Employer Contributions  
Last 10 Years\***

	Fiscal Year 2017
Actuarially determined contributions	<u>\$668,846</u>
Contributions in relation to the actuarially determined contribution	<u>448,945</u>
Contributions deficiency (excess)	<u>\$219,901</u>
Covered payroll	<u>\$4,327,213</u>
Contributions as a percentage of covered payroll	10.4%

\*Fiscal year 2017 was the first year of implementation

<b>REQUIRED SUPPLEMENTARY INFORMATION</b>
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**Town of Atherton  
Other Post-Employment Retirement Benefits Trust Fund  
For the Fiscal Year Ended June 30, 2017  
Schedule of Investment Returns  
Last 10 Years\***

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

\*Fiscal year 2017 was the first year of implementation

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<b>NON-MAJOR GOVERNMENTAL FUNDS</b>
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**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, 2017

SPECIAL REVENUE FUNDS

	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design	Measure M	Road Construction	Refuse Rate Stabilization
<b>ASSETS</b>							
Cash and investment	\$822,698	\$162,588	\$299	\$18,401	\$309,959		\$1,185,466
Receivables:							
Taxes							
Total Assets	<u>\$822,698</u>	<u>\$162,588</u>	<u>\$299</u>	<u>\$18,401</u>	<u>\$309,959</u>		<u>\$1,185,466</u>
<b>LIABILITIES</b>							
Accounts payable	\$251,414	\$173,974			\$38,135	\$2,532	
Due to other funds							
Total Liabilities	<u>251,414</u>	<u>173,974</u>			<u>38,135</u>	<u>2,532</u>	
<b>FUND EQUITY</b>							
Fund balances							
Restricted	571,284		\$299	\$18,401	271,824		\$1,185,466
Assigned							
Unassigned		(11,386)				(2,532)	
Total Fund Balances	<u>571,284</u>	<u>(11,386)</u>	<u>299</u>	<u>18,401</u>	<u>271,824</u>	<u>(2,532)</u>	<u>1,185,466</u>
Total Liabilities and Fund Balances	<u>\$822,698</u>	<u>\$162,588</u>	<u>\$299</u>	<u>\$18,401</u>	<u>\$309,959</u>		<u>\$1,185,466</u>

CAPITAL PROJECT FUNDS

<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
\$30,536	\$156,276	\$2,686,223
	339	339
<u>\$30,536</u>	<u>\$156,615</u>	<u>\$2,686,562</u>
		\$466,055
		<u>466,055</u>
\$30,536	\$156,615	2,203,889
		30,536
		<u>(13,918)</u>
<u>30,536</u>	<u>156,615</u>	<u>2,220,507</u>
<u>\$30,536</u>	<u>\$156,615</u>	<u>\$2,686,562</u>

TOWN OF ATHERTON  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017

SPECIAL REVENUE FUNDS							
	County Measure A	Gas Tax	Supplemental Law Enforcement Services/ COPS Grant	Evans Creative Design	Measure M	Road Construction	Refuse Rate Stabilization
REVENUES							
Property taxes							
Measure A Grants	\$344,520						
From other agencies		\$144,626	\$130,087		\$119,728		\$279,189
Use of money and property	4,451	880	2	\$100	1,677		6,413
Total Revenues	348,971	145,506	130,089	100	121,405		285,602
EXPENDITURES							
Current:							
Police			130,086				
Public Works	16,764	5,983					
Non-Departmental				10,745			
Capital Outlay	545,641	365,236			63,563	\$457,042	
Total Expenditures	562,405	371,219	130,086	10,745	63,563	457,042	
NET CHANGE IN FUND BALANCES	(213,434)	(225,713)	3	(10,645)	57,842	(457,042)	285,602
BEGINNING FUND BALANCES	784,718	214,327	296	29,046	213,982	454,510	899,864
ENDING FUND BALANCES	\$571,284	(\$11,386)	\$299	\$18,401	\$271,824	(\$2,532)	\$1,185,466

CAPITAL PROJECTS FUNDS

<u>Storm Drainage</u>	<u>Channel Drainage District</u>	<u>Total Nonmajor Governmental Funds</u>
	\$120,662	\$120,662
		344,520
		673,630
\$164	845	14,532
<u>164</u>	<u>121,507</u>	<u>1,153,344</u>
		130,086
	1,026	23,773
		10,745
	<u>391,697</u>	<u>1,823,179</u>
	<u>392,723</u>	<u>1,987,783</u>
164	(271,216)	(834,439)
<u>30,372</u>	<u>427,831</u>	<u>3,054,946</u>
<u>\$30,536</u>	<u>\$156,615</u>	<u>\$2,220,507</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, 2017

SPECIAL REVENUE FUNDS						
	County Measure A			Gas Tax		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Measure A grants	\$340,000	\$344,520	\$4,520			
From other agencies				\$225,000	\$144,626	(\$80,374)
Use of money and property		4,451	4,451		880	880
Total Revenues	340,000	348,971	8,971	225,000	145,506	(79,494)
EXPENDITURES						
Current:						
Police						
Public Works		16,764	(16,764)		5,983	(5,983)
Non-departmental						
Capital Outlay	819,060	545,641	273,419	486,678	365,236	121,442
Total Expenditures	819,060	562,405	256,655	486,678	371,219	115,459
NET CHANGE IN FUND BALANCES	(\$479,060)	(213,434)	\$265,626	(\$261,678)	(225,713)	\$35,965
BEGINNING FUND BALANCES		784,718			214,327	
ENDING FUND BALANCES		\$571,284			(\$11,386)	

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	\$130,087	\$30,087				\$75,000	\$119,728	\$44,728
	2	2	\$225	\$100	(\$125)	1,677	1,677	
100,000	130,089	30,089	225	100	(125)	76,677	121,405	44,728
100,300	130,086	(29,786)	1,771,318		1,771,318			
			14,000	10,745	3,255	125,000	63,563	61,437
100,300	130,086	(29,786)	1,785,318	10,745	1,774,573	125,000	63,563	61,437
(\$300)	3	\$303	(\$1,785,093)	(10,645)	\$1,774,448	(\$48,323)	57,842	\$106,165
	296			29,046			213,982	
	\$299			\$18,401			\$271,824	

(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, 2017

	SPECIAL REVENUE FUNDS					
	Road Construction			Refuse Rate Stabilization		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes						
Measure A grants						
From other agencies					\$279,189	\$279,189
Use of money and property					6,413	6,413
Total Revenues					285,602	285,602
EXPENDITURES						
Current:						
Police						
Public Works						
Non-departmental						
Capital Outlay	\$447,357	\$457,042	(\$9,685)			
Total Expenditures	447,357	457,042	(9,685)			
NET CHANGE IN FUND BALANCES	<u>(\$447,357)</u>	(457,042)	<u>(\$9,685)</u>		285,602	<u>\$285,602</u>
BEGINNING FUND BALANCES		454,510			899,864	
ENDING FUND BALANCES		<u>(\$2,532)</u>			<u>\$1,185,466</u>	

## 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, 2017

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
<b>ASSETS</b>					
Current Assets:					
Cash and investments	\$405,128	\$606,510	\$465,934	\$1,488,555	\$2,966,127
Total Current Assets	405,128	606,510	465,934	1,488,555	2,966,127
Non-Current Assets:					
Net OPEB asset				3,061,822	3,061,822
Capital assets:					
Depreciable	1,301,029				1,301,029
Less: accumulated depreciation	(976,641)				(976,641)
Net Capital Asset	324,388				324,388
Total noncurrent assets	324,388			3,061,822	3,386,210
Total Assets	729,516	606,510	465,934	4,550,377	6,352,337
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable		112,998			112,998
Claims payable			45,881		45,881
Compensated absences				356,942	356,942
Total current liabilities		112,998	45,881	356,942	515,821
Noncurrent liabilities					
Compensated absences				289,519	289,519
Total noncurrent liabilities				289,519	289,519
Total Liabilities		112,998	45,881	646,461	805,340
Net investment in capital assets					
Unrestricted	324,388				324,388
	405,128	493,512	420,053	3,903,916	5,222,609
Total Net Position	\$729,516	\$493,512	\$420,053	\$3,903,916	\$5,546,997

TOWN OF ATHERTON  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Equipment Replacement</u>	<u>Workers' Compensation Insurance</u>	<u>General Liability</u>	<u>Employee Benefits</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	<u>\$224,770</u>	<u>\$309,559</u>	<u>\$109,232</u>	<u>\$567,460</u>	<u>\$1,211,021</u>
Total Operating Revenues	<u>224,770</u>	<u>309,559</u>	<u>109,232</u>	<u>567,460</u>	<u>1,211,021</u>
OPERATING EXPENSES					
Insurance		264,932	167,231		432,163
OPEB expense				669,045	669,045
Employee benefits earned				125,130	125,130
Depreciation	113,873				113,873
Supplies and maintenance	<u>45,519</u>				<u>45,519</u>
Total Operating Expenses	<u>159,392</u>	<u>264,932</u>	<u>167,231</u>	<u>794,175</u>	<u>1,385,730</u>
Operating Income (Loss)	<u>65,378</u>	<u>44,627</u>	<u>(57,999)</u>	<u>(226,715)</u>	<u>(174,709)</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	<u>2,192</u>	<u>3,281</u>	<u>2,521</u>	<u>8,053</u>	<u>16,047</u>
Total Nonoperating Revenues (Expenses)	<u>2,192</u>	<u>3,281</u>	<u>2,521</u>	<u>8,053</u>	<u>16,047</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		<u>112,998</u>			<u>112,998</u>
Total Other Financing Sources (Uses)		<u>112,998</u>			<u>112,998</u>
Change in Net Position	67,570	160,906	(55,478)	(218,662)	(45,664)
BEGINNING NET POSITION	<u>661,946</u>	<u>332,606</u>	<u>475,531</u>	<u>4,122,578</u>	<u>5,592,661</u>
ENDING NET POSITION	<u>\$729,516</u>	<u>\$493,512</u>	<u>\$420,053</u>	<u>\$3,903,916</u>	<u>\$5,546,997</u>

TOWN OF ATHERTON  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017

	Equipment Replacement	Workers' Compensation Insurance	General Liability	Employee Benefits	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from other funds	\$224,770	\$309,559	\$109,232	\$567,460	\$1,211,021
Payments to employees for benefits				(555,730)	(555,730)
Payments to vendors	(45,519)	(151,934)	(156,190)		(353,643)
<b>Cash Flows from Operating Activities</b>	<u>179,251</u>	<u>157,625</u>	<u>(46,958)</u>	<u>11,730</u>	<u>301,648</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in		112,998			112,998
<b>Cash Flows from Noncapital Financing Activities</b>		<u>112,998</u>			<u>112,998</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition of capital assets, net	(122,152)				(122,152)
<b>Cash Flows (used for) Capital and Related Financing Activities</b>	<u>(122,152)</u>				<u>(122,152)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	2,192	3,281	2,521	8,053	16,047
<b>Cash Flows from Investing Activities</b>	<u>2,192</u>	<u>3,281</u>	<u>2,521</u>	<u>8,053</u>	<u>16,047</u>
<b>Net Cash Flows</b>	59,291	273,904	(44,437)	19,783	308,541
Cash and investments at beginning of period	345,837	332,606	510,371	1,468,772	2,657,586
Cash and investments at end of period	<u>\$405,128</u>	<u>\$606,510</u>	<u>\$465,934</u>	<u>\$1,488,555</u>	<u>\$2,966,127</u>
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>					
Operating income	\$65,378	\$44,627	(\$57,999)	(\$226,715)	(\$174,709)
<b>Adjustments to reconcile operating income to net cash flows from operating activities:</b>					
Depreciation	113,873				113,873
Compensated absences				18,345	18,345
<b>Change in assets and liabilities:</b>					
Other assets				220,100	220,100
Accounts payable		112,998	(3,804)		109,194
Claims payable			14,845		14,845
<b>Cash Flows from Operating Activities</b>	<u>\$179,251</u>	<u>\$157,625</u>	<u>(\$46,958)</u>	<u>\$11,730</u>	<u>\$301,648</u>

<b>AGENCY FUNDS</b>
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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, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
<hr/> <u>H-P Park Improvement Fund</u> <hr/>				
ASSETS				
Cash and investments	\$6,160	\$34		\$6,194
Total assets	<u>\$6,160</u>	<u>\$34</u>		<u>\$6,194</u>
LIABILITIES				
Deposits payable	\$6,160	\$34		\$6,194
Total liabilities	<u>\$6,160</u>	<u>\$34</u>		<u>\$6,194</u>
<hr/> <u>Tree Committee</u> <hr/>				
ASSETS				
Cash and investments	\$25,460	\$138		\$25,598
Total assets	<u>\$25,460</u>	<u>\$138</u>		<u>\$25,598</u>
LIABILITIES				
Deposits payable	\$25,460	\$138		\$25,598
Total liabilities	<u>\$25,460</u>	<u>\$138</u>		<u>\$25,598</u>
<hr/> <u>All Agency Funds</u> <hr/>				
ASSET				
Cash and investments	\$31,620	\$172		\$31,792
Total assets	<u>\$31,620</u>	<u>\$172</u>		<u>\$31,792</u>
LIABILITIES				
Deposits payable	\$31,620	\$172		\$31,792
Total liabilities	<u>\$31,620</u>	<u>\$172</u>		<u>\$31,792</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, 2017, and have issued our report thereon dated February 4, 2018. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

***Internal Control over Financial Reporting***

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

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

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

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

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

We have also issued a separate Memorandum on Internal Control dated February 4, 2018 which is an integral part of our audit and should be read in conjunction with this report.

### ***Town's Response to Findings***

The Town's response to the findings identified in our audit is described in our separately issued Memorandum on Internal Control dated February 4, 2018, which is an integral part of our audits and should be read in conjunction with this report. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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

*Maze & Associates*

Pleasant Hill, California  
February 4, 2018

**TOWN OF ATHERTON**  
**MEMORANDUM ON INTERNAL CONTROL**  
**AND**  
**REQUIRED COMMUNICATIONS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2017**

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**TOWN OF ATHERTON  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For the Year Ended June 30, 2017**

**Table of Contents**

	<b><u>Page</u></b>
<b><i>Memorandum on Internal Controls</i></b> .....	1
Schedule of Other Matters .....	3
Status of Prior Year Other Matters .....	5
<b><i>Required Communications</i></b> .....	7
Significant Audit Findings .....	7
Accounting Policies.....	7
Unusual Transactions, Controversial or Emerging Areas .....	8
Accounting Estimates.....	8
Disclosures .....	9
Difficulties Encountered in Performing the Audits .....	9
Corrected and Uncorrected Misstatements .....	9
Disagreements with Management.....	9
Management Representations .....	9
Management Consultations with Other Independent Accountants .....	10
Other Audit Findings or Issues .....	10
Other Information Accompanying the Financial Statements .....	10

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## MEMORANDUM ON INTERNAL CONTROL

To the City Council of  
the Town of Atherton, California

In planning and performing our audit of the basic financial statements of the Town of Atherton (Town), as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing 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.

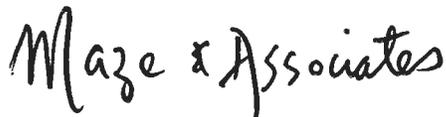
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze & Associates' in a cursive, flowing script.

Pleasant Hill, California  
February 4, 2018

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**TOWN OF ATHERTON  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2017 – 001      Information System Review Results**

Background - We conducted an Information Systems Review with our audit which encompassed the financial information system and the network environment that houses it. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever-increasing sophistication of hackers and criminals.

Currently, there are no Information Technology standards to which local governments are required to conform. Indeed, there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff have reviewed these informal guidelines and concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) is the most appropriate for local government. NIST and FISMA represent the minimum security requirements for federal government agencies information systems. NIST recommends these for state and local governments. Our procedures included performing an external network scan based on NIST criteria and in determining that internal control provides for:

Internet access defenses including hacker prevention, detection and deterrent systems

- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service
- Information systems risk management

A summary of these recommendations which we believe are “best practices” are as follows:

***Patch and Vulnerability Management***

Our scans indicate the Town’s information systems have numerous vulnerabilities, which may be due in part from a lack of patch management, vulnerability scanning, or configuration management. While these vulnerabilities do not directly affect the financial reporting of the Town, they do present an unnecessary risk to the Town’s information systems. The Town should develop a patch and vulnerability management program. “Patch and vulnerability management is a security practice designed to proactively prevent the exploitation of IT vulnerabilities that exist within an organization. The expected result is to reduce the time and money spent dealing with vulnerabilities and exploitation of those vulnerabilities. Proactively managing vulnerabilities of systems will reduce or eliminate the potential for exploitation and involve considerably less time and effort than responding after exploitation has occurred.” For guidance on implementing effective patch and vulnerability management see NIST SP 800-40 Ver. 2 Creating and Patch and Vulnerability Management Program.

**Management Response:**

The Town agrees and will work with the Town’s IT contractor Interwest to develop a patch and vulnerability management program to help mitigate any IT vulnerabilities that may exist within the organization. The program may include patch management, vulnerability scanning or configuration management.

**TOWN OF ATHERTON  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE**

The following comment represents new pronouncements taking effect in the next two years. We have cited them here to keep you abreast of developments:

**Effective in fiscal year 2017-18:**

**GASB 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions**

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**GASB 81 – Irrevocable Split-Interest Agreements**

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

**GASB 85 – Omnibus 2017**

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

**GASB 86 – Certain Debt Extinguishment Issues**

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

**Effective in fiscal year 2018-19:**

**GASB 83 – Certain Asset Retirement Obligations**

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

**TOWN OF ATHERTON  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR OTHER MATTERS**

**2016 – 1:        Segregation of Duties – Journal Entries**

**Criteria:** Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. Prudent internal control concepts dictate that no single employee should have the ability to process a transaction without the involvement of another employee.

**Condition:** During our review of the access log, it was noted that the Accounting Technician and Finance Director both have the ability to prepare and commit journal entries to the general ledger. There are no system limitations in place to prevent either user from preparing and committing the same journal entry.

According to Town staff, it is the Town’s practice for the Finance Director to review a monthly system-generated report of journal entries to ensure that no entries were prepared and committed by the same employee. However, we could not find any indication of such review documented on the face of the reports.

**Cause:** The Town lost its Accountant in March 2016, making it difficult to segregate duties within the accounting functions.

**Potential Effect:** While during the audit, we did note the existence of compensating controls that mitigate the potential effects of the above condition, we would like to see the Town further strengthen its internal controls.

**Recommendation:** We recommend that the Town limit financial system access so that no one employee may have the rights to prepare and commit journal entries. If this is not feasible, we recommend that the Town Finance Director continue to review posted journal entries on a monthly basis and document such review on the face of the report to leave a proper audit trail.

**Current Status:** Recommendation was not implemented in current year due to staff shortage in the Finance Department.

**2016 – 2:        Updating the Treasurer’s Report**

**Criteria:** The Quarterly Treasurer’s Report brought before City Council should accurately reflect current values as of the end of the quarter for which it is reporting on.

**Condition:** During our review of the March 2016 Treasurer’s Report we noted the following variances:

- The General Cash in Bank did not tie to the March 2016 Bank Reconciliation and GL balance by \$113,075 due to post-closing period adjustments.
- It appears that the fair market value on the March 2016 Treasurer’s report did not match the investment account statement for March 2016. The amount used appears to have been the “Amortization” total instead of the “Fair Market Value” amount.

**Cause:** The Town appears to have made a clerical error and forgot to update the Treasurer’s Report to account for post-closing period adjustments.

**Potential Effect:** The Treasurer’s Report brought before City Council does not accurately reflect the Town’s current status.

**TOWN OF ATHERTON  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR OTHER MATTERS**

**Recommendation:** We recommend that the Town update the Treasurer's Report before submitting the report to City Council to ensure that any post-closing adjustments are included. Furthermore, the Town should resubmit the updated March 2016 Treasurer's Report to be approved by City Council.

**Current Status:** Based on current year testing, it appears that the Town has made the appropriate steps to resolve the matter.

## REQUIRED COMMUNICATIONS

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

We have audited the basic financial statements of the Town of Atherton (Town) for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

### Significant Audit Findings

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

- GASB 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB 77 - *Tax Abatement Disclosures*
- GASB 80 - *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*

The following pronouncement became effective and required modifications to the financial statements.

- GASB 74 - *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The pronouncement became effective, and as disclosed in Note 1J to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

**GASB Statement No. 82 – Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73**

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The pronouncement became effective but did not have a material effect on the financial statements, and only affected the Pension-Related Required Supplementary Information.

***Unusual Transactions, Controversial or Emerging Areas***

We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Town's financial statements were:

*Estimated Fair Value of Investments:* As of June 30, 2017, the Town held approximately \$49 million of cash and investments as measured by fair value as disclosed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.

*Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 7 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the Town. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 5 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimate of Net OPEB Liability:* Management's estimate of the net OPEB liability is disclosed in Note 8 to the financial statements and is based on actuarial studies determined by a consultant, which is based in the experience of the Town. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole

### ***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the Town's financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated February 4, 2018.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Other Information Accompanying the Financial Statements***

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

\*\*\*\*\*

This information is intended solely for the use of City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

*Maze & Associates*

Pleasant Hill, California  
February 4, 2018